ProCredit Bank
Kosovo

ANNUAL REPORT AS OF 31 DECEMBER 2022

Our Mission

We strive to be the leading bank for Small and Medium Enterprises (SMEs) in our market as well as for private customers who have the capacity to save and prefer to bank through electronic channels, following sustainable and impact-oriented banking practices.

In doing so, we want to generate long-term sustainable returns and create positive impact in the economy and society we work in.

Finanical Year in Brief

STRENGTHENED MARKET POSITION

- Strong portfolio growth of 14.4%
- Successful continuation of our SME clients, even in challenging market environment
- Effective direct banking enables strong deposit growth of 16.2%
- Solid capitalization, with a total regulatory capital ratio of 15.5% and a leverage ratio of 8.5%

GOOD FINANCIAL PERFORMANCE BEYOND GOAL

- Return on equity of 21.8%, stemming from increased interest income, improved cost-income ratio and lower cost of risk
- Keeping a stable interest margin of 3.2%
- Return on equity of 21.8%, exceeds our goal for 2022 of 14.1%

STRONG FOCUS ON SUSTAINABILITY

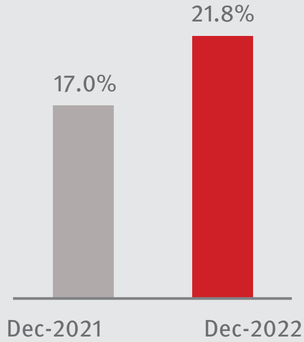
- Green loan portfolio grew by 11.1%. Focus on investments in energy efficiency and renewable energy
- Green loan portfolio share to total portfolio at 16.4%
- Good portfolio quality due to close client's relationship: share of nonperforming loans further reduced to 2.0%

GOALS FOR 2023 AND MEDIUM-TERM OUTLOOK

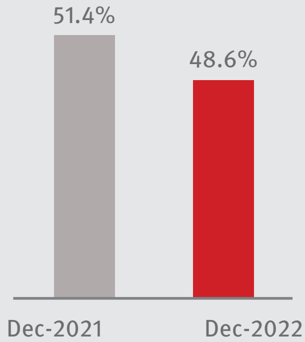
- Continuing loan portfolio growth in 2023 and further expansion of the green loan portfolio
- Continuing deposit growth
- Maintaining stable return on equity and cost – income ratios

Key Financial Figures

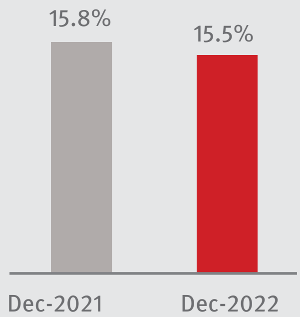
Return on equity



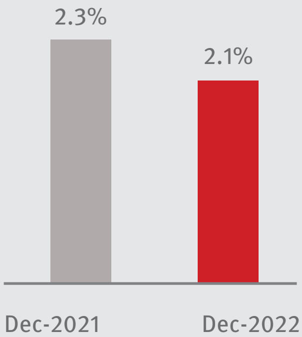
Cost-income ratio



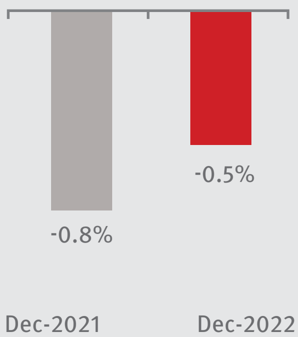
Total regulatory capital ratio



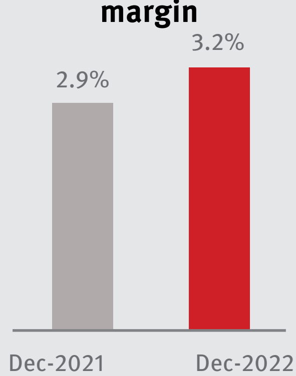
Share of non performing loans



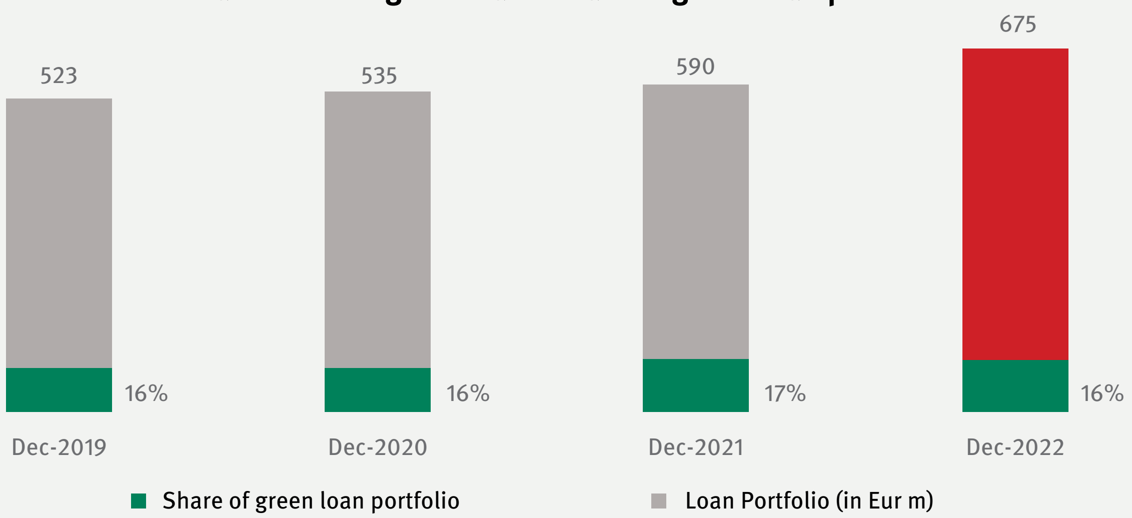
Cost of risk



Net interest margin



Loan Portfolio growth and share of green loan portfolio



Climate change
Green finance
Technology and innovation
Prudent credit risk management
Environmental management
Plastic strategy
Social responsible approach
Fair recruiter and employer
Gender diversity
Ethical values

For detailed information about our approach to sustainability, our impact and contribution to the Sustainable Development Goals, please refer to the ProCredit Group Impact Report.

Content

ProCredit Today

Since its establishment over two decades ago, ProCredit Bank has aimed to achieve a sustainable impact on clients, society and the environment through its operations. Over the years, our approach to and definition of “economic development” as well as our role have changed from providing support through financing to taking a structured and proactive approach to sustainable economic development.

ProCredit Bank is committed to being a responsible bank with a moral compass, guided by growth-oriented principles. The prevailing opinion in the banking market is that the primary purpose of each company should be to maximize the value of its shares, thus meaning increased profit and higher share prices. To us, profit maximization is not our primary goal. Although ProCredit Bank is a commercial bank, we believe that capital should be used to improve the living situation of many and not to enrich a selected few. Being loyal to these ideals means abstaining from activities that may generate profit but are harmful from a social or environmental perspective. Thus, the bank has ceased providing financing to producers of single-use plastics, going beyond the recommendations of the European Union and “best practices” in the financial services industry.

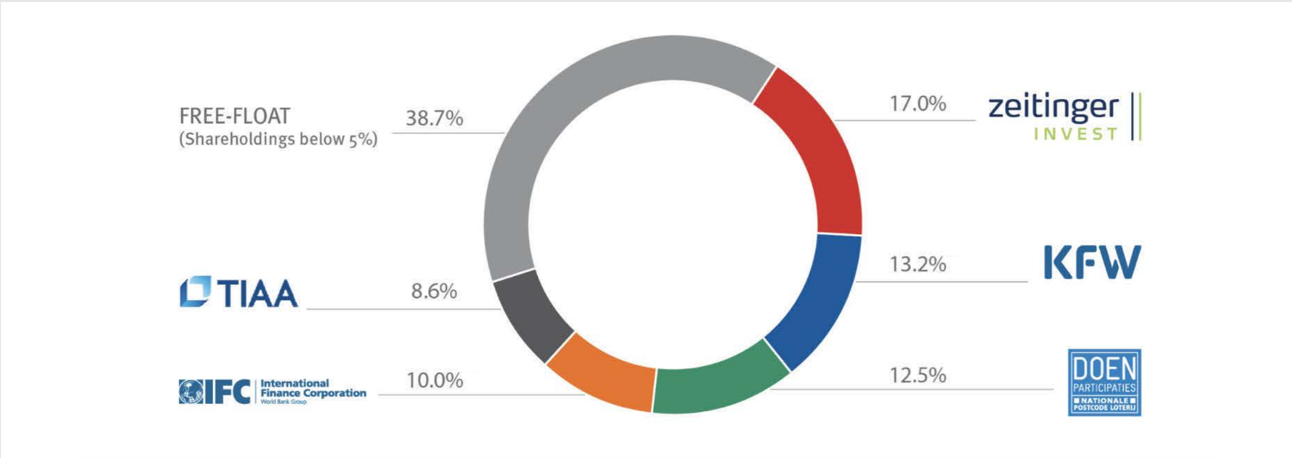
ProCredit Bank takes the same approach to both its clients and its staff: in order to solve complex problems under difficult circumstances, we work together as partners with a sense of joint responsibility and mutual respect. The bank’s unique approach would not be possible without a strong foundation, which rests on a company culture that is shaped every day through thoughts and actions. ProCredit Bank’s identity is defined by the collective identities of the individuals working for us. The bank believes that companies are defined by their people and not by their mission statements. This is the foundation of our community, our res publica, which emphasizes a common feeling of ownership and responsibility for everything the bank stands for.

Shareholder Structure

ProCredit Bank Kosovo is owned by ProCredit Holding AG & Co KGaA, the parent company of ProCredit group, which is specially-oriented to the economic development, with an operational focus in South Eastern and Eastern Europe.

According to available voting rights notifications, as of year-end approximately 55% of the shares in ProCredit Holding were held by the core shareholders[1]: Zeitinger Inves GmbH, Kreditanstalt für Wiederaufbau (KfW), DOEN Paticipaties BV, and the International Finance Corporation (part of the World Bank Group). ProCredit Staff Invest Beteiligungs GmbH is also a core shareholder, with roughly 3% of the shares.

The Teachers Insurance and Annuity Association of America holds between 5% and 10% of the shares, The free float, defined by the German Stock Exchange as holdings below the threshold of 5% of votin rights, was around 39% on 31 December 2022 according to voting rights notifications. This includes investments of more than 3% in ProCredit Holding AG&Co. KGaA by FMO (Netherlands Development Finance Company), BIO (Belgiuan Investment Company for Developing Countries), MultiConcept Fund Management, the European Bank for Reconstruction and Development and MainFirst.



FitchRatings
BB

ProCredit Bank is the only bank in Kosovo rated by the international rating agency, Fitch Ratings.

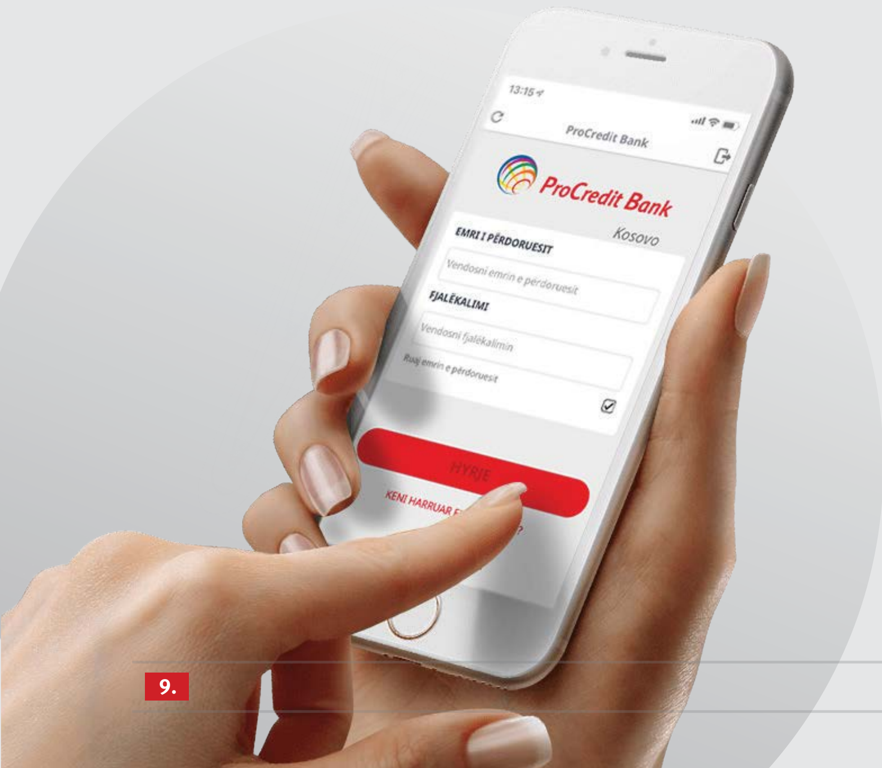
Supervised by
BaFin

We work in accordance with the best banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

Digital Approach

In banking, development, technology and digitalization are becoming more of a priority. This holds true for ProCredit Bank as well; automation and digitalization not only improve our client experience, but also create a competitive advantage for the bank. ProCredit Bank uses advanced technology to provide services to its clients. In all countries in which ProCredit Bank operates, we are pioneers of innovation in the financial industry. Our highly-digitalized banking has enabled us to continue implementing our business activities without significant restrictions during the pandemic.

ProCredit is the first bank in Kosovo that has succeeded in digitalizing almost all non-financial transactions, such as the client identification process and the signing of contracts using qualified digital signatures, so that clients no longer have to visit our branches to carry out such transactions. Apart from these advancements, in recent years, the bank expanded the functions of its e-banking platform by adding new services, such as applications for services and the management of their data. Ultimately, the goal of ProCredit Bank is to continue providing financial and non-financial services via various digital channels, to give clients a full banking experience while on the other hand, continue to provide expertise for different financing needs through our client advisers.



Green Approach

Environmental protection is often overshadowed by the pressing issues of everyday life, which makes the market in Kosovo less conducive to green finance. As a result, throughout the years, ProCredit Bank Kosovo has been doing more than merely designing and issuing green loans. We have devoted resources to holding environmental awareness-raising campaigns and providing regular training sessions for our own staff, thus enabling them to make an impact to improve the environmental performance of the companies we work with. The growth of the bank's green loan portfolio is testimony to its intensive efforts in this regard. By December 2022, we had achieved a 16.4% share of green loans in our total loan portfolio. Comprehensive training for our staff is provided not only at the bank level, but also at the group level at the ProCredit Academy for Management and Bankers in Fürth, Germany.

