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Independent Auditors' Report

TO THE MANAGEMENT OF

PROCREDIT BANK A.D. BEOGRAD

We have audited the accompanying consolidated financial statements of ProCredit Bank a.d. Beograd ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The accompanying consolidated financial statements have been prepared by management of ProCredit Bank a.d. Beograd based on the ProCredit Holding AG & Co. KGaA's Accounting Manual, as set out in Note 2.1 to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with ProCredit Holding AG & Co. KGaA's Accounting Manual 2014 as set out in Note 2.1 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements of the Bank as at 31 December 2014 are prepared, in all material respects, in accordance with ProCredit Holding AG & Co. KGaA's Accounting Manual 2014, as set out in Note 2.1 to the consolidated financial statements.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to Note 2.1 to the consolidated financial statements, which describe the basis of accounting. The consolidated financial statements are specially designed to set out the Bank's consolidated financial position and performance, as reported to, and consolidated by, ProCredit Holding AG & Co. KGaA for Group consolidation purposes for the financial year 2014. As a result, the consolidated financial statements may not be suitable for another purpose. Our report is intended solely for ProCredit Bank a.d. Beograd and ProCredit Holding AG & Co. KGaA and should not be used by or distributed to other parties.

KPMG d.o.o. Beograd
KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Beograd



10 February 2015

PROCREDIT BANK A.D. BEOGRAD

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

(prepared in accordance with ProCredit Holding AG & Co. KGaA's
Accounting Manual 2014)

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Consolidated statement of profit and loss and other comprehensive income

	Note	Year ended 31 December	
		2014	2013
Interest income	2.1(g),4	6,826,644	7,444,361
Interest expenses	2.1(g),4	(1,745,063)	(2,048,910)
Net interest income		5,081,581	5,395,451
Allowance for impairment losses loans and advances	10	(76,641)	(99,753)
Net interest income after Allowance		5,004,940	5,295,698
Fee and commission income	2.1(h),5	1,218,319	1,223,945
Fee and commission expense	2.1(h),5	(299,269)	(217,412)
Net fee and commission income		919,050	1,006,533
Trading result	2.1(l),6	102,242	189,340
Gains/(losses) from afv securities, net	2.1(e), 7	36,010	(17,224)
Gains from afs securities, net	2.1(e)	-	182
Other operating income	8	105,094	86,533
Other operating expenses	9	(296,198)	(199,372)
Operating income		5,871,138	6,361,690
Personnel expenses	11	(1,814,269)	(2,062,580)
Other administrative expenses	12	(1,659,661)	(1,697,953)
Operating expenses		(3,473,930)	(3,760,533)
Operating result before taxes		2,397,208	2,601,157
Income tax expenses	2.1(t),13	(386,051)	(328,834)
Profit for the year		2,011,157	2,272,323
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Change in remeasurements of defined benefit plans (actuarial gains and losses)		11,335	9,872
		11,335	9,872
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve from afs financial assets		7,264	9,874
		7,264	9,874
Other comprehensive income, net of tax		18,599	19,746
Total comprehensive income		2,029,756	2,292,069
Profit attributable to equity holders of the Bank		2,029,756	2,272,323
Total comprehensive income attributable to equity holders of the Bank		2,029,756	2,292,069

These consolidated financial statements were approved by the Executive Board on 10 February 2015 and signed on their behalf by:


Igor Anić
Member of the Executive Board




Svetlana Tolmačeva Dingarac
Chairperson of the Executive Board

Consolidated statement of financial position

	Note	As of 31 December	
		2014	2013
ASSETS			
Cash and cash equivalents	2.1(p),14	10,461,655	13,194,655
Loans and advances to banks	15	615,545	1,052,866
Loans and advances to customers	16	62,383,248	54,914,817
Allowance for impairment on loans and advances	16	(2,173,660)	(2,687,856)
Financial assets at fair value through profit or loss	2.1(e), 17	160	75
Financial assets afs securities	2.1(e), 18	56,671	40,765
Intangible assets	2.1(l),19	355,307	294,707
Property, plant and equipment	2.1(m),20	1,780,797	1,690,150
Current tax assets	2.1(t)	2,979	-
Deferred tax assets	2.1(t), 21	44,043	74,576
Other assets	22	709,847	1,040,233
Total assets		74,236,592	69,614,988
LIABILITIES			
Liabilities to banks	23	2,701,652	1,795,312
Financial liabilities at fair value through profit or loss	24	1,370	4,103
Liabilities to customers	25	42,152,278	36,432,825
Liabilities to IFI's	2.1(u), 26	13,120,333	16,172,534
Subordinated debt	2.1(u),27	3,767,372	3,570,930
Current tax liabilities	2.1(t), 28	28,051	37,846
Provisions	2.1(q),29	139,482	171,663
Other liabilities	30	584,150	329,803
Total liabilities		62,494,688	58,515,016
EQUITY			
	2.1(v), 31		
Subscribed capital		3,663,012	3,663,012
Capital reserve		2,776,745	2,776,745
Retained earnings		3,604,411	2,981,078
Revaluation reserve		53,872	35,273
Legal reserve		1,643,864	1,643,864
Total equity		11,741,904	11,099,972
Total equity and liabilities		74,236,592	69,614,988

Consolidated statement of changes in equity

	Subscribed capital	Capital reserve	Retained earnings	Revaluation reserve	Legal reserve	Total
At 1 January 2013	3,663,012	2,776,745	2,543,860	15,527	1,643,864	10,643,008
Total comprehensive income						
Profit	-	-	2,272,323	-	-	2,272,323
Other comprehensive income, net of tax						
Change in revaluation reserve from afs financial assets	-	-	-	9,874	-	9,874
Change in measurements of defined benefit plans (actuarial gains and losses)	-	-	-	9,872	-	9,872
Total comprehensive income	-	-	2,272,323	19,746	-	2,292,069
Transfer to revaluation reserve to - defined benefit plans	-	-	(8,426)	-	-	(8,426)
Transactions with owners of the Bank						
Distributed dividends	-	-	(1,826,679)	-	-	(1,826,679)
At 31 December 2013	3,663,012	2,776,745	2,981,078	35,273	1,643,864	11,099,972
At 1 January 2014	3,663,012	2,776,745	2,981,078	35,273	1,643,864	11,099,972
Total comprehensive income						
Profit	-	-	2,011,157	-	-	2,011,157
Other comprehensive income, net of tax						
Change in revaluation reserve from afs financial assets	-	-	-	7,264	-	7,264
Change in measurements of defined benefit plans (actuarial gains and losses)	-	-	-	11,335	-	11,335
Total comprehensive income	-	-	2,011,157	18,599	-	2,029,756
Transfer to revaluation reserve to - defined benefit plans	-	-	-	-	-	-
Transactions with owners of the Bank						
Distributed dividends	-	-	(1,387,824)	-	-	(1,387,824)
At 31 December 2014	3,663,012	2,776,745	3,604,411	53,872	1,643,864	11,741,904

Consolidated statement of cash flows

	Year ended 31 December	
	2014	2013
Cash flows from operating activities:		
Profit for the year	2,011,157	2,272,323
Adjustments for:		
Net allowance for impairment losses	76,641	99,753
Depreciation and amortisation	286,449	294,494
Net interest income	(5,081,581)	(5,395,451)
Dividends on afs securities	-	(182)
Provisions	(32,181)	(6,153)
Net gains from the disposal of property and equipment	23,270	(6,921)
Net result from financial assets at fair value through profit or loss	(36,010)	17,224
Tax expense	386,051	328,834
Net cash flow from operating activities before changes in operating assets and liabilities	(2,366,204)	(2,396,079)
Changes in operating assets:		
Decrease/(Increase) in mandatory reserve with central bank	(556,677)	(384,200)
Decrease/(Increase) in loans and advances to customers	(7,468,431)	1,075,544
Decrease/(Increase) in other assets	330,386	(141,319)
Decrease in derivative financial assets	86	1,248
	(7,694,636)	551,273
Changes in operating liabilities:		
(Decrease)/Increase in liabilities to banks	906,339	(1,511,847)
Increase in liabilities to customers	5,761,595	3,075,598
(Decrease)/Increase in other liabilities	254,347	(39,766)
(Increase)/Decrease in derivative financial liabilities	(3,076)	(3,019)
	6,919,205	1,520,966
Interest received	6,225,598	7,190,781
Dividends received	-	182
Interest paid	(1,726,542)	(1,957,263)
Income tax paid	(371,670)	(255,822)
Net cash from operating activities	985,751	4,654,038
Cash flow from investing activities:		
Proceeds from disposal of property and equipment	9,523	17,262
Purchase of property and equipment	(357,789)	(500,178)
Purchase of intangible assets	(123,553)	(170,175)
Net cash used in investment activity	(471,819)	(653,091)
Cash flow from financing activities:		
Increase in liabilities to IFI`s	3,304,130	6,340,500
Repayments of liabilities to IFI`s	(6,356,331)	(6,456,868)
Increase of subordinated debt	443,573	1,544,794
Repayment of subordinated debt	(247,770)	(2,198,466)
Paid dividends	(1,387,824)	(1,826,679)
Net cash used in financing activities	(4,244,222)	(2,596,719)
Net (decrease)/increase in cash and cash equivalents	(3,730,290)	1,404,228
Cash and cash equivalents as at 1 January	5,586,797	4,179,824
Effects of exchange rate fluctuations on cash and cash equivalents	3,285	2,745
Cash and cash equivalents as at 31 December	1,859,792	5,586,797