Minimizing negative environmental impact, along with proactively promoting sustainability in doing business, is an integral part of ProCredit Bank's strategy – not only in relation to its loan operations or when providing financial services to its clients, but also when carrying out daily activities.

Offering green financial services also means taking a look at the credibility of ProCredit Bank itself, especially where its performance with regard to the environment is concerned. Green finance at ProCredit encompasses the three pillars of the bank's Environmental Management System (EMS), which was introduced group wide in 2011:

Internal environmental management

Our approach is based on processes and procedures that help us systematically reduce our direct environmental footprint.

Greening the banks' infrastructure and communicating about environmental issues raises awareness in our institutions and leads to improved resource consumption.

Social and environmental risk management in lending

We recognize our responsibility for our clients' environmental and social (E&S) impact.

In order to mitigate E&S risks and assess the potential E&S impact of investments financed, a thorough E&S assessment is an integral part of our credit risk analysis.

Green finance

We aim to have a positive environmental impact by promoting green investments in our countries of operation.

We support clients who want to improve their business processes in an environmentally sound manner by investing in energy efficiency, renewable energy or environmental protection.

Our Approach to Environmental Management

In order to minimise our environmental footprint, we continuously analyse and monitor the impacts resulting from our activities. We set objectives that are explicitly designed to reduce emmissions by improving energy efficiency, promoting renewable energies, and reducing resource consumption. We set an example to companies in our countries of operation by putting green building standards into practice and gaving our efferts visibly certified. We regularly publish our environmental achievements both internally and externally with a view to raising awareness among employees and clients alike.

Our measures to reduce energy consumption and emissions:

- Own PV systems produced 30.86 MWh in 2022 (not comparable to 2021 since the system was functional only from H2 2021)
- 96% of our own car fleet is electric, hybrid plug-in or hybrid
- 16 electric chargers available for the public

Other environmental achievements:

- 16% reduction in Scope 1 and 2 emissions compared to 2021 *1
- The bank uses only recyclable paper or certified
- 18.4% reduction of building energy consumption compared to 2021
- 37% of our suppliers are sustainable suppliers

1. Scope 1 emissions include direct emissions from sources owned or controlled by the company. Scope 2 emissions include indirect greenhouse gas emissions from purchased or acquired energy, such as electricity, heating or cooling, produced abroad and consumed by the company

Environmental and Social Risk Assessment – encompasses not only internal measures, but also mechanisms to assess the environmental and social impact of ProCredit clients. However, given the long-lasting negative impact of single-use plastics on the environment, during 2021, we developed a special lending strategy towards plastic producers.

Green Finance – Over the last decade, ProCredit's green loan portfolio has shown an extraordinary growth, making up 16.4% of the total loan portfolio.

ProCredit Bank's green lending approach has been continuously refined over the years and currently reflects our best practices, based on 16 years of experience in green lending to SMEs in Kosovo. Considering the energy mix in Kosovo, especially with regard to the production of electricity, 95% of which is generated using lignite as a primary energy source, ProCredit Bank has been extremely active and has been a leader in financing photovoltaic systems.

Green finance at ProCredit Bank is divided into three distinct categories:

Energy efficiency
Investments that reduce energy use at least by 20%.

Renewable energy
Investments in distribution or utility-scale of renewable energy (RE) generation systems.

Other environmentally friendly investments
Investments in waste management or organic agriculture.

Business Approach

Business Clients

ProCredit Bank focus continues to be around the “hausbank” concept, dedicated to serving small and medium enterprises, as we are convinced that these enterprises create the largest number of jobs and make an essential contribution to the economies in which they operate. ProCredit Bank’s approach to managing relations with business clients and the professionalism of the bank’s business advisers enables us to understand our clients’ needs and support them with appropriate financial services, and effective and efficient financing. The Bank focuses especially on responsible financial services.

In line with the group’s strategy, ProCredit Bank strives to be a Hausbank for its clients, i.e. the bank not only finances loans and provides other credit products for business clients, but also offers a broad range of modern financial services that small and medium enterprises need to perform banking operations. These services include an advanced electronic platform for e-banking, through which business clients can carry out national and international transfers in a fast and secure way, at low cost; pay salaries and execute mass payments; pay bills; make customs duties payments; manage their loans account and credit lines; management of debit and credit cards and carry out efficient transactions through POS terminals; utilize our trade financing services; and carry out numerous banking activities at our 24/7 Zones. These spaces enable businesses to withdraw money 24 hours a day, 7 days a week and deposit daily earnings at cash-in ATMs. Our banking services help businesses expand and operate more efficiently, which induces sustainability. The bank aims to enter into long-term partnerships with small and medium enterprises and follow up on their progress. These elements, combined with the specialized experience of our business advisers, are the foundation of our model for helping businesses to be successful.

E TAXI
Environmentally friendly transport

ProCredit Bank continued to finance businesses and support them at any time not only through financing but also by providing sound advice on how to better manage the challenges of this year. The bank placed special emphasis on encouraging and promoting investment loans for all small and medium enterprises, especially those involved in production, thereby achieving the highest market share for the production sector. The business financing portfolio increased by over EUR 78 million in 2022. Total volume of credit exposures dedicated to businesses amounting to nearly EUR 531 million by the end of the year.

As a bank that conducts responsible banking operations, ProCredit Bank has special emphasis on operating in compliance with environmental standards. The bank continued to support its clients who invested through “green loans,” a term that characterizes all financial services geared towards investments in energy-saving measures, renewable energy sources, and other environmentally friendly measures. In 2022, the bank continued to pursue its goal of motivating more business clients to make such investments, with special emphasis on saving electricity through investing in solar panels, upgrading production equipment, and taking measures that reduce water or air pollution. The portfolio of green loans for business clients represents 31% of the total of business loan portfolio.

ProCredit Bank also offers savings accounts to its business clients, enabling them to transfer surplus liquidity from their businesses to accounts with interest that are flexible to use. The volume of business client deposits this year exceeded EUR 232 million, amounting to an annual increase of over EUR 31 million.

Our Business Client Advisers are the key to implementing our strategy of developing long-term professional relationships with our business clients. They are the primary channel not only for providing banking services to our business clients, but also for delivering professional advice and meeting with small and medium clients to assess their needs. The bank continuously invests in the training and professional development of its Business Client Advisers.

Apart from supporting the short-term and mid-term investments of our business clients, in 2023 the bank will continue to support and promote long-term investments, in particular green investments with special emphasis on energy saving, and to provide targeted support to production businesses. Likewise, the bank will continue to support businesses in channelling their sales through POS terminals, the online payment platform, and e-commerce. ProCredit Bank aims to continue operating as a “Hausbank” for small and medium business clients and continue to establish long-term collaboration with these clients.

Vam Trade
Production of
metal structures

Private Clients

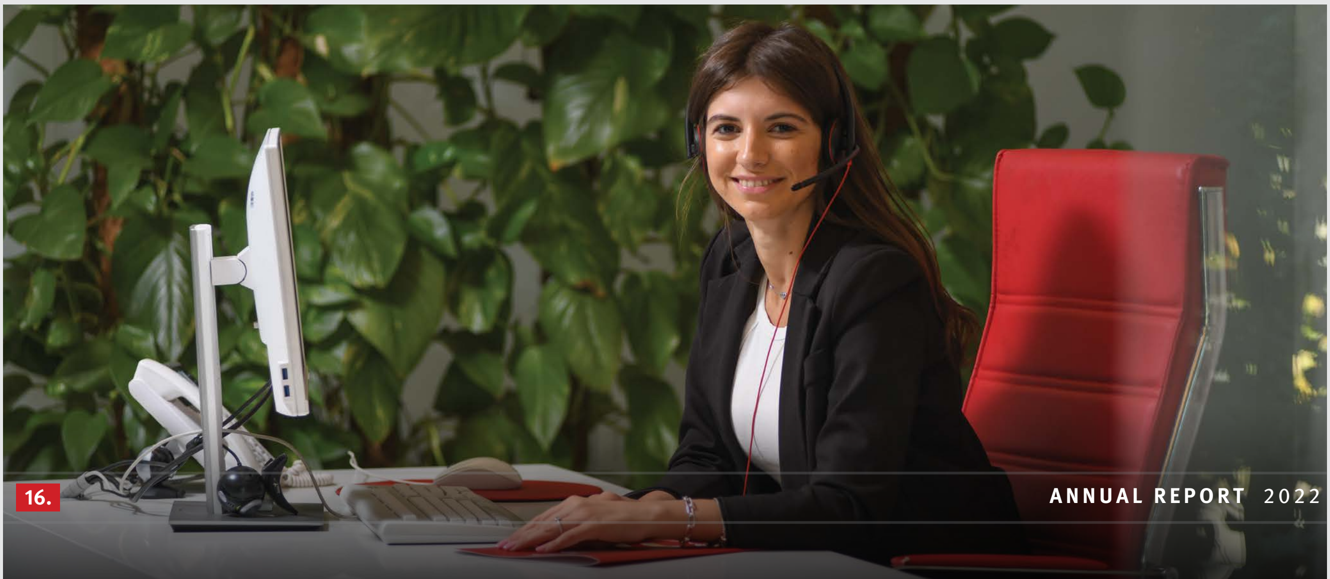
For more than 20 years, we have been the bank of choice for individuals and households willing to save or invest in improving their living conditions. This is due to our tailor-made approach, prudent financing, and top-notch banking technology that is available to them 24/7.

In terms of accessibility of services, the pandemic situation found us ready to serve clients even remotely, further enforcing our belief and our strategy that digital banking is the future and the best way for us to move forward. The use of our online platforms by private individuals increased in 2022 due to numerous new features and improvements in the speed and safety of our platforms. Apart from fully implementing our digitalization process, in July the bank pioneered the introduction of online account opening. The process is done fully online by following instructions in our mobile app and is finalized with a video call between the client and a Client Adviser.

In August the bank signed an agreement with the Green Economy Financing Facility to support the energy efficiency projects of our private clients by providing a rebate of up to 20% on loans disbursed for investments such as energy-efficient doors, windows, wall or roof insulation, biomass stoves/boilers, lighting, solar water heating, efficient boilers, photovoltaic systems, etc.

In cooperation with construction companies and real estate sales companies that are well known for their high-quality work in the construction market, fully compliant with issued constructions permits, and honouring completely the contractual obligations towards their clients, the bank designed special credit products and launched mutual financing supplies. Through these agreements, we made it possible for families with a solid financial background to find a solution on their housing conditions by acquiring a house / apartment through bank financing, benefiting from flexibility offered in relation to loan collateral provided as a special feature of these agreements.

ProCredit Bank acknowledges the importance of our small initiatives and their enormous impact on Kosovar households; therefore, we are always working towards improving customer experience through our digital channels and tailor-made approach to private clients.



Socially Responsible Approach

For ProCredit Bank, long-term sustainable economic development is our reason for existing – our raison d'être – and we therefore dedicate our business activities to the accomplishment of this goal. Sometimes, this means sacrificing easy profit in favour of a prudent approach to supporting our clients' investments and consuming desires. From the outside, this might seem tedious, but to us, it is exciting and fulfilling, as through our financial activities the bank ensures the economic wellbeing of households and SMEs.

ProCredit Bank pays close attention to the social aspects of the economy and doing business in accordance with values and principles. It is therefore a vital part of the economic development of Kosovo and of its social transformation towards becoming a country of European values and standards. For many years, the bank has sponsored many cultural and sports events, such as the Dokufest film festival in Prizren and the Prishtina Half Marathon. In 2022, in line with the strategy of supporting cultural activities, the bank has supported Sunny Hill festival, a cultural event that now has a tradition of its own and brings together many local and foreign artists. We have also supported associations such as Down Syndrome Kosovo and the Association of the Blind of Kosovo, and numerous tree-planting initiatives.

ProCredit Bank analyses the environmental impact of its operations and adapts its objectives accordingly, thus setting an example on how to do business sustainably. To ProCredit Bank, green finance does not merely mean maximizing green products or achieving CO_2 neutrality by purchasing green bonds: we live our principles at the institutional level. Therefore, the bank has minimized the use of paper in its operations and has equipped its transportation fleet with environmentally-friendly vehicles. Over the years, the bank has planted over 1,200 trees and has greened an area of 128k m^2. The bank, in 2022, has also continued with the expansion of e-charging network for the electric vehicles throughout the territory of Kosovo, to be used free of charge. The e-charger network can be accessed by the clients through ProCredit Charging Stations, a mobile application, which informs users of the locations of these charging stations in Kosovo and in all other countries where the ProCredit group operates. To date there are 300 charging stations.

Planting of **100 trees** in Mitrovica

Risk Management

Credit Risk Management

ProCredit Bank defines credit risk as losses to be incurred if a party to a transaction cannot fulfil its contractual obligations, either in full or in due time. The bank distinguishes between client credit risk and counterparty risk within the context of overall credit risk (including lender risk). Our most significant risk is credit risk, and consumer credit exposures account for the majority of that risk. ProCredit Bank's core business is to provide financial support to small and medium- sized business clients as well as to private individuals that value savings and choose long-term investments. The bank has recently begun to focus on Very Small enterprises, which could include family-based companies and agricultural producers.

The objectives of credit risk management are to achieve high quality of loan portfolio, low concentrations of risk within the loan portfolio and ensure appropriate coverage of credit risks with loan loss provisions. The bank's framework for Credit risk Management is presented in the relevant policies and standards, which are based on ProCredit group policies and outline the bank's essential principles for managing credit risk. Taken together, these strategies illustrate the ProCredit banks' successful lending operations in developing and transitioning economies. Furthermore, these documents are fully compliant with Kosovo's laws and regulations. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The bank uses several approaches to limit credit risk during the credit risk management process, which includes a thorough examination of our clients' debt capacity. These include taking steps to avoid over-indebtedness, reviewing loan exposures on a regular basis, and actively managing problematic credit exposures. Furthermore, the use of well-designed and well-documented processes, the four-eye approach, long-term relationships and regular communication with clients, as well as investment in well-trained and highly motivated staff, all help mitigate credit risk.

In addition, portfolio analysis is one of the bank's most essential competencies. Due to the highly dynamic macroeconomic environment in which we operate, this is applicable to both the bank and the entire group. The bank uses a loan portfolio monitoring system to comply with International Financial Reporting Standard 9 (IFRS 9) by identifying and managing potential problems early on. Nevertheless, the bank's decision-making is also based on several macroeconomic analyses with an emphasis on market analysis and economic sectors.

Another factor that contributes to credit risk being well managed and to have a broadly diversified ProCredit Bank's loan portfolio is that any potential concentration of credit risk is extensively assessed for its influence on the bank's ability to absorb it. Diversification of the group of clients entails a wide range of economic sectors and the client groups, including medium, small, and very small firms, as well as private clients and institutions. ProCredit Bank also aims to provide clients with straightforward, easy-to-understand products, resulting in a high level of transparency for both sides.

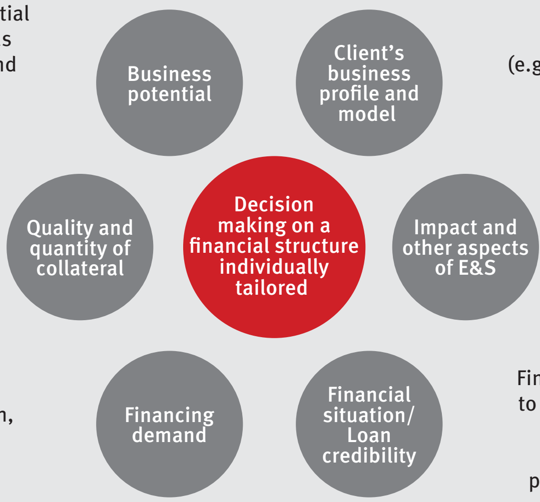
We use a variety of credit risk management techniques when dealing with different client categories and loan exposures, such as segregation of duties for small and medium loan exposures, application of standardized and tested loan procedures in private client lending, identification of credit decision criteria, application of different collateral requirements based on loan amounts, and documentation of the client's credit history. Furthermore, the evaluation of collateral is carried out by licensed third-party firms, reducing the risk associated with collateral valuation.

Because the vast majority of the bank's loans are repayable in monthly instalments, a borrower's failure to meet contractual obligations is viewed as an early warning of potential default, prompting a swift response by the bank. The monitoring mechanism, which employs early warning indicators, enables the bank to act quickly in the event of a probable default.

Our 360-degree approach to client and exposure assessment:

Client's overall needs apart from current request, and potential future business with the client as part of the Hausbank concept and long-term client relationship.

Ownership structure, management capabilities and experience, organization of the company (e.g. succession plan), business model, market trends and developments.



Degree of collateral coverage, based on available collateral and in accordance with the requirements on collateral.

Client's approach to environmental, social, health, and safety impact of business operations.

Rationale, scope, size "fit" to the overall business approach, quality of the plan/projections, capacity to manage.

Financial strength and capacity to meet financial obligations in terms of levels of liquidity, profitability and solvency, potential risks to the financial strength and how those risks are managed.

The most significant new factor influencing credit risk during the 2021-2022 fiscal years, credit risk management, was a major focus. Our broad market knowledge and ProCredit Bank's diligent customer selection have both contributed to prudent credit risk management. Following the crisis due to higher energy prices and increased inflation during 2022, ProCredit Bank took several steps to prevent loan portfolio quality from deteriorating. The first step was to be in constant contact with all business and private clients in order to get first-hand input on the potential impact on their operations and finances. This made risk analysis easier, with a focus on individuals who would be the most affected from the crisis situation. The bank was able to provide solutions to all the clients who were experiencing financial difficulties as a result of the abovementioned crisis situation. These efforts were a useful tool during the peak of uncertainty, and the Bank will continue to intensify its focus on these issues in 2023.

In parallel with these measures, ProCredit Bank intensified the annual monitoring of its customers by updating the risk analyses for all business customers. In this process, consideration was given to the impact of the crisis emerged in economic sectors and the individual impact on the liquidity and payment capacity of companies. As a result of this intensified loan portfolio monitoring, risk classification downgrades were made where needed and measures were taken to prevent potential defaults.

Despite the crisis, the major indicators of loan portfolio performance remained the same in 2022, demonstrating the excellent quality of the bank portfolio. At the conclusion of the year, the share of non-performing loans stood at 2.0%. The nonperforming loan coverage by loan loss provisions at a rate of 137 percent, is regarded as satisfactory.

Credit risk will continue to be a priority in 2023, both on a portfolio and individual basis. We can foresee prospective challenges or finance requests during the course of our clients' business activities since we keep a close eye on them.

Counterparty Risk Management

In order to manage liquidity risk and other operational activities, ProCredit Bank keeps a portion of its assets as liquid investments placed with external counterparties, including issuers of securities. In this case, the bank is exposed to the risk that these external parties may not be able to meet their obligations towards the bank.

We actively manage this risk by applying the measures outlined in our policies on counterparty risk management, management of liquidity, treasury, investments, etc. These policies and other bank procedures detail the careful selection processes applied when choosing counterparties. These documents also determine the limits of exposures with counterparties, as well as the types of transactions permitted, the methods of controlling and monitoring, processing rules, etc.

ProCredit Bank has a relatively low risk tolerance and does not engage in speculative trading activities. Our counterparties are mainly institutions with a high credit rating, a good reputation and a high level of financial sustainability. In principle, no exposure or agreement may be made without determining a limit in advance. These are determined by means of a thorough analysis by the bank and are reviewed on an annual basis. The bank's policies and procedures are in accordance with the regulations of the Central Bank of the Republic of Kosovo.

Liquidity and Funding Risk Management

Liquidity risk is the risk that the bank will not be able to meet its current and future liabilities in full or in a timely manner. Funding risk is the risk that additional financing can only be obtained at very high interest rates or not at all.

ProCredit Bank manages these risks through its policies and procedures in accordance with regulatory authority requirements. In addition, controlling and reducing liquidity risk is supported by our business model. On the one hand, the loan portfolio is characterized by a large number of short- and medium-term exposures. Most of these loans are disbursed as annuity loans and are of high quality. From the perspective of liquidity risk, this leads to diversified and predictable inflows. On the other hand, clients' deposits are our main source of funding, so the use of financial market instruments is low.

As part of liquidity management, the bank has defined and continuously monitors its liquidity indicators. We also regularly conduct liquidity stress tests based on defined scenarios that help the bank analyse its liquidity positions in the event of potential internal or external shocks. The bank considers liquidity risk to be low, due to the diversity of clients' deposits and the fact that the bank continues to have access to financing from various international sources.

Foreign Currency Risk Management

Foreign currency risk implies the risk of negative effects on the financial results and capital adequacy of an institution caused by changes in the exchange rate. ProCredit Bank manages this type of risk in accordance with the Foreign Currency Risk Management Policy, which is compliant with CBK regulations. Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously.

As we hold no open currency positions for speculative purposes, ProCredit Bank has a low level of exposure to foreign currency risk. Furthermore, the limits set for these risks were never exceeded in 2022.

Interest Rate Risk Management

Interest rate risk arises from structural differences between the repricing of assets and liabilities at maturity. This can expose the bank to the risk of potential increases in funding costs, while the return on assets might remain the same, or decrease, thus not keeping the pace with the costs of funding over a longer term, resulting in a decrease of the margin.

The bank has approved an appropriate policy in place for this type of risk. We continuously analyse the maturity gap between assets and liabilities (based on the repricing). In addition, the bank carries out stress tests by simulating interest rate fluctuations in order to measure the impact on economic value and interest income. The results of these analyses are regularly reported to the Financial and Market Risk Management Committee, as well as to the Board of Directors.

The bank analyses continuously the balance sheet structure and depending on the increases of interest rate risk, it applies corrective measures as necessary.

Capital Adequacy Management

The bank's capital adequacy is calculated on a regular basis and reported to Management via the Financial and Market Risk Management Committee, along with forecasts. This ensures future compliance with regulatory requirements on capital adequacy. Management of capital adequacy is undertaken based on the bank's policies and in accordance with the relevant Central Bank regulations.

Operational and Fraud Risk Management

Operational risk, in accordance with the Basel Committee on Banking Supervision, is defined by the Bank as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes, in particular, fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The bank implements a set of principles for operational risk and fraud risk management throughout the institution via specific policies whose principles are in compliance with regulatory requirements.

The main tools used by the bank to manage operational risks are the Risk Event Database (RED), annual risk assessments, key risk indicators (KRI) and the analysis of all new services and processes using the New Risk Approval (NRA) process. The bank uses operational and fraud risk assessments to identify, assess and monitor operational risks at all levels. In accordance with Basel II, the bank continuously assesses operational risks that could arise from its services, processes and systems. Additionally, the bank's internal control system includes deficiency mitigation procedures, including necessary corrective and preventive actions. To keep information technology risks to a minimum, the bank implements procedures to safeguard its IT structure, ensure business continuity, and strengthen information security. Furthermore, the bank provides training on the Code of Conduct, as this binding document emphasizes the importance of staff integrity and promotes a culture of transparency and risk awareness. The principles of operational, fraud and information security risks are addressed during regular staff trainings to raise risk awareness at all levels.

Taking into consideration that ProCredit is a digitalized bank, information security and data protection is definitively a top priority at the group level, hence in our country too. Throughout 2022, ProCredit Bank Kosovo has continued with the advancement of security processes and controls to protect reliability, integrity and availability of our information assists and services. To achieve this goal, we have updated our policies and procedures in compliance with the best practices in banking and regulatory requirements. Also, we have continued to provide regular staff training in terms of information security and have published information using bank's official channels to be able to raise our clients' awareness. In addition, a special focus has been devoted to meeting the information security requirements for third parties that cooperate with the bank.

Next year we plan to continue following the recommendations from the group and international trends in this field aiming at preventing and managing cyber threats.

Prevention of Money Laundering and Financing of Terrorism

ProCredit Bank is in full compliance with the requirements set forth in Kosovo legislation for the prevention of money laundering, financing of terrorism and other illegal acts. ProCredit Bank Kosovo, as part of the ProCredit Group, implements both the Group's policies and standards for the prevention of money laundering and financing of terrorism, which are in full harmony with the requirements of German and EU legislation.

The responsible approach is an integral part of the ProCredit Bank's business model values. The ethical responsibility of the bank is documented with the Code of Conduct and the Exclusion List that include the main rules that every bank employee must observe carefully.

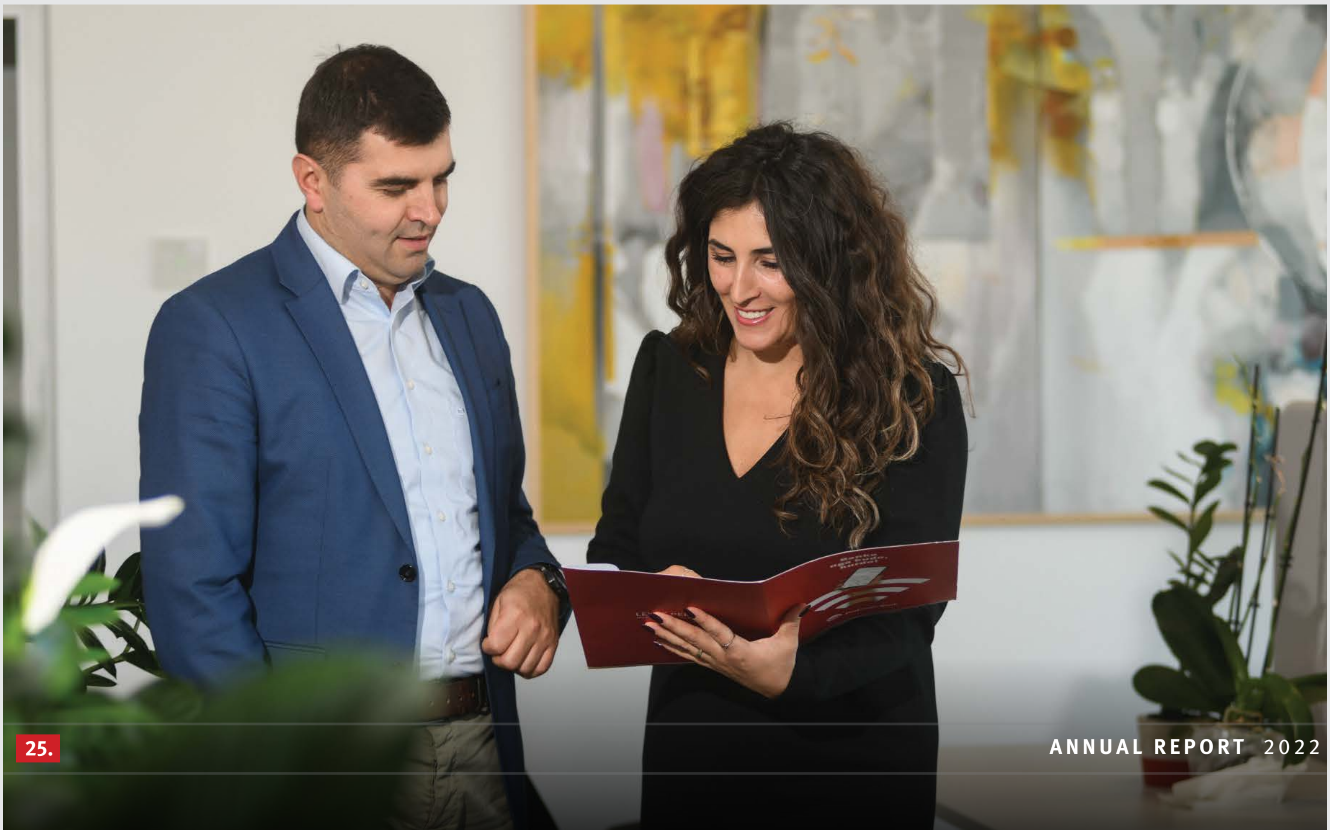
ML/TF risk awareness for all bank employees, an essentially conservative approach to risk management, is an integral part of the Bank's business strategy. Therefore, all Bank staff attend intensive training focusing on the most recent developments in the field of prevention of money laundering, financing of terrorism and international sanctions. Furthermore, the Unit for the Prevention of Money Laundering and Financing of Terrorism is an independent unit within the Bank's organizational structure and reports directly to the Bank's Board of Directors.

The bank uses a sophisticated software that enables compliance with international sanctions, monitoring transactions with high-risk countries, as well as detecting potentially suspicious transactions.

Our Staff

Our employees are the most valuable asset of ProCredit Bank. We can proudly say that our way of working with people is special. We believe in meritocracy, discussions and knowledge. We believe that people should take care of their societies and make active contributions instead of being mere passive observers. On the other hand, we do not believe in bonuses. We do not believe in "one-man shows". This is our story:

- All our new employees go through international 6-month onboarding programme training which upgrades their knowledge about banking, accounting, but also about society in which they live, critical thinking, presentation skills, environment.
- We provide multiple English language courses each year for our staff, may it be online or in our academies in Germany. Up to this point and after hundreds of courses provided, we can proudly say that all our employees speak English at least on B1 level.
- All our senior and middle managers had completed or are currently attending three-year courses at Management Academy in Furth, Germany. This opportunity is provided, along with one-year Banker Academy for our high-potential specialists, carefully selected each year. At this point, 22% of our staff have graduated from or are currently participating in one of the ProCredit academies.
- Nearly 270 hours of training per employee were provided to our staff in 2022.
- 500,000 EUR was invested in staff training in 2022.