1. General information

ProCredit Bank a.d. Beograd (the "Bank") was established in 2001 as a Joint Stock Company and was issued with a banking licence by the National Bank of Yugoslavia (the "Central Bank") on April 5, 2001.

In 2003, the Bank changed its name from Micro Finance Bank a.d. Beograd to ProCredit Bank a.d., Beograd.

The Bank is licensed in the Republic of Serbia to perform payment transfers, credit and deposit activities in the country and abroad, and in accordance with Republic of Serbia law, is to operate on principles of liquidity, security of placements and profitability.

The Bank established ProCredit Leasing d.o.o. Beograd as a limited liability company and registered it with the Agency for Legal Entities in Belgrade under register number 1973/2005 on 17 February 2005. The Bank is the 100% owner of ProCredit Leasing d.o.o. Beograd.

These consolidated financial statements comprise the Bank and its subsidiary ProCredit Leasing d.o.o. Beograd (collectively the "Group").

The Group is controlled by ProCredit Holding AG & Co. KGaA Frankfurt am Main ("ProCredit Holding", "PCH"), which owns 100.00% of shares.

As at 31 December 2014, the Group's head office is located in Belgrade, Milutina Milankovića 17, and has 47 branches throughout Serbia.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

A) Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with the ProCredit Holding AG & Co. KGaA's Accounting Manual 2014, which is IFRS based.

These consolidated financial statements are specially designed to set out the Group's financial position and performance, as reported to, and consolidated by, ProCredit Holding AG & Co. KGaA for Group consolidation purpose for the financial year 2014.

Management believes that the consolidated financial statements set out appropriately and materially the Group's financial position and performance following the application of ProCredit Holding AG & Co. KGaA's Accounting Manual 2014 and applicable, IFRS based accounting policy, recognition and measurement criteria in each of the reporting periods presented.

The consolidated financial statements have been prepared under the historical cost convention except for available for sale financial assets and all derivative financial instruments, which have been measured at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of financial statements in conformity with ProCredit Holding AG & Co. KGaA's Accounting Manual 2014 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements are disclosed in Note 2.

The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements.

The consolidated financial statements are presented in RSD, which is the Group's functional and presentational currency. The figures shown in the consolidated financial statements are stated in RSD thousand.

2.1 Significant accounting policies

(a) Applicable framework

New and amended standards adopted by the Group

The following standard, amendment and interpretations have been issued by the IASB and have an impact on the Group's financial statements:

- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" have a minor impact on the disclosure of financial statements. The amendments to IAS 36 are applicable for annual periods beginning on or after 1 January 2014.

The following standards, amendments and interpretations have been issued by the IASB and have no impact on the bank's financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" and Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" have no impact on the financial statements. Both amendments are applicable for annual periods beginning on or after 1 January 2014.

Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations are issued by the IASB and will have an impact on the bank's financial statements. These were not applied in preparing these Financial Statements:

- Annual Improvements to IFRSs 2010-2012 Cycle will have a minor impact on the financial statements of the bank. The improvements are applicable for annual periods beginning on or after 1 July 2014.
- Annual Improvements to IFRSs 2012-2014 Cycle might have a minor impact on the financial statements of the bank. The exposure draft proposes that the improvements will be effective for annual periods beginning on or after 1 July 2016.
- IFRS 15 "Revenue from Contracts with Customers" might have a minor impact on the financial statements. IFRS 15 will be effective for annual periods beginning on or after 1 January 2017.
- IFRS 9 "Financial Instruments" (2014) will have an impact on the measurement and presentation of financial instruments. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the bank's financial statements:

- Annual Improvements to IFRSs 2011-2013,
- IFRIC 21 "Levies",
- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions",

- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”,
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”,
- Amendments to IAS 16 and IAS 41 “Bearer plants”,
- IFRS 14 “Regulatory Deferral Accounts”,
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”,
- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”,
- Amendments to IAS 27 “Equity Method in Separate Financial Statements”,
- IFRS 10 “Consolidated Financial Statements”,
- IFRS 12 “Disclosures of Interests in Other Entities”,
- Amendments to IAS 32 “Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities”.

There was no early adoption of any standards, amendments and interpretations not yet effective.

B) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Bank has only one 100% owned subsidiary – ProCredit Leasing d.o.o. Beograd.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

C) Going concern

The consolidated financial statements (“financial statements”) are prepared in accordance with the going concern concept, which assumes that the Group will continue its operation, in the foreseeable future.

D) Foreign currency translation

(a) Transactions and balances

Transactions in foreign currency are translated into the functional currency of the Group using the spot exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the spot exchange rate at reporting date. Foreign exchange differences arising on translation are recognized in the statement of profit and loss.

Non-monetary assets denominated in foreign currency are translated at the spot exchange rate at the historic date.

(b) Exchange rates

The official exchange rates as at 31 December 2014 and 2013 were as follows:

	2014	2013
USD	99.4641	83.1282
EUR	120.9583	114.6421
CHF	100.5472	93.5472

E) Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances, liabilities, debt securities issued and subordinated debt 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 Group 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 fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Group classifies its financial assets into of the following categories: loans and advances, held to maturity, at fair value through profit or loss and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Classes of financial assets

The Group classifies the financial instruments into classes that reflect the nature of instruments and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category of financial assets per IAS 39	Class determined by the Group	Subclass
Financial assets at fair value through profit or loss	Derivative financial assets	Derivatives – non-hedging
Loans and advances	Loans and advances to banks	Banks within the Group
		OECD banks
		Domestic and non-OECD banks
	Loans and advances to customers	Business
		Agricultural
		Housing
		Finance leases
Consumer		
Other		
Available for sale financial assets	Available for sale financial assets	Listed
	Other financial instruments	Unlisted

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of profit and loss in the period in which they arise.

Interest income and expense on financial assets held for trading are included in 'Net interest income'.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "Gains and losses from afv securities".

(b) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are initially recognised at fair value. All loans and advances are recognised when cash is advanced to borrowers. After initial recognition, these are subsequently measured at amortised costs using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

At each balance sheet date and whenever there is evidence of potential impairment, the Group assesses the value of its loans and advances. Their carrying amount may be reduced as a consequence through the use of an allowance account. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and advances are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. In addition, when loans and advances are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

c) Financial assets available for sale

Financial assets available for sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – i.e. the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of financial assets available for sale are recognised directly in other comprehensive income until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit or loss.

The fair value of investments quoted in an active market is based on current supply (financial assets) or demand (financial liabilities). If the market for a financial asset is inactive, the Bank shall determine fair value by using valuation techniques. This includes application of recent transactions among independent parties, analysis of discounted cash flows and other valuation techniques used by market participants. The valuation models reflect current market conditions on the date of valuation, whereby such conditions are not necessarily applicable for the period before or after the valuation date.

On the date of consolidated statement of financial position, the management of the Group revises those models to make sure they faithfully represent current market conditions, including relative market liquidity and interest margins.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment losses.