ProCredit Bank relies on the professionalism and best-quality services provided to clients by our employees. Therefore, we firmly insist on transparency in communication with clients, but also in communication among our staff. Every one of our employees, from the first moment they join ProCredit, knows what to expect and what lies ahead of them in terms of their professional careers. We achieve this by following several strict self-imposed principles:

Clear salary structure

We pay no bonuses. Instead, we offer a proper all-inclusive salary according to a transparent ProCredit group wide salary structure that combines intensive training, internal promotion, and most importantly, a long-term view for our staff. In this way, colleagues do not see each other as rivals, but more as members of the same team. Additionally, this ensures that our employees are not driven by profit.

Code of conduct

All banks in the ProCredit group have an identical Code of Conduct, available to our staff only in English, as we want to make sure that the understanding of its underlying principles does not get lost in translation. It is not just a formality or a simple questionnaire to be signed by our staff each year. The Code of Conduct represents our moral compass, challenging us to think outside of the box and to question the morality of our everyday actions.

Holistic staff assessment

ProCredit Bank employees are encouraged to share their thoughts, ideas, impressions, and concerns. Therefore, in addition to the open-door policies of our managers, an additional staff assessment system has been in place for a decade now, which combines bi-annual feedback talks with direct supervisors and annual staff conversations with senior manager. Feedback talks offer dialogues with employees on department-specific topics as well as their performance and prospects. Staff conversations with a senior manager give a broader institutional view. The aim of both the feedback talks and the staff conversations is to review an individual's performance in both qualitative and quantitative terms, and to provide a chance for every employee to discuss their progress, expectations, and further path of development.

With all the above-mentioned systems in place, in 2023 ProCredit Bank will focus on stepping up considerably staff activities, recruitment and investment increase in local trainings as well as general trainings already well-places in the Bank. We will open our doors to all interested newcomers, regardless of their educational background, to people who are ready to join us and who meet our strict recruitment criteria, mostly as Business Client Advisers, Private Client Advisers, and Credit Risk Analysts. We have always been a bank that gives a chance to youth who want to stay in Kosovo and help their society, to learn, to improve themselves and to achieve their maximum professional growth. This will never change. This is what ProCredit is all about.

Independent Auditor’s Report and Financial Statements

PROCREDIT BANK SH.A KOSOVA

Indepedent Auditor’s Report and Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2022

CONTENT

Tel: +381 38 600 031
Fax: +381 38 600 032
www.bdkosovo.com

BDO Kosova L.L.C.
Str. Ukshin Hoti C4/3 , Entr. A, Kati II
10000 Prishtina Kosova

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of ProCredit Bank Sh.a

Opinion

We have audited the financial statements of ProCredit Bank Sh.a (the "Bank"), which comprise the statement of financial position as at December 31, 2022, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and its financial performance and its cash flows for the year the ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kosova, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information in the Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO
BDO Kosova L L C
audit, accounting and financial advisory
Prishtina,Kosova

Amir Dërmala
Engagement Partner
BDO Kosova L.L.C.
April 20, 2023
Str. Ukshin Hot, C 4/3, Ent. A, Floor II
Pristina, Kosovo

PROCREDIT BANK SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

In EUR thousand

	Note	2022	2021
Interest income	7	33,567	29,498
Interest expenses	7	(2,927)	(3,177)
Net interest income		**30,640**	**26,321**
Fee and commission income	8	14,191	13,414
Fee and commission expenses	8	(6,919)	(6,613)
Net fee and commission income		**7,272**	**6,801**
Result from foreign exchange transactions		1,427	877
Net other operating result	9	(1,346)	(1,290)
Operating Income		**37,993**	**32,709**
Personnel expenses	10	(5,621)	(5,340)
Administrative expenses	11	(12,834)	(12,362)
Loss allowance	12	3,202	4,427
Profit before tax		**22,740**	**19,434**
Income tax expense	13	(2,086)	(1,988)
Profit for the year		**20,654**	**17,446**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on investments in debt instruments measured at FVOCI, net of tax	13	(308)	31
Total comprehensive income for the year		**20,346**	**17,477**

The accompanying notes are an integral part of the Financial Statements.

PROCREDIT BANK SH.A.
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2022

In EUR thousand

Assets	Note	31 December 2022	31 December 2021
Cash and balances with Central Banks	14	267,551	222,670
Loans and advances to banks	15	25,032	23,623
Loans and advances to customers	16	655,971	571,334
Investment securities measured at FVOCI	17	63,913	70,998
Intangible assets	18	39	39
Property, plant and equipment	19	13,045	11,551
Current tax assets	13	310	592
Deferred tax asset	13	125	104
Other assets	20	3,674	3,922
Total assets		**1,029,660**	**904,833**
Liabilities			
Liabilities to banks	21	631	1,122
Liabilities to customers	22	895,780	770,568
Other liabilities	23	6,860	6,086
Borrowings	24	22,891	25,905
Subordinated debt	24	7,538	7,538
Total liabilities		**933,700**	**811,219**
Equity			
Share capital	25	61,346	61,346
Share premium	25	4,204	4,204
Contingency reserve	25	511	511
Revaluation reserve investment securities -FVOCI	25	(203)	105
Retained earnings		30,102	27,448
Total equity		**95,960**	**93,614**
Total liabilities and equity		**1,029,660**	**904,833**

These financial statements have been approved by the Management Board on April 20, 2023 and signed on their behalf by:

Eriola Bibolli
Chief Executive Officer

Esad Haxhani
Head of Finance Department

The accompanying notes are an integral part of the Financial Statements.

PROCREDIT BANK SH.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

In EUR thousand

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
As at 1 January 2021	**61,346**	**4,204**	**511**	**45,002**	**74**	**111,137**
Profit for the year	-	-	-	17,446	-	17,446
Other comprehensive income	-	-	-	-	31	31
Total comprehensive income	-	-	-	**17,446**	**31**	**17,477**
Distributed dividends	-	-	-	(35,000)	-	(35,000)
Balance at 31 December 2021	**61,346**	**4,204**	**511**	**27,448**	**105**	**93,614**
Total comprehensive income						
Profit for the year	-	-	-	20,654	-	20,654
Other comprehensive income	-	-	-	-	(308)	(308)
Total comprehensive income	-	-	-	**20,654**	**(308)**	**20,347**
Distributed dividends	-	-	-	(18,000)	-	(18,000)
Balance at 31 December 2022	**61,346**	**4,204**	**511**	**30,102**	**(203)**	**95,960**

The accompanying notes are an integral part of the Financial Statements.

PROCREDIT BANK SH.A.
STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

In EUR thousand

	Note	2022	2021
Cash flows from operating activities			
Profit before tax		22,740	19,433
Adjustments for:			
Depreciation	19	1,601	1,805
Amortization	18	12	12
Gains on disposal of property and equipment		(87)	(86)
Loss allowance	12	(3,202)	(4,427)
Interest income	7	(33,567)	(29,499)
Interest expense	7	2,927	3,177
Cash flows used in operating activities before changes in operating assets		**(9,576)**	**(9,585)**
Net (increase)/decrease in:			
Loans and advances to banks		(1,335)	3,469
Loans and advances to customers		(82,184)	(53,070)
Other assets		252	(1,139)
Balances with the Central Bank		1,584	(8,871)
Net increase/(decrease) in:			
Liabilities to other banks		(491)	513
Liabilities to customers		125,213	21,396
Other liabilities		(744)	14
Cash generated/(used in) operating activities		**32,719**	**(47,273)**
Interest received		33,589	30,638
Interest paid		(2,914)	(3,816)
Income tax paid		(1,493)	(1,242)
Net cash generated/(used in) operating activities		**61,901**	**(21,694)**
Cash flows from investing activities			
Acquisition of investment securities through FVOCI		(17,206)	(45,866)
Proceeds from disposal of investment securities FVOCI		24,380	39,607
Acquisition of premises and equipment		(1,620)	(565)
Proceeds from disposal of premises and equipment		84	535
Acquisition of intangible assets	18	(12)	-
Net cash (used in)/from investing activities		**5,626**	**(6,289)**
Cash flow from financing activities			
Proceeds from long term borrowings		(2,988)	881
Dividends paid		(18,000)	(35,000)
Net cash used in financing activities		**(20,988)**	**(34,119)**
Net decrease in cash and cash equivalents		**46,539**	**(62,102)**
Cash and cash equivalents at the beginning of the year		189,780	251,882
Cash and cash equivalents at the end of the year	14	**236,319**	**189,780**

The accompanying notes are an integral part of the Financial Statements.

(All amounts expressed in EUR thousand, unless otherwise stated)

1. Introduction

ProCredit Bank sh.a. Kosovo ("the Bank") was incorporated in the Republic of Kosovo on 9 December 1999 as a joint stock company. The Bank began its operations on 12 January 2000. The Bank is a fully owned subsidiary of the ProCredit Holding AG& Co. KGaA (ProCredit Holding).

Principal activity

The Bank was licensed to operate as a bank in all banking fields in Kosovo according to the rules of the Central Bank of Kosovo (former Central Banking Authority of Kosovo) ("CBK") and is currently subject to the Law "On Banks, Microfinance Institutions and Non-Bank Financial Institutions", No. 04/L-093. ProCredit Bank, was the first licensed bank in Kosovo. ProCredit Bank sh.a. is a development-oriented commercial bank which offers customer services to Small and Medium-sized Enterprises (SMEs) and to private individuals. In its operations, it adheres to a number of core principles: it values transparency in its communication with customers; does not promote consumer lending, seeks to minimise ecological footprint; and, to provide services which are based both on an understanding of each client's situation and a sound financial analysis.

Registered address and place of business

The Bank's registered address is Str. "George Bush", No 26, 10000 Prishtina, Republic of Kosovo. During 2022, apart from offering online services via e-Banking platform and website service, the Bank operated with a branch, Contact Centre and 24/7 (self-service) Zones, in order to provide customers with comprehensive and more accessible services.

Board of Directors:

- Mr. Gabriel Schor, Chairperson
- Mr. Marcel Zeitinger, Member
- Mr. Rainer Ottenstein, Member
- Mr. Jordan Damchevski, Member
- Mrs. Semra Citaku, Member
- Mrs. Eriola Bibolli, Member

2. Significant accounting policies

(a) Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of investment securities measured at FVOCI. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Use of judgements and estimates

The bank's financial reporting and its financial result are influenced by assumptions, estimates, and management judgements, which necessarily have to be made in the course of preparation of the Financial Statements. All estimates and assumptions required are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. Revisions to estimates are recognised prospectively. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4, 5 and 6.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

Functional and presentation currency

The financial statements are presented in EUR, which is the Bank's functional currency, currency of the primary economic environment in which the Bank operates. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

(b) Interest

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

c) Fees and commissions

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. All other fees, which are integral part of effective interest rate calculation are presented in interest income

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Other fee and commission income and expenses consist of fees and commissions from (for): credit cards, account service fees, international payments, domestic payments, Central Bank fees, SMS banking, guarantees and letters of credit and other fees and commissions. Other fee and commissions are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. Generally, the Bank uses its average interest rate on business loans as the discount rate.

(e) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency at the spot exchange rates on the date of the transactions.

Foreign currency monetary assets and liabilities are translated using the closing exchange rates. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year. Foreign currency differences arising on translation are generally recognised in the Statement of Profit or Loss.

(f) Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred income tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(f) Income tax (continued)

(i) Current tax
Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

(ii) Deferred tax
Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(iii) Uncertain tax positions
The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(g) Financial instruments

(i) Recognition and initial measurement
The Bank initially recognizes loans and advances, deposits and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification
Financial assets
At initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI (Solely Payments of Principal and Interest).

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL. In addition, at initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii) Derecognition

Financial assets
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

Financial liabilities
The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vi) Fair value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Credit impaired financial assets (continued)
In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mech anisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under ''Loss allowances''.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Non-integral financial guarantee contracts
The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL. If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost.

(i) Loans and advances

Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL (see J); these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(j) Investment securities

The 'investment securities' caption in the statement of financial position includes: debt securities measured at FVOCI. For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

(k) Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period.

The carrying values of property, plant and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

Land is not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property, plant and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below

Description	**Useful life 2022**
Buildings	40 years
Business and office equipment	2-10 years

Leasehold improvements are depreciated over the shorter of rental contract life or expected use life. The rights of use are amortised on a straight-line basis until the end of the lease term.

Property, plant and equipment with useful lives of more than one year which fall under the materiality threshold of EUR 100 (2021: EUR 100) and, are also not material in aggregate, are expensed in profit or loss.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in Statement of Profit or Loss.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(l) Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are comprised of computer software and licenses which are amortised using the straight-line method over their estimated useful life of five years, if not stated otherwise in their corresponding contracts.

(m) Repossessed collateral

Repossessed collateral represents properties acquired by the Bank in settlement of overdue loans. The assets are initially recognised at the lower value between fair value less costs to sell and the carrying amount of the loan at the date of exchange. Movable property is not recognised as an asset when repossessed.

The Bank subsequently measures repossessed collateral at the lower between amount initially recognised and the fair value of the properties less costs to sell. For the assessment of the fair value, the management uses appraisal performed by external expert valuators, licensed as per Central Bank of Kosovo regulation. The Bank applies haircuts determined by the Bank that reflect limitations of the market, consideration of time value of money and legal issues with the properties.

A repossessed property is accounted for under IFRS 5 – Held for sale assets, and expected to be sold within one year period, except if there is a delay caused by events or circumstances beyond the bank's controls and there is sufficient evidence that the bank remains committed to its plan to sell the asset. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

(n) Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

(o) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's main sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense over time.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(q) Employee benefits

The Bank pays only contributions to the publicly administered pension plan on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. The Bank calculated and provided provision for staff leave untaken by the end of the reporting period.

(r) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognizes a loss allowance in accordance with IFRS 9.

Liabilities arising from financial guarantees and loan commitments are included within provisions

(s) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

Share premium represents the excess of contribution received over the nominal value of shares issued.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

(All amounts expressed in EUR thousand, unless otherwise stated)

3. Adoption of new and revised International Financial Reporting Standards

3.1. Standards, amendments and interpretations that are already effective.

In the current year, the Company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2022.