Financial liabilities

Financial liabilities that are not classified as financial liabilities at fair value through profit or loss fall into category “other liabilities” and are measured at amortised cost. Financial liabilities measured at amortised cost are liabilities to banks, liabilities to customers, liabilities to IFI’s and subordinated debt.

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category per IAS 39/IAS 37		Class determined by the Group
Financial liabilities	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
	Financial liabilities at amortised cost	Liabilities to banks
		Liabilities to customers
		Other borrowed funds
Off-balance exposure	Loan commitments	
	Guarantees, acceptances and other financial liabilities	

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, 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 Group 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 interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its consolidated 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.

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 Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group 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 Group 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 Group 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 Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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 Group uses valuation techniques that maximise the use of relevant observable inputs and minimize 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 at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at 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 that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized 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 Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group 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 a particular risk exposure. Those portfolio-level adjustments 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 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 Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment of financial assets carried at amortised cost

The Group assesses at each of the consolidated statement of financial position whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss in impairment charge for credit losses.

(viii) Impairment of financial assets classified as available-for-sale

The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit and loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit and loss; otherwise, any increase in the fair value of an impaired available-for-sale equity investment is always recognised in other comprehensive income.

F) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses arising from changes in fair value of derivatives are included in "Gains and losses from afv securities".

The Group had only economic hedging transactions during the reporting period.

G) Interest

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expenses" in the profit and loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows and considers all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all transaction costs, fees and points paid or received between parties to the contract 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the effective interest rate for the purpose of measuring the impairment loss.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest bases;
- interest on available-for-sale investment securities calculated on an effective interest basis.

H) Fee and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate).

Other fees and commission income are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

I) Trading results

'Trading results' comprises foreign exchange differences.

J) Gains and losses from available-for-sale securities

"Gains and losses from available-for-sale securities" relates to gains and losses from fair value changes for financial assets at fair value through profit or loss (derivatives).

L) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

These costs are amortised on the basis of the expected useful lives and the period licenses are issued for. Software has a maximum expected useful life of 5 years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

M) Property, plant and equipment

Property, plant and equipment are stated at historical cost less scheduled depreciation and impairment losses, as decided by the management. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are considered separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Land is not depreciated. Depreciation of fixed assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings – 40 years
- Leasehold improvements - shortest of 10 years or leasehold contract duration,
- Motor vehicles - 5 years,
- Furniture - 10 years,
- Computers - 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of consolidated statement of financial position.

Any gain or loss on disposals of an item of property and equipment is determined as a difference between the net proceeds from disposal and carrying amount of the item. These are included in other income in profit or loss.

N) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 asset or CGU.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

O) Leases

(a) A Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(b) A Group is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable from customers under Loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Net investment in lease is recognised and presented within loans and advances to customers (see Note 16). Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

P) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with the National bank of Serbia 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 Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than a three-month maturity from the date of acquisition, including cash and non-restricted balances with the National bank of Serbia, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

Q) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured twice a year at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the Group, they are not recognised in the financial statements but are disclosed in the notes to the financial statements.

R) Financial guarantees and loan commitments

“Financial guarantees” are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

‘Loan commitments’ are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees and loan commitments are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit or loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the date of consolidated statement of financial position. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of the management.

Any increase in the liability relating to financial guarantees and loan commitments is included in the profit or loss.

S) Employee benefits

(a) Pension obligations

The Group operates a defined contribution pension plan. The Group companies pay contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The liability recognised in the statement of financial position is the present value of the defined post-employment benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit plans arise from plans that are unfunded. As a rule, the obligation is calculated annually by independent actuaries. The present value of the obligation is determined by discounting the estimated future cash outflows (e.g. taking into account mortality tables and salary increases) using interest rates of high-quality government bonds that are denominated in the currency in which the obligation will be paid, and that have terms to maturity approximating to the terms of the related pension liability, where applicable, or comparable similar interest rates which were estimated by the Group.

(b) Other employee benefits

The Group companies provide termination benefits, as required by labour laws in Serbia. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period and is calculated as three monthly average salaries in Serbia in the month before employee retirement. The expected costs of these benefits are accrued over the period of employment. The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The assumptions used by the actuary to calculate the retirement benefits are as follows:

- Three average salaries in November 2014 for the Serbian economy as a whole;
- Estimated annual increase in salaries of 3%;
- Discounting rate of 10% and
- Fluctuation rate of -1%.