3.1.1 Amendments to IFRS 3 Reference to the Conceptual Framework

The Company has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

3.1.2 Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use

The Company has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

3.1.3 Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract

The Company has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(All amounts expressed in EUR thousand, unless otherwise stated)

3. Adoption of new and revised International Financial Reporting Standards (continued)

3.1. Standards, amendments and interpretations that are already effective (continued)

3.1.4 Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Company has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards**

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

- **IFRS 9 Financial Instruments**

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- **IFRS 16 Leases**

The amendment removes the illustration of the reimbursement of leasehold improvements.

- **IAS 41 Agriculture**

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(All amounts expressed in EUR thousand, unless otherwise stated)

4. Critical accounting judgments and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the subsequent years is set out below in relation to the impairment of financial instruments.

(i) Impairment charge for credit losses

The Bank reviews its loan portfolio to assess impairment on a monthly basis for all on and off-balance sheet credit exposures, regardless of their size. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

The bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment on loans and advances (ECL) by EUR 1,438 thousand (2021: EUR 1,500 thousand), respectively. Impairment losses for significant individually impaired (SII) loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from significant individually impaired (SII) loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in impairment on loans and advances by EUR 274 thousand (2021: EUR 101 thousand), respectively.

Increase or decrease in the actual loss experience	+10%		-10%	
	2022	**2021**	**2022**	**2021**
ECL	1,438	1,500	(1,438)	(1,500)
SII	274	101	(274)	(101)

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out primarily by the Risk Monitoring Unit and Credit Risk Department that work under the risk management policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank does not aim to profit from speculative transactions. The Bank tries to keep its open currency position close to zero at all times. Open currency position limits and risk taking capacity for the Bank are set by their respective policies, which are approved by the Board of Directors, and reviewed by the Risk Monitoring Unit. In addition regulatory limits are at all times adhered to by the Bank.

Treasury unit assesses foreign exchange rate developments with reference to all material currency positions. Major changes in the structure of assets and liabilities denominated in foreign currency and their impact are reviewed before trades are executed by the bank's treasury front office department.

Treasury unit also observes the financial market and informs the Risk Monitoring Unit regularly and in case of significant developments that may influence the currency risk situation of the bank.

Even though the bank aims to keep its currency position as close as possible to zero, there may be occasions where the bank is still affected by unpredicted volatility of exchange rates. Therefore, the Risk Monitoring Unit performs stress tests and reports the effects in P&L of the bank on monthly basis.

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in EUR):

	31 December 2022	31 December 2021
1 USD	0.9376	0.8829
1 CHF	1.0155	0.9680
1 GBP	1.1275	1.1901

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2022 and 2021 as translated into EUR '000.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2022	EUR	USD	CHF	GBP	Total
Assets					
Cash and Balances with Central Banks	265,950	1,394	202	5	267,551
Loans and advances to banks	13,167	10,964	213	688	25,032
Loans and advances to customers	655,971	-	-	-	655,971
Investment securities measured at FVOCI	45,291	18,622	-	-	63,913
Other financial assets	1,845	612	-	-	2,457
Total monetary financial assets	982,224	31,592	415	693	1,014,924
Liabilities					
Liabilities to banks	630	1	-	-	631
Liabilities to customers	863,252	31,489	165	874	895,780
Borrowings	22,891	-	-	-	22,891
Subordinated debt	7,538	-	-	-	7,538
Other financial liabilities	1,622	68	-	-	1,690
Total monetary financial liabilities	895,933	31,558	165	874	928,530
Net on-balance sheet financial position	86,291	34	250	(183)	86,392
Credit commitments	84,311	75	-	-	84,386
Off balance sheet - letters of credit	305	465	-	-	770
Off balance sheet - bank guarantees	42,858	363	-	-	43,221
Total credit related commitments	127,474	903	-	-	128,377

31 December 2021	EUR	USD	CHF	GBP	Total
Assets					
Cash and Balances with Central Banks	221,315	1,191	160	4	222,670
Loans and advances to banks	12,557	10,810	207	49	23,623
Loans and advances to customers	571,334	-	-	-	571,334
Investment securities measured at FVOCI	49,717	21,281	-	-	70,998
Other financial assets	2,672	618	-	-	3,290
Total monetary financial assets	857,595	33,900	367	53	891,915
Liabilities					
Liabilities to banks	1,120	1	-	-	1,122
Liabilities to customers	736,426	33,926	195	22	770,568
Borrowings	25,905	-	-	-	25,905
Subordinated debt	7,538	-	-	-	7,538
Other financial liabilities	1,775	-	-	-	1,775
Total monetary financial liabilities	772,764	33,927	195	22	806,908
Net on-balance sheet financial position	84,831	(26)	172	31	85,007
Credit commitments	76,631	71	-	-	76,702
Off balance sheet - letters of credit	239	-	-	-	239
Off balance sheet - bank guarantees	35,569	468	-	-	36,037
Total credit related commitments	112,439	539	-	-	112,978

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

The table below summarises the sensitivity analysis for foreign currency risk and the effect on the profit or loss and net equity of the Bank net of tax:

			Effect on profit or loss and net equity	
	Increase 2022	**Increase 2021**	**31 December 2022**	**31 December 2021**
USD	10%	10%	4	3
Other	10%	10%	41	20

(ii) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. ProCredit Bank does not aim to earn profits through excessive maturity transformation, or other forms of speculations in the interest rate market. Instead, the Bank seeks to ensure that the structure of assets and liabilities is balanced across all maturities.

The tables below summarize the Bank’s exposure to interest rate risks. Included in the tables are the Bank’s monetary assets and liabilities (principal and future interest) with both fixed and non-fixed interest rates (the Bank's IRR management follows the EU guidelines and German MaRisk").

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2022										
Assets										
Cash on hand		-	-	-	-	-	-	-	62,841	62,841
Balances with Central Banks		152,964	-	-	-	-	-	152,964	50,351	203,315
Current accounts with banks		7,557	-	-	-	-	-	7,557	-	7,557
T-bills and marketable securities	Fixed	51	5,276	12,526	5,242	2,092	-	25,187	(51)	25,136
	Variable	10,622	10,600	-	-	-	-	21,222	521	21,743
Term deposits with banks		-	6,518	-	-	-	-	6,518	-	6,518
Loans and advances to customers	Fixed	30,394	99,312	142,966	51,123	37,295	4,524	365,614	-	365,614
	Variable	184,664	26,267	58,062	45,892	32,414	6,529	353,828	-	353,828
Offbalance sheet items		15,308	26,659	38,534	431	2,041	898	83,871	-	83,871
Total assets		**401,560**	**174,632**	**252,088**	**102,688**	**73,842**	**11,951**	**1,016,761**	**113,662**	**1,130,422**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	758	758
Current accounts from customers		11,104	37,223	85,568	44,632	-	-	178,527	537,372	715,899
Deposits from customers		3,870	28,128	41,526	39,631	33,158	500	146,813	-	146,813
Borrowings and subordinated debt	Fixed	3,032	3,469	6,175	3,206	6,038	-	21,920	-	21,920
	Variable	676	1,351	1,353	8,552	-	-	11,932	-	11,932
Total liabilities		**18,682**	**70,171**	**134,622**	**96,021**	**39,196**	**500**	**359,192**	**538,130**	**897,322**
IR sensitivity gap- open position		**382,878**	**104,461**	**117,466**	**6,667**	**34,646**	**11,451**	**657,569**	-	**233,101**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2021										
Assets										
Cash on hand		-	-	-	-	-	-	-	49,019	49,019
Balances with Central Banks		120,525	-	-	-	-	-	120,525	51,934	172,459
Current accounts with banks		5,950	-	-	-	-	-	5,950	49	5,999
T-bills and marketable securities	Fixed	236	1,112	9,967	12,497	5,721	-	29,533	104	29,637
	Variable	10,242	10,114	-	-	-	-	20,356	771	21,127
Term deposits with banks		-	6,806	-	-	-	-	6,806	-	6,806
Loans and advances to customers	Fixed	27,977	90,413	149,096	67,653	53,023	2,080	390,242	-	390,242
	Variable	96,638	16,758	36,932	45,471	42,506	-	238,305	-	238,305
Offbalance sheet items		18,865	25,081	37,048	-	-	-	80,994	-	80,994
Total assets		**280,433**	**150,284**	**233,043**	**125,621**	**101,250**	**2,080**	**892,712**	**101,877**	**994,588**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1,243	1,243
Current accounts from customers		10,727	35,958	82,661	43,116	-	-	172,462	501,345	673,807
Deposits from customers		4,192	15,649	30,648	7,248	4,391	500	62,628	-	62,628
Borrowings and subordinated debt	Fixed	3,070	1,568	15,203	5,354	125	-	25,320	-	25,320
	Variable	59	88	705	1,606	8,807	-	11,265	-	11,265
Total liabilities		**18,048**	**53,263**	**129,217**	**57,324**	**13,323**	**500**	**271,675**	**502,588**	**774,263**
IR sensitivity gap- open position		**262,385**	**97,021**	**103,826**	**68,297**	**87,927**	**1,580**	**621,036**	**-**	**220,325**

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2022										
Assets										
Cash on hand		-	-	-	-	-	-	-	1,394	1,394
Balances with Central Banks		-	-	-	-	-	-	-	-	-
Current accounts with banks		8,779	-	-	-	-	-	8,779	-	8,779
T-bills and marketable securities	Fixed	7,359	8,731	1,299	1,527	-	-	18,916	(236)	18,680
	Variable	-	-	-	-	-	-	-	-	-
Term deposits with banks		2,814	-	-	-	-	-	2,814	-	2,814
Loans and advances to customers	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Offbalance sheet items		75	-	-	-	-	-	75	-	75
Total assets		**19,027**	**8,731**	**1,299**	**1,527**	-	-	**30,584**	**1,158**	**31,742**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1	1
Current accounts from customers		286	959	2,204	1,150	-	-	4,599	26,753	31,352
Deposits from customers		2	-	10	96	-	-	108	-	108
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Total liabilities		**288**	**959**	**2,214**	**1,246**	-	-	**4,707**	**26,754**	**31,461**
IR sensitivity gap- open position		**18,739**	**7,772**	**(915)**	**281**	-	-	**25,877**	-	**281**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2021										
Assets										
Cash on hand		-	-	-	-	-	-	-	1,191	1,191
Balances with Central Banks		-	-	-	-	-	-	-	-	-
Current accounts with banks		789	-	-	-	-	-	789	2,207	2,996
T-bills and marketable securities	Fixed	2,489	5,568	10,644	1,224	1,403	-	21,328	47	21,375
	Variable	-	-	-	-	-	-	-	-	-
Term deposits with banks		5,742	2,650	-	-	-	-	8,392	-	8,392
Loans and advances to customers	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Offbalance sheet items		71	-	-	-	-	-	71	-	71
Total assets		**9,091**	**8,218**	**10,644**	**1,224**	**1,403**	-	**30,580**	**3,445**	**34,025**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1	1
Current accounts from customers		395	1,324	3,043	1,587	-	-	6,349	27,475	33,824
Deposits from customers		2	-	-	10	91	-	103	-	103
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Total liabilities		**397**	**1,324**	**3,043**	**1,597**	**91**	-	**6,452**	**27,476**	**33,928**
IR sensitivity gap- open position		**8,694**	**6,894**	**7,601**	**(373)**	**1,312**	-	**24,128**	-	**97**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The analysis and calculations are done to quantify the effect on the interest rate movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering denominated asset and liability structures as at 31 December 2022 and 2021, and assuming a parallel shift of interest rate for +/-200bp for the yield curves that reflect the interest rate environment on international markets and for the local currency ,as well as for EUR and USD, a parallel up and down that reflects the local specifics of the market rates (while ensuring a minimum shock of +/- 200 basis point is applied), the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

+/- parallel shift of the yield curves	**12 month P&L – Effect (parallel down)**		**Economic Value impact (parallel up)**	
Assets and Liabilities in:	2022	2021	2022	2021
EUR	**(4,758)**	**(257)**	**(6,379)**	**(11,514)**

(b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is pervasive to the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring placements and debt securities into the Bank's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and credit commitments. The credit risk management and control for loans and advances are centralized in the credit risk management department, while the interbank risk for placements and debt securities are concentrated in the Treasury Unit and Risk Monitoring Unit. All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Bank against those assets.
The table represents a worst case scenario of credit risk exposure of the Bank at 31 December 2022 and 2021, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

Maximum exposure to credit risk	31 December 2022		31 December 2021	
	Carrying amount	Amount committed/ guaranteed	Carrying amount	Amount committed/ guaranteed
Balances with Central Banks	203,315	-	172,459	-
Loans and advances to banks	25,032	-	23,623	-
Loans and advances to customers	655,971	-	571,334	-
Investment securities measured at FVOCI	63,913	-	70,998	-
Other financial assets	2,457	-	3,290	-
Lending commitments and guarantees	-	128,377	-	112,978
Total	**950,688**	**128,377**	**841,704**	**112,978**

	31 December 2022	31 December 2021
Credit commitments	84,386	76,702
Financial guarantees	32,650	27,020
Non-financial guarantees	10,571	9,017
Letters of Credit	770	239
	128,377	**112,978**
Provisions recognised as liabilities	(723)	(852)
Total	**127,654**	**112,126**

Cash and balances with central banks

Cash and current account with banks are neither past due nor impaired and are not collateralised. The credit quality of cash and balances with central banks is provided below. Kosovo Central Bank and Kosovo Government are not provided with a rating by recognised rating agencies.

31 December 2022	Fitch Rating	Cash balances with central banks, including mandatory reserves	Kosovo Government securities with maturities less than 3 months	Total
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		29,690	-	29,690
- Mandatory reserve		50,351	-	50,351
Government securities of the Republic of Kosovo	Not rated	-	5,057	5,057
Central Bank of the Republic of Germany (Deutsche Bundesbank)	AAA	123,274	-	123,274
Total cash and cash equivalents, excluding cash on hand		**203,315**	**5,057**	**208,372**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

31 December 2022	**Fitch Rating**	**Cash balances with central banks, including mandatory reserves**	**Kosovo Government securities with maturities less than 3 months**	**Total**
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		16,815	-	16,815
- Mandatory reserve		51,934	-	51,934
Government securities of the Republic of Kosovo	Not rated	-	503	503
Central Bank of the Republic of Germany (Deutsche Bundesbank)	AAA	103,710	-	103,710
Total cash and cash equivalents, excluding cash on hand		**172,459**	**503**	**172,962**

Loans and advances to banks

Interbank exposures are closely monitored on a daily basis by Risk Monitoring Unit and Treasury unit. The Bank limits its deposits and other banking transactions to financially sound international banks. Before a business relationship is initiated with a given bank, management of the Bank and Risk Monitoring Unit carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's. A function independent from the Treasury unit, Risk Monitoring Unit, monitors that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank. Thus, Risk Monitoring Unit supports the Treasury unit by providing reports that indicate the exposures and placements that can be made to all correspondent banks without violating present exposure limits.