T) Current and deferred income tax

a) Current income tax

Income tax represents the amount calculated and paid to the tax authorities, based on legislation in the Republic of Serbia. Estimated monthly instalments are calculated by the tax authority and paid in advance on a monthly basis.

Income tax at the rate of 15% (2013: 15%) is payable based on the profit disclosed in the Tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year. The tax return is submitted to the tax authorities 180 days after tax period observed.

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities as at 31 December 2014 are measured by using 15%.

Changes of deferred taxes related to fair value re-measurement of available-for-sale financial instruments are charged to the Statement of Other Comprehensive Income. The presentation in the Statement of Other Comprehensive Income is made on a gross basis. At the time of sale, the respective deferred taxes are recognised in the Statement of profit and loss and other comprehensive income together with the deferred gain or loss.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. The rates enacted or substantively enacted at the date of consolidated statement of financial position are used to determine deferred income tax.

Deferred tax assets are recognised for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realisation (utilisation) of deductible temporary differences, unused tax assets and unused tax liabilities.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to other comprehensive income is also credited or charged directly to other comprehensive income and subsequently recognised in the profit and loss together with the deferred gain or loss.

U) Borrowings (liabilities to IFI`s) and subordinated liabilities

Borrowings and subordinated liabilities are recognised initially at fair value net of transaction costs incurred. Borrowings and subordinated liabilities are subsequently measured at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

V) Subscribed capital and capital reserves

(a) Share issue costs

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

(b) 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.

W) Repossessed property

In certain circumstances, property is repossessed following the foreclosure of loans that are in default. Repossessed properties are measured at the lower of the carrying amount and fair value less costs to sell and are reported in "other assets".

A repossessed property is expected to be sold within one year period, except if there is a delay caused by events or circumstances beyond the entity's controls and there is sufficient evidence that the Group remains committed to its plan to sell the asset. The maximum period of holding repossessed property on the Group's balance sheet is 5 years. After 5 years the Group has to write-off the amounts.

In case the Management decides to use the item in the course of the Group's business operations, the item has to be reclassified into the respective Property, plant and equipment account.

In case the Management decides to rent the item for a period longer than 3 years, the item has to be reclassified into the investment property.

A repossessed leasing property after initial recognition are measured on the basis of internal assessment by fair value, calculated on the basis of expected cash flow in accordance with internal risk methodology.

X) Transaction with related parties

Related parties include associates, directors, their close relatives, companies owned or controlled by them, and companies whose financial and operating policies they can influence.

Transaction of similar nature are disclosed in aggregate. All transactions with related parties are realized in the normal course of business and on the principle of the arm's length transitions.

Y) Critical accounting estimates and judgments

The Group 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) Allowances for impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit and loss, the Group 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 Group.

Management 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.

(b) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Group assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty per cent, the Group fully provides for the total amount of the liability. The Group is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

3. Financial risk management

The Group's activities are exposed to a variety of financial risks. This exposure demands organised activities related to 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 Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects of risks on the Group's financial performance.

The Group's risk management procedures 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 Group regularly reviews its risk management procedures and systems to reflect changes in markets, products, legislature and emerging best practice.

Risk management is carried out by the Group's Financial Risk Management and Credit Risk, specialised risk committees under risk strategy and policies approved by the Board of Directors. The Risk Management Department identifies, evaluate financial risks and makes proposals to the risk committees to hedge those risks in close co-operation with the Group's business units. The Board of Directors provides principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are:

- Credit risk,
- Liquidity and funding risk,

- Market risks (including currency risk, interest rate and other market price related risks),
- Operational and other risks.

A) Management of the Overall Risk Profile

1. Capital management – objectives

Overall, neither the Group, nor the ProCredit Group as a whole, is allowed to take on more risk than it is capable of bearing. This rule is implemented using different indicators for which reporting triggers and limit ratios have been established. The indicators for the Group, in addition to local regulatory standards, a Basel II capital adequacy calculation, a Tier 1 leverage ratio and a risk-bearing capacity model. Results for the different indicators are presented below.