In accordance with the regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital. In addition, to further reducing the counterparty risk, the ALCO approves internal limits on counterparty exposures slightly below the regulatory requirements, limits which have been continuously maintained by the Bank.

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

	31 December 2022	**31 December 2021**
Neither past due nor impaired		
AA+ to AA- rating	15,222	11,489
A+ to A- rating	8,301	10,608
BBB+ to B- rating	1,509	1,526
Total due from other banks	**25,032**	**23,623**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers

As of 31 December 2022	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	137,228	508,942	646,170
Loss allowance for loans to customers	(3,882)	(5,038)	(8,920)
Net outstanding amount	133,346	503,904	637,250
Stage 2			
Gross outstanding amount	4,348	10,567	14,915
Loss allowance for loans to customers	(212)	(1,341)	(1,553)
Net outstanding amount	4,136	9,226	13,362
Stage 3			
Gross outstanding amount	1,511	11,591	13,102
Loss allowance for loans to customers	(971)	(7,079)	(8,050)
Net outstanding amount	540	4,512	5,052
POCI			
Gross outstanding amount	32	636	668
Loss allowance for loans to customers	(32)	(329)	(361)
Net outstanding amount	-	307	307
Total Gross outstanding amount	143,119	531,736	674,855
Total Loss allowance for loans to customers	(5,097)	(13,787)	(18,884)
Total Net outstanding amount	**138,022**	**517,949**	**655,971**

As of 31 December 2021	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	133,930	423,406	557,336
Loss allowance for loans to customers	(2,104)	(4,863)	(6,967)
Net outstanding amount	131,826	418,543	550,369
Stage 2			
Gross outstanding amount	812	18,577	19,389
Loss allowance for loans to customers	(111)	(3,073)	(3,184)
Net outstanding amount	701	15,504	16,205
Stage 3			
Gross outstanding amount	2,108	10,508	12,616
Loss allowance for loans to customers	(1,350)	(6,844)	(8,194)
Net outstanding amount	758	3,664	4,422
POCI			
Gross outstanding amount	34	744	777
Loss allowance for loans to customers	(34)	(406)	(440)
Net outstanding amount	-	338	338
Total Gross outstanding amount	136,884	453,235	590,119
Total Loss allowance for loans to customers	(3,599)	(15,186)	(18,785)
Total Net outstanding amount	**133,285**	**438,049**	**571,334**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers (continued)

Impairment and provisioning

Loss allowances

The bank establishes loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for investment securities recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet financial instruments. A three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.
The bank sets aside loss allowances for the balance sheet items "Central bank balances", "Loans and advances to banks", "Loans and advances to customers", "Investment securities" and for the financial assets under "Other assets". These are generally recognised at net value within the corresponding balance sheet position; the exception is "Investment securities" recognised at fair value. The loss allowances for "Investment securities" are recognised directly in shareholders' equity under "Revaluation reserve".

The bank uses expected credit losses model which requires recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments. The model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information. This model outlines three stages based on changes in the exposure's credit risk since the date of initial recognition.

- Stage I: All financial assets are allocated to "Stage 1" upon recognition, with the exception of those categorised as POCI (Purchase or Originated Credit Impaired). The bank establishes loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage II: If credit risk increases significantly, the assets are classified as "Stage 2" and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage III: Defaulted financial assets are classified as "Stage 3" and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowances are established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

A non-substantial modification exists if a financial asset is modified without derecognition. The modification gain or loss is recognised in "Change in loss allowances". The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers (continued)

Impairment and provisioning (continued)

Loss allowances (continued)

Migration between the stages is possible in both directions (except for POCI), provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowances already recorded are reduced.

For the "Other assets" position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when it is determined that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Recoveries of amounts previously written off and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under "Loss allowances".

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Investments securities measured through FVOCI

Investments in debt securities are with sovereign issuers, central banks and other supranational borrowers rated as AA- or higher by Fitch, S&P or Moody's. Exposure to debt securities is regulated by the Investment Policy. Investments are allowed only in liquid securities that have high credit ratings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The table below presents the entire portfolio, which includes non-rated Kosovo Government securities.

31 December 2022	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	39,271	39,271
- Unrated (at Government or Country level)	24,642	-	24,642
Total Investment securities measured through FVOCI	**24,642**	**39,271**	**63,913**

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank would pay if the guarantee is called on, which may be significantly greater than the amount recognized as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment.

Risk limit control and mitigation policies

The Bank manages limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, if necessary. Limits on the level of credit risk by product, region and industry sector are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements, and their financial effect

The Bank employs a range of policies and practices to mitigate credit risk, the most common of which is the security for fund advances. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over immovable properties (residential, commercial, industrial, vacant land etc.);
- Pledge over movable properties, such as: machinery, equipment, vehicles, etc.; and
- Charges over cash and cash equivalents (cash collateral).

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Risk limit control and mitigation policies

Credit facilities to corporate entities and individuals are generally secured by cash collateral or other types of collateral determined with a decision of credit committees.
In addition, in order to minimize the credit loss the Bank may require additional collateral from the counterparty as soon as impairment indicators are noted for the relevant individual loans and advances.

The financial effect of collateral is presented by disclosing collateral values separately for:

- those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets"); and
- those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

	Over-collateralised		Under-collateralised	
At 31 December 2022	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	318,849	786,666	199,101	134,294
Private	44,037	99,172	93,984	37,764
	362,886	**885,838**	**293,085**	**172,058**

	Over-collateralised		Under-collateralised	
At 31 December 2021	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	232,961	523,037	205,089	145,241
Private	46,117	102,037	87,167	34,097
	279,078	**625,074**	**292,256**	**179,338**

The fair value of the collateral is evaluated by the Bank on an individual basis. The assessed values are generally determined with reference to the market. Expected income from collateral liquidation is also taken into account in calculation of individual impairment provisioning.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as at 31 December 2022 and 2021. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

		2022			2021	
	OECD countries	Kosovo	Total	OECD countries	Kosovo	Total
Assets						
Balances with Central Banks	123,274	80,041	203,315	103,710	68,749	172,459
Loans and advances to banks	25,032	-	25,032	23,623	-	23,623
Loans and advances to customers	2,322	653,649	655,971	1,517	569,817	571,334
Investment securities FVOCI	39,272	24,641	63,913	42,082	28,916	70,998
Other financial assets	-	2,457	2,457	-	3,290	3,290
Total assets	**189,900**	**760,788**	**950,688**	**170,932**	**670,772**	**841,704**

Client type

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by client type as at 31 December 2022 and 2021

		2022			2021	
	Private	Business	Total	Private	Business	Total
Assets						
Balances with Central Banks	-	203,315	203,315	-	172,459	172,459
Loans and advances to banks	-	25,032	25,032	-	23,623	23,623
Loans and advances to customers	138,021	517,950	655,971	133,284	438,050	571,334
Investment securities FVOCI	-	63,913	63,913	-	70,998	70,998
Other financial assets	-	2,457	2,457	-	3,290	3,290
Total assets	**138,021**	**812,667**	**950,688**	**133,284**	**708,420**	**841,704**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity risk and Funding risk

Liquidity and funding risk addresses the Bank's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

Liquidity risk

Bank assesses short-term liquidity risk on the basis of a liquidity gap analysis, among other instruments, and monitors this risk using numerous indicators. These include a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), a survival period, and the liquidity coverage ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether the bank has sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the bank is able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements from the bank. LCR indicates whether the bank has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. In addition, bank also monitors the local liquidity indicator of liquid assets over short-term liabilities as required by the Regulator. Liquidity is managed on a daily basis by the treasury unit, and is monitored by risk monitoring unit and ALCO as well. The liquidity situation of the bank remained adequate and even improved over the course of the year. This was mainly due to a strong increase in deposits. The bank had sufficient liquidity available in 2022 to meet all financial obligations in a timely manner.

The figures reported on the Liquidity gap table do not match with the statement of financial position figures, which is due to the fact that apart from on-balance positions the Bank has taken into consideration the off-balance sheet positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from Bank's guarantees and letters of credit and other credit related commitments) become due and assets can be used as repayment source (including the off balance sheet items like unused irrevocable and unconditional credit commitments which the Bank can use as liquidity source at any time without a prior approval).

In the liquidity gap table presented below the following definitions are considered relevant:

- Assets 1 - are assets which do not have a contractual maturity and/or can be converted into cash very quickly;
- Assets 1-S – are assets that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities;
- Liabilities 1 – are liabilities which contractually are due on demand; and
- Liabilities 1-S – are liabilities that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities.

The Liquidity gap presents the liquidity analysis of undiscounted remaining contractual maturities at the reporting date grouped by expected maturities of the financial assets and liabilities. The amounts disclosed in the first part of the table are contractual discounted cash flows, whereas the Bank manages the inherent liquidity risk on an expected basis, based on expected undiscounted cash inflows and outflows reported on the second part. In transforming the liabilities from contractual to expected, the Bank considers two sets of assumptions: first assumptions which are recommended by ProCredit Holding and which are based on German Liquidity Regulation; and second assumptions are derived from historical analysis of customer deposits and their withdrawal pattern.

The Bank aims to keep the expected cumulative maturity gap positive at all times. Should the expected cumulative maturity gap be negative not positive the Bank considers the liquidity as a "watch liquidity position".

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity and funding risk (continued)

As at 31 December 2022	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	64,236	-	-	-	-	64,236
Reserves with the Central Bank	50,388	-	-	-	-	50,388
Current accounts with Central Banks	152,964	-	-	-	-	152,964
Current accounts with banks	9,886	860	2,650	2,021	911	16,328
T-bills and marketable securities	972	18,209	1,976	3,415	39,342	63,914
Assets 1-S						
Term deposits with banks	2,820	6,510	-	-	-	9,330
Loans and advances to customers	22,957	58,768	88,621	171,545	398,339	740,230
Total Assets	**304,223**	**84,347**	**93,247**	**176,981**	**438,592**	**1,097,390**
Contractual Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	382	-	-	-	-	382
Liabilities to customers (due daily)	715,637	-	-	-	-	715,637
Contingent liabilities from guarantees	43,991	-	-	-	-	43,991
Unused credit commitments	84,280	-	-	-	-	84,280
Liabilities 1-S						
Liabilities to customers	3,119	4,427	8,904	28,126	74,415	118,991
Borrowings and subordinated debt	2,976	736	2,343	6,116	23,028	35,199
Total Contractual Liabilities	**850,385**	**5,163**	**11,247**	**34,242**	**97,443**	**998,480**
Periodic Contractual Liquidity Gap	**(546,162)**	**79,184**	**82,000**	**142,739**	**341,149**	**98,910**
Cumulative Contractual Liquidity Gap	**(546,162)**	**(466,978)**	**(384,978)**	**(242,239)**	**98,910**	**-**
Expected Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	189	-	-	-	-	189
Liabilities to customers (due daily)	3,728	-	850	26,000	28,040	58,618
Contingent liabilities from guarantees	2,200	-	-	-	-	2,200
Unused credit commitments	8,428	-	-	-	-	8,428
Liabilities 1-S						
Liabilities to customers	3,119	4,427	8,904	28,126	74,415	118,991
Borrowings and subordinated debt	2,976	736	2,343	6,116	23,028	35,199
Total Expected Liabilities	**20,640**	**5,163**	**12,097**	**60,242**	**125,483**	**223,625**
Periodic Expected Liquidity Gap	**283,583**	**79,184**	**81,150**	**116,739**	**313,109**	**873,765**
Cumulative Expected Liquidity Gap	**283,583**	**362,767**	**443,917**	**560,656**	**873,765**	**-**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity and funding risk (continued)

As at 31 December 2021	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**> 1 year**	**Total**
Assets 1						
Cash on hand	50,211	-	-	-	-	50,211
Reserves with the Central Bank	51,971	-	-	-	-	51,971
Current accounts with Central Banks	120,525	-	-	-	-	120,525
Current accounts with banks	3,812	390	2,080	1,725	988	8,995
T-bills and marketable securities	22	8,512	664	15,431	46,369	70,998
Assets 1-S						
Term deposits with banks	2,647	12,560	-	-	-	15,207
Loans and advances to customers	23,335	46,370	70,513	151,018	353,921	645,157
Total Assets	**252,523**	**67,832**	**73,257**	**168,174**	**401,278**	**963,064**
Contractual Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	398	-	-	-	-	398
Liabilities to customers (due daily)	680,446	-	-	-	-	680,446
Contingent liabilities from guarantees	36,276	-	-	-	-	36,276
Unused credit commitments	76,595	-	-	-	-	76,595
Liabilities 1-S						
Liabilities to customers	3,667	3,522	11,293	35,077	27,094	80,653
Borrowings and subordinated debt	87,273	486	345	13,866	14,389	116,359
Total Contractual Liabilities	**884,654**	**4,008**	**11,638**	**48,943**	**41,483**	**990,727**
Periodic Contractual Liquidity Gap	**(632,132)**	**63,824**	**61,619**	**119,231**	**359,795**	**(27,663)**
Cumulative Contractual Liquidity Gap	**(632,132)**	**(568,308)**	**(506,689)**	**(387,458)**	**(27,663)**	**-**
Expected Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	423	-	-	-	-	423
Liabilities to customers (due daily)	5,529	-	-	100	764,822	770,451
Contingent liabilities from guarantees	1,814	-	-	-	-	1,814
Unused credit commitments	7,660	-	-	-	-	7,660
Liabilities 1-S						
Liabilities to customers	3,667	3,522	11,293	35,077	27,094	80,653
Borrowings and subordinated debt	87,273	486	345	13,866	14,389	116,359
Total Expected Liabilities	**106,366**	**4,008**	**11,638**	**49,043**	**806,306**	**977,360**
Periodic Expected Liquidity Gap	**146,157**	**63,824**	**61,619**	**119,131**	**(405,027)**	**(14,296)**
Cumulative Expected Liquidity Gap	**146,157**	**209,981**	**271,600**	**390,731**	**(14,296)**	**-**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity and funding risk (continued)

For liquidity purposes, the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is very unlikely. Therefore the Bank does not consider having the liquidity gap in short term. It rather focuses on expected maturity gap which represents a more likely scenario.

The Bank is maintaining a portfolio of highly marketable financial assets (Investment Securities measured at FVOCI) that can easily be liquidated as protection against any unforeseen events interruption to cash flow. The management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap. During 2022, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in the Bank's Financial and Market Risk Management Committee and ALCO. The stress test is performed applying four different scenarios as per Liquidity Risk Management policy, starting from less to more conservative scenarios. In case the Management Board and Risk Monitoring Unit see any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

Funding risk

Funding risk is the risk that additional funding cannot be obtained, or can only be obtained at higher costs. This risk is mitigated by the fact that bank finances its lending operations primarily through deposits; its deposit-taking operations focus on its target group of business clients and private clients/savers. These are supplemented by loans from international financial institutions (IFIs). The funding of the bank has proven to be resilient. As of end-December 2022, the largest funding source was deposits with EUR 896 million.

Bank manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. This includes the structural liquidity ratio (net stable funding ratio, NSFR). A key indicator for limiting funding risk is the deposit concentration indicator. In addition, funding via the interbank market is limited by two indicators (share of interbank liabilities and overnight liabilities in total liabilities).

(d) Capital risk management

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of Kosovo (CBK); (ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and (iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a monthly basis by Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a regular monthly basis. The risk-weighted assets are classified according to the class categories that the assets are assigned to. The category of classes in itself reflects the nature and estimation of credit, market and other risks associated with each asset and off-balance sheet exposure, with some adjustments to reflect the contingent nature of certain potential losses.

The CBK requires the Bank to hold the minimum level of the regulatory capital of EUR 7,000 thousand, to maintain a ratio of Tier I capital to the risk-weighted assets (the 'Basel ratio') at or above the minimum of 9% (Actual 13.21%; 2021: 13.43%) and to maintain a total regulatory capital, Tier II, to risk-weighted assets at or above the minimum 12% (Actual 15.48%; 2021:15.84%) Therefore, based on the respective ratios, the bank was in compliance with the capital adequacy requirements as at the reporting dates, at 31 December 2022 and 2021.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(d) Capital risk management (continued)

As at 31 December 2022 and 2021 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2022	2021
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	6,680	6,987
Retained earnings	23,731	11,480
less: Intangible assets	(39)	(39)
less: Credits to bank related persons	(4,716)	(2,607)
less: Deferred tax assets	(125)	(104)
Total qualifying Tier 1 capital	**91,081**	**81,267**
Tier 2 capital		
Subordinated liability	7,500	7,500
Provisions for loan losses (limited to 1.25% of RWA)	8,142	7,070
Total qualifying Tier 2 capital	**15,642**	**14,570**
Total regulatory capital	**106,723**	**95,837**
Risk-weighted assets:		
On-balance sheet	615, 467	536,827
Off-balance sheet	35,866	28,781
Risk assets for operational risk	38,211	39,436
Total risk-weighted assets	**689,544**	**605,044**
Tier I capital adequacy ratio	**13.21%**	**13.43%**
Total capital adequacy ratio	**15.48%**	**15.84%**

(e) Economic capital

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of economic capital to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses. The following concepts were used to calculate potential losses in the different risk categories:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 99% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock of 200 basis points up and down for the yield curves that reflect the interest rate environment on international markets and for the local currency ,as well as for EUR and USD, a parallel up and down that reflects the local specifics of the market rates is determined, while ensuring a minimum shock of +- 200 basis point is applied.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

The Bank showed a modest level of utilization of its Resources Available to Cover Risk (RAtCR) as of 31 December 2022. Counterparty and market risk limit utilization are again low, reflecting the risk-averse management approach which guides the Bank's treasury operations. The economic capital required to cover operational risk is calculated according to the Basel II standard approach. Data collected during 2022 in the Risk Event Database (RED), which captures risk event data on a bank and group-wide scale, indicates a low level of operational risk. All risks combined, as quantified by the methods established by the Bank's policies, are below the limit of 60% of the Bank's total risk taking potential.

(All amounts expressed in EUR thousand, unless otherwise stated)

6. Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 Inputs:

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Inputs:

Other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 Inputs:

Unobservable inputs for the asset or liability. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(All amounts expressed in EUR thousand, unless otherwise stated)

6. Fair values of financial instruments (continued)

a) Valuation models (continued)

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

b) Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These values are recognized in the statement of financial position.

Investment securities measured at FVOCI	Total Fair Value	Level 1	Level 2	Level 3
31 December 2022	**63,913**	**39,271**	**24,642**	-
Bonds	63,913	39,271	24,642	-
31 December 2021	**70,998**	**42,082**	**28,916**	-
Bonds	70,998	42,082	28,916	-

c) Financial instruments not measured at fair value for which fair value is disclosed

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

				Fair value hierarchy		
As of 31 December 2022	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	267,551	267,551	-	267,551	-
Loans and advances to banks	AC	25,032	25,032	-	25,032	-
Loans and advances to customers	AC	655,971	647,895	-	-	647,895
Investment securities	FVOCI	63,913	63,913	39,271	24,641	-
Other assets (shares)	FVOCI	49	49	-	49	-
Other financial assets	AC	2,457	2,457	-	2,457	-
Total		**1,014,973**	**1,006,897**	**39,271**	**319,730**	**647,895**
Financial Liabilities						
Liabilities to banks	AC	631	631	-	631	-
Liabilities to Customers	AC	895,652	893,569	-	747,215	146,354
Borrowings	AC	25,905	25,323	-	-	25,323
Subordinated debts	AC	7,538	7,538	-	-	7,538
Other financial liabilities	AC	1,690	1,690	-	1,690	-
Total		**931,416**	**928,751**	-	**749,536**	**179,215**

(All amounts expressed in EUR thousand, unless otherwise stated)

6. Fair values of financial instruments (continued)

c) Financial instruments not measured at fair value for which fair value is disclosed (continued)

				Fair value hierarchy		
As of 31 December 2021	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	222,670	222,670	-	222,670	-
Loans and advances to banks	AC	23,623	23,623	-	23,623	-
Loans and advances to customers	AC	571,334	559,734	-	-	559,734
Investment securities	FVOCI	70,998	70,998	42,082	28,916	-
Other assets (shares)	FVOCI	41	41	-	41	-
Other financial assets	AC	3,290	3,290	-	3,290	-
Total		**891,956**	**880,356**	**42,082**	**278,540**	**559,734**
Financial Liabilities						
Liabilities to banks	AC	1,122	1,122	-	1,122	-
Liabilities to Customers	AC	770,568	770,547	-	707,715	62,832
Borrowings	AC	25,905	25,323	-	-	25,323
Subordinated debts	AC	7,538	7,538	-	-	7,538
Other financial liabilities	AC	1,775	1,775	-	1,775	-
Total		**806,908**	**806,305**	-	**710,612**	**95,693**

* Categories: AC - Amortised cost; FVOCI - fair value through other comprehensive income

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available then, fair value is estimated using fair value own model, such as discounted cash flow technique. Input into the valuation technique includes expected lifetime credit losses, interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. For retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.
The fair value of borrowings and subordinated debt is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

(All amounts expressed in EUR thousand, unless otherwise stated)

7. Net interest income

	2022	2021
Interest income		
Loans and advances to customers	32,574	28,430
Loans and advances to banks	166	18
Investment securities measured at FVOCI	806	1,022
Other	21	28
Total interest income	**33,567**	**29,498**
Interest expense		
Liabilities to customers	1,544	1,385
Borrowed funds	837	725
Other	546	1,067
Total interest expense	**2,927**	**3,177**
Net interest income	**30,640**	**26,321**

Interest income and expenses are recognised in Statement of profit or loss on an accrual basis. Net interest Income is calculated on the gross book value of a financial asset; for financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in the net interest income, but rather under ''Loss allowance''.

8. Net fee and commission income

	2022	2021
Fee and commission income from		
Payment services	4,703	4,215
Debit/Credit cards	3,692	3,008
Account maintenance fee	4,466	4,800
Letters of credit and guarantees	793	712
Others	537	679
Total fee and commission income	**14,191**	**13,414**
Fee and commission expense on		
Transactions related to processing centre and other financial services	1,692	1,532
Account maintenance fee	217	1,302
Other fees to banks	1,119	984
Fees and expenses related to cards	934	525
Third- party transactions	2,735	2,112
Other fees	222	158
Total fee and commission expense	**6,919**	**6,613**
Net fee and commission income	**7,272**	**6,801**

(All amounts expressed in EUR thousand, unless otherwise stated)

9. Net other operating result

	2022	2021
Other operating income from		
Reversal of provisions	403	231
Reimbursement of expenses	30	30
Sale of property plant and equipment	87	86
Others	267	243
Other operating income	**787**	**590**
Other operating expenses for		
Deposit insurance	734	778
Disposal of property, plant and equipment	23	125
Credit Recovery Services	399	587
Others	977	390
Other operating expense	**2,133**	**1,880**
Net other operating result	**(1,346)**	**(1,290)**

10. Personnel expenses

	2022	2021
Salary expenses	5,015	4,816
Pension contribution	248	239
Other employee costs	358	285
	5,621	**5,340**

At 31 December 2022, the Bank had 308 employees (2021: 273 employees).

11. Administrative expenses

	2022	2021
Repairs and maintenance	3,695	3,827
Depreciation fixed and intangible assets	1,613	1,817
Consulting, legal and other fees	1,492	1,743
Other expenses	1,156	1,113
Security services	1,109	700
Expenses paid to ProCredit Holding	1,054	1,113
Marketing, advertising and representation	907	545
Training	453	408
Royalties on software	341	304
Communication (telephone, on-line connection)	284	277
Transport (fuel, maintenance)	262	123
Utilities	247	244
Office supplies	174	113
Lease expenses	47	35
	12,834	**12,362**

Lease expenses mainly include short – term leases to which the exemptions established in IFRS 16 are applied.

(All amounts expressed in EUR thousand, unless otherwise stated)

12. Loss allowance

	2022	2021
Change in loss allowances	(1,376)	(607)
Recovery of written-off loans	4,578	5,034
	3,202	**4,427**

13. Income taxes

Amounts recognised in profit or loss

	2022	2021
Current tax expenses	2,073	1,912
Deferred tax income/ expense	13	76
Income tax expense	**2,086**	**1,988**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10% (2021: 10%).

Amounts recognised in Other Comprehensive Income ('OCI')

	2022			2021		
	Before tax	Tax charge	Net of tax	Before tax	Tax charge	Net of tax
Investment securities measured at FVOCI	342	(34)	308	(34)	3	(31)
Total	**342**	**(34)**	**308**	**(34)**	**3**	**(31)**

Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2021: 10%) to current income tax expense:

	2022	2021
Profit before tax	22,740	19,434
Tax using the corporate tax rate	2,274	1,943
Exempt income	(92)	(61)
Non-deductible expenses	159	30
Deduction for sponsorship contributions	(268)	-
Deferred tax (income) / expense	13	76
Income tax expense	**2,086**	**1,988**

Prepaid income tax assets at 31 December 2022 is EUR 310 thousand (31 December 2021: EUR 592 thousand).

Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2021: 10%).

	31 December 2021	Profit or loss	OCI	31 December 2022
Deferred tax assets				
Accrued interest from deposits	15	25	-	40
Depreciation for property and equipment	98	(38)	-	60
	113	**(13)**	-	**100**
Deferred tax liabilities				
Investment securities measured at FVOCI	(9)	-	34	25
	(9)	-	**34**	**25**
Net deferred tax assets/(liabilities)	**104**	**(13)**	**34**	**125**

(All amounts expressed in EUR thousand, unless otherwise stated)

14. Cash and balances with Central Banks

	2022	2021
Cash on hand	64,236	50,211
Amounts held at the CBK		
Current accounts	29,689	16,815
Statutory reserves	50,388	51,971
Balance with Deutche Bundesbank	123,274	103,710
Loss allowance	(36)	(37)
	267,551	**222,670**

Movement in impairment for the years ended December 31, 2022 and 2021, charged to profit or loss is as following:

	2022	2021
Loss allowances as of 01 January	37	33
Increase/Decrease in credit risk	(1)	4
Closing balance	**36**	**37**

In accordance with CBK regulation on Minimum reserve requirement, the bank should maintain the minimum required reserve ratio 10 % of the following liabilities with maturities up to one year: deposits, borrowings and securities. The assets with which the bank can meet its demands for reserve are its deposits with the CBK and fifty per cent (50%) of the cash in its vaults. However, deposits with the CBK may not be less than half of the applicable minimum reserve requirement.

Cash and cash equivalents as at 31 December 2022 and 2021 are presented as follows in statement of cash flows:

	2022	2021
Cash and balances with Central Banks	267,551	222,670
Statutory reserves	(50,388)	(51,971)
Loans and advances to banks with maturities of 3 months or less	19,156	19,081
	236,319	**189,780**

15. Loans and advances to banks

	2022	2021
Current accounts	15,717	8,419
Time deposits with banks	9,316	15,204
Loss allowance	(1)	(1)
	25,032	**23,623**

Movement in impairment for the years ended December 31, 2022 and 2021, charged to profit or loss is as following:

	2022	2021
Loss allowances as of 01 January	1	2
New financial assets originated	1	8
Release due to derecognition	(1)	(2)
Increase/Decrease in credit risk	-	(7)
Closing balance	**1**	**1**

The annual interest rates on time deposits with banks at the end of the reporting period were as follows:

- Deposits in EUR: from 1.10% p.a. to 1.77% p.a. (2021: -0.52% p.a.); and
- Deposits in USD: from 4.10% to 4.29% p.a. (2021: from 0.12% p.a. to 0.25% p.a.).

(All amounts expressed in EUR thousand, unless otherwise stated)

16. Loans and advances to customers

	2022	2021
Loans to customers	635,853	558,352
Overdrafts	38,914	31,696
Credit cards receivable	88	71
	674,855	**590,119**
Loss allowance	(18,884)	(18,785)
	655,971	**571,334**

The movement on loans to customers and provision for impairment on loans to customers for the year ended December 31, 2022, and December 31, 2021 based on IFRS 9 requirements, is as follows:

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross outstanding amount as of 1 January	**557,336**	**19,389**	**12,617**	**777**	**590,119**
New financial assets originated	292,363	-	-	-	292,363
Modification of contractual cash flows of financial assets	-	-	-	-	-
Derecognitions	(67,272)	(3,395)	(1,169)	-	(71,836)
Write-offs	-	-	(1,739)	(139)	(1,878)
Changes in interest accrual	16	(24)	118	26	137
Changes in the principal and disbursement fee amount	(124,734)	(6,053)	(3,428)	4	(134,211)
Transfers to Stage 1	12,942	(12,409)	(533)	-	-
Transfers to Stage 2	(23,238)	23,587	(349)	-	-
Transfers to Stage 3	(1,313)	(6,180)	7,493	-	-
Foreign exchange and other movements	70	-	92	-	162
Gross outstanding amount as of 31.12.2022	**646,170**	**14,915**	**13,102**	**668**	**674,855**

Loss allowance loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January	**(6,967)**	**(3,183)**	**(8,196)**	**(439)**	**(18,785)**
New financial assets originated	(3,768)	-	-	-	(3,768)
Release due to derecognition	461	105	695	-	1,261
Transfers to Stage 1	(493)	479	14	-	-
Transfers to Stage 2	536	(587)	51	-	-
Transfers to Stage 3	129	1,008	(1,137)	-	-
Increase in PD/LGD/EaD	(5,044)	(1,876)	(4,713)	(74)	(11,707)
Decrease in PD/LGD/EaD	6,226	2,501	3,528	13	12,268
Usage of allowance	-	-	1,739	139	1,878
Foreign exchange and other movements	-	-	(31)	-	(31)
Loss allowances as of 31.12.2022	**(8,920)**	**(1,553)**	**(8,050)**	**(361)**	**(18,884)**

(All amounts expressed in EUR thousand, unless otherwise stated)

16. Loans and advances to customers (continued)

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	**495,816**	**20,923**	**17,304**	**658**	**534,701**
New financial assets originated	244,824	4,169	3,028	-	252,021
Modification of contractual cash flows of financial assets	-	-	-	-	-
Derecognitions	(53,170)	(6,103)	(3,992)	-	(63,265)
Write-offs	-	-	(2,861)	-	(2,861)
Changes in interest accrual	(73)	(37)	148	29	67
Changes in the principal and disbursement fee amount	(116,512)	(10,272)	(3,721)	(52)	(130,557)
Transfers to Stage 1	(25,165)	26,012	(847)	-	-
Transfers to Stage 2	11,792	(16,081)	4,289	-	-
Transfers to Stage 3	(193)	747	(554)	-	-
Foreign exchange and other movements	17	31	(177)	142	13
Gross outstanding amount as of 31.12.2021	**557,336**	**19,389**	**12,617**	**777**	**590,119**

Loss allowance loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	**(7,362)**	**(2,067)**	**(11,112)**	**(282)**	**(20,823)**
New financial assets originated	(3,762)	(1,004)	(1,548)	-	(6,314)
Release due to derecognition	713	271	2,747	-	3,731
Transfers to Stage 1	715	(711)	(4)	-	-
Transfers to Stage 2	(311)	554	(243)	-	-
Transfers to Stage 3	(20)	(71)	91	-	-
Increase in PD/LGD/EaD	(2,794)	(2,127)	(4,543)	(189)	(9,653)
Decrease in PD/LGD/EaD	5,854	1,972	3,588	32	11,446
Usage of allowance	-	-	2,861	-	2,861
Foreign exchange and other movements	-	-	(33)	-	(33)
Loss allowances as of 31.12.2021	**(6,967)**	**(3,183)**	**(8,196)**	**(439)**	**(18,785)**

	2022			2021		
	Gross amount	Loss allowance	Net amount	Gross amount	Loss allowance	Net amount
Private clients:						
Overdrafts	1,931	(146)	1,785	2,174	(119)	2,055
Credit cards	88	(12)	76	71	(13)	58
Private loans	9,254	(495)	8,759	9,007	(351)	8,656
Home improvement	131,846	(4,445)	127,401	125,632	(3,116)	122,516
Business clients:						
Overdrafts	36,982	(686)	36,296	29,522	(411)	29,111
Up to EUR 150 thousand	156,639	(6,498)	150,141	142,058	(7,244)	134,814
Above EUR 150 thousand	338,115	(6,602)	331,513	281,655	(7,530)	274,125
	674,855	**(18,884)**	**655,971**	**590,119**	**(18,785)**	**571,334**

(All amounts expressed in EUR thousand, unless otherwise stated)

17. Investment securities measured at FVOCI

	2022	2021
Investment securities measured at FVOCI	63,928	71,019
Loss allowance	(15)	(21)
Total	**63,913**	**70,998**

Movement in impairment for the years ended December 31, 2022 and 2021, charged to profit or loss is as following:

	2022	2021
Loss allowances as of 01 January	21	14
New financial assets originated	1	11
Release due to derecognition	(3)	-
Increase/Decrease in credit risk	(4)	(4)
Closing balance	**15**	**21**

18. Intangible assets

	Software
Cost	
At January 2021	7,299
Additions	-
Disposals	-
At 31 December 2021	**7,299**
Additions	12
Disposals	-
At 31 December 2022	**7,311**
Accumulated depreciation	
At 1 January 2021	7,248
Charge for the year	12
Disposals	-
At 31 December 2021	**7,260**
Charge for the year	12
Disposals	-
At 31 December 2022	**7,272**
Net carrying value	
At 31 December 2021	**39**
At 31 December 2022	**39**

(All amounts expressed in EUR thousand, unless otherwise stated)

19. Property, plant and equipment

in '000 EUR	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition costs as of 1 January 2022	10,035	9,284	2,017	21,336
Additions	143	1,477	1,559	3,179
Disposals	(64)	(1,261)	(793)	(2,118)
Total acquisition costs as of 31 December 2022	**10,114**	**9,500**	**2,783**	**22,397**
Accumulated depreciation as of 1 January 2022	(1,658)	(7,176)	(952)	(9,786)
Depreciation	(202)	(1,038)	(361)	(1,601)
Disposals	42	1,250	743	2,035
Impairment	-	-	-	-
Accumulated depreciation as of 31 December 2022	**(1,818)**	**(6,963)**	**(570)**	**(9,352)**
Net book value	**8,297**	**2,536**	**2,213**	**13,045**
Total acquisition costs as of 1 January 2021	10,131	10,895	2,539	23,565
Additions	310	255	-	565
Disposals	(406)	(1,866)	(522)	(2,795)
Total acquisition costs as of 31 December 2021	**10,035**	9,284	2,017	21,336
Accumulated depreciation as of 1 January 2021	(1,718)	(7,801)	(807)	(10,326)
Depreciation	(221)	(1,233)	(351)	(1,805)
Disposals	281	1,859	206	2,346
Impairment	-	-	-	-
Accumulated depreciation as of 31 December 2021	**(1,658)**	**(7,175)**	**(952)**	**(9,785)**
Net book value	**8,377**	**2,109**	**1,065**	**11,551**

(All amounts expressed in EUR thousand, unless otherwise stated)

20. Other assets

	2022	2021
Receivables from financial institutions	1,087	843
Security deposits	620	576
Year-end clearance accounts	596	229
Others	360	1,303
Receivables from clients (Not related to lending)	334	367
Prepaid expenses	294	245
Inventories and advances	221	157
Accrued account maintenance fees	195	241
Loss allowance	(33)	(39)
	3,674	**3,922**

Movement in impairment for the years ended December 31, 2022 and 2021, charged to profit or loss is as following:

	2022	2021
Loss allowances as of 01 January	39	31
Increase/Decrease in credit risk	(6)	8
Closing balance	**33**	**39**

21 Liabilities to banks

	2022	2021
Current accounts	631	1,122
	631	**1,122**

22. Liabilities to customers

	2022	2021
Current accounts	550,518	524,220
Saving accounts	183,126	178,811
Term deposits	146,921	62,730
Other customer accounts	15,215	4,807
	895,780	**770,568**

The published annual interest rates at 31 December 2022 and 2021 were as follows:

	Private Customers		Business Customers	
	2022	2021	2022	2021
Saving accounts	0.15%	0.20%	0.15%	0.20%
Time deposits:				
- One year	0.15%	0.50%	n/a	0.01%
- Two years	0.30%	0.70%	n/a	0.01%
- Three years	0.50%	1.00%	n/a	0.01%
- Four years	n/a	n/a	n/a	0.50%
- Five years	n/a	n/a	n/a	1.50%

Current accounts do not generally bear interest.

(All amounts expressed in EUR thousand, unless otherwise stated)

23. Other liabilities

	2022	2021
Lease liabilities	2,262	1,149
Other	1,232	1,265
Liabilities for goods and services	899	1,098
Provision for litigation cases	808	867
Provisions for financial off-balance sheet items	723	852
Liabilities to related parties	502	487
Provision for untaken vacation	220	179
Accrued expenses	149	135
Pension contribution payable to Kosovo Pension Fund	65	56
	6,860	**6,086**

24. Borrowings and subordinated debt

	2022	2021
European Bank for Reconstruction and Development (EBRD)	20,878	15,871
European Investment Bank (EIB)	2,013	10,034
	22,891	**25,905**

Outstanding amount includes accrued interest (actual EUR 136 thousand, 2021 EUR 123 thousand)

	2022	2021
Subordinated debt from ProCredit Holding AG & CO.KGaA	7,538	7,538
	7,538	**7,538**

Outstanding amount includes accrued interest (actual EUR 38 thousand, 2021 EUR 38 thousand)

The Bank signed an agreement in amount EUR 10,000 thousand with the European Investment Bank (EIB) on November 2013 to finance projects that are undertaken by small and medium sized enterprises. During 2022, EUR 8,000 thousand of this exposure matured.

The Bank signed an agreement with European Bank for Reconstruction and Development (EBRD) on December 2018 in amount of EUR 20,000 thousand. The purpose of this agreement is for the Small & Medium-sized Enterprises Competitiveness Support Programme. In addition to this, another agreement with EBRD, Green Economic Financing Facility (GEFF), was signed on February 2021 in amount EUR 2,500 thousand, out of which EUR 1,000 thousand were utilized during 2021. In 2022, the second tranch in the amount of EUR 1,500 thousand was disbursed.

The cooperation with EBRD continued with a new agreement, SME Reboot, signed in April 2022 in the amount of EUR 20,000 thousand. The purpose of this agreement is to enable small and medium-sized firms to invest in better-performing green technologies and to improve their working standards and processes. The first tranch EUR 10,000 thousand was disbursed during 2022.

The Bank has contracted in November 2019 a subordinated debt from ProCredit Holding AG & CO. KGaA. The subordinated debt meets the regulatory requirement for tier II capital and has been approved as such by the regulator the Central Bank of the Republic of Kosovo.

(All amounts expressed in EUR thousand, unless otherwise stated)

25. Shareholder's equity and reserves

Share capital: At 31 December 2022 the authorised share capital comprised 12,269,242 ordinary shares (2021: 12,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

	Number of shares	In EUR	%
ProCredit Holding AG & CO.KGaA	12,269,242	61,346,210	100
	12,269,242	**61,346,210**	**100**

All issued shares are fully paid. There are no restrictions, conditions or preferences attached to the ordinary shares.

Share premium: Share premium of EUR 4,204 thousand (2021: EUR 4,204 thousand) represents the excess of contribution received over the nominal value of shares issued.

Contingency Reserve: The contingency reserve of EUR 511 thousand was created in 2000, through the appropriation of retained earnings. The reserve represents a provision against political risk and cannot be distributed as dividend without prior approval of CBK.

Following the initial adoption of IFRS 9 from the Central Bank of Kosovo, as of January 1, 2020, an amount of EUR 6,371 thousand has been presented for regulatory purposes as Other Reserve. This reserve represents the change between IFRS reported figures and CBK reported figures as of January 1, 2020, therefore it is a transfer from Retained Earnings to Other Reserve balance and is not distributable for dividend purposes.

Fair value reserve: The fair value reserve includes the cumulative net change in the fair value of Investment Securities measured at FVOCI, until the investment is derecognised or impaired. The movements in the fair value reserve are presented as follows:

	2022	2021
Balance at 1 January	105	74
Revaluation losses reserve for Investment Securities - FVOCI	(595)	(155)
Revaluation gains reserve for Investment Securities - FVOCI	259	183
Deferred tax on revaluation reserve for Investment Securities - FVOCI	34	(3)
Allowance for impairment	(6)	7
Balance at 31 December	**(203)**	**105**

Dividends paid: Dividends of EUR 18,000 thousand in total or EUR 1.47 per share were approved in September 2022 and paid to the sole shareholder in November 2022 (2021: EUR 35,000 thousand).

(All amounts expressed in EUR thousand, unless otherwise stated)

26. Related party transactions

The ProCredit Group (the 'Group') is made up of development-oriented commercial banks operating in the South Eastern and Eastern Europe and South America, as well as a bank in Germany. The Parent company of the Group is ProCredit Holding, a Frankfurt based entity which guides the Group. At a consolidated level the Procredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank). The ProCredit Group aims to combine high development impact with commercial success for its shareholders.

In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholder and affiliated entities at 31 December 2022 and 2021 are as follows:

	2022		2021	
	Parent Company	Entities under common control	Parent Company	Entities under common control
Statement of Financial Position				
Assets	-	**1,491**	-	**1,530**
Loans and advances to banks	-	1,491	-	1,530
Liabilities	**7,578**	**844**	**7,578**	**844**
Liabilities to banks	-	253	-	348
Liabilities to customers	-	128	-	122
Other Liabilities	40	463	40	374
Subordinated debt	7,538	-	7,538	-
Statement of Profit or Loss and OCI				
Income	-	**165**	-	**153**
Interest income	-	10	-	-
Fee and commission income	-	5	-	5
Other income	-	150	-	148
Expenses	**1,456**	**5,503**	**1,346**	**5,615**
Interest expenses	343	5	344	10
Fee and commission expenses	119	1,573	129	1,403
Administrative expenses	994	3,925	873	4,202

At 31 December 2022, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2021: EUR 15,000 thousand), maturing on 31 March 2023 (the maturity date shall automatically be extended by one year) for the purposes of meeting general financing needs.

Key management remuneration:	2022	2021
Salaries	229	286
Short-term pension contributions (mandatory scheme)	12	14
Personal income tax	21	26
	262	**326**

(All amounts expressed in EUR thousand, unless otherwise stated)

27. Commitments and contingencies

	2022	2021
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	84,386	76,702
International guarantees	30,314	24,833
Local guarantees	12,908	11,204
Letters of credit	770	239
Less: Provisions recognised as liabilities	(723)	(852)
	127,655	**112,126**
Credit commitments		
Unused credit card facilities	1,873	1,616
Unused overdraft limits	41,519	36,050
Non-disbursed loans tranches	13,087	9,557
Unused portion of credit lines	27,907	29,479
	84,386	**76,702**

Guarantees and letters of credit issued in favour of customers are secured by cash collateral, real estate and counter guarantees received from other financial institutions.

Commitments to extend credit represent contractual commitments to grant loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total amounts do not necessarily represent cash requirements.

Legal cases in the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no additional material losses will be incurred in relation to legal claims outstanding as at 31 December 2022 except for those already provided for (Note 23).

28. Events after the end of the reporting period

No material events subsequent to the reporting date have occurred which require disclosure in the financial statements.