The capital management of the group has the following objectives:

- Full compliance with external capital requirements set by the banking sector regulators in the jurisdictions where the group entities operate.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Group to implement its plans for continued growth while following its business strategy as a “house bank” for very small and small businesses in its countries of operation.

2. Capital management – processes and procedures

The capital management of the Group is governed by the Group Policy on Capital Management and the Group Policy on Risk-Bearing Capacity. Regulatory and Basel II capital ratios, the Tier 1 leverage ratio and the risk-bearing capacity are monitored on a monthly basis by the banks Risk Management Committee and the Group Risk Management Committee.

A A.1. Capital Adequacy

External minimum capital requirements for bank are imposed and monitored by National Bank of Serbia.

During the reporting period, all regulatory capital requirements were met at all times.

Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the ProCredit Group in accordance with the guidelines of the Basel Committee (Basel II).

The following table shows the Basel II capital adequacy ratios calculated in accordance with requirements of the ProCredit Group:

	12/31/2014	12/31/2013
Common equity Tier 1 capital	9,321,569	8,506,096
Additional Tier 1 capital		
Tier 2 capital	4,129,765	4,212,680
Total capital	13,451,333	12,718,776
Total risk weighted assets	69,969,601	62,680,924
Common equity Tier 1 capital ratio	13.3%	13.6%
Tier 1 capital ratio	13.3%	13.6%
Total capital ratio	19.2%	20.3%

	12/31/2014		12/31/2013	
	Risk weighted assets	Capital requirements	Risk weighted assets	Capital requirements
Credit risk	59,434,575	4,754,766	52,701,992	4,216,159
Market risk	259,181	20,734	173,157	13,853
Operational risk	10,275,844	822,068	9,805,775	784,462
Total	69,969,601	5,597,568	62,680,924	5,014,474

With respect to the leverage of the Group, a lower limit for the ratio of Tier 1 capital (based on the Basel II calculation method) to on and adjusted off-balance sheet exposures is being applied, according to which the Tier 1 leverage ratio of the Group should not fall below 5%. At the end of 2014 it was 11.8% (2013: 11.4%), well above this minimum.

Risk-bearing capacity

In addition to regulatory capital ratios, the Group assesses its capital adequacy by using the concept of risk-bearing capacity to reflect the specific risk profile of the Group, i.e. comparing the potential losses arising from its operation with the Group's capacity to bear such losses.

The risk taking potential of the bank according to the going concern approach is defined as the bank equity (net of intangibles and deferred tax assets) plus subordinated debt, which amounted to RSD 3.386 million as of the end of December 2014 (2013: RSD 3.553 million), as per Basel II capital adequacy calculation. The Resources Available to Cover Risk (RAtCR), i.e. the share of the risk-taking potential used to cover the main quantifiable risks, were set at 60%.

The table below shows the distribution of the RAtCR among the different risk categories as determined by the Group Risk Management Committee and the level of utilisation as of the end of December 2014.

Risk Factor	Risk Detail	Limit (in %)	Actual (in '000 EUR)	Limit Used (in % of limit)
Credit Risk (Clients)		33.00	875,658	5.8
Counterparty Risk	Commercial Banks	1.00	125	-
	Sovereigns	4.00	309,700	2.1
Interest Rate Risk		10.00	349,074	2.3
Foreign Currency Risk		2.00	6,351	-
Operational Risk		10.00	822,068	5.5
Resources Available to Cover Risk		60	2,362,975	15.7

As the above table indicates, the Group showed a low level of utilisation of its RAtCR as of 31 December 2014.

B) Credit risk

Credit risk is defined as the danger that the party to a credit transaction will not be able, or will only partially be able, to meet its contractually agreed obligations towards the Group. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk we face.

The following table shows the maximum exposure to credit risk:

in '000 RSD	12/31/2014	12/31/2013
Loans and advances to banks	615,545	1,052,866
loans/adv group co	23,551	23,052
loans/adv to OECD-banks	344,749	349,859
loans/adv to domestic and non-OECD banks	247,187	676,943
accr inter.s loans/adv non-OECD	-	3,012
loans /adv. PCB Germany	58	-
Financial assets at fair value through profit or loss	160	75
Available-for-sale financial assets	56,671	40,765
Loans and advances to customers	60,209,587	52,226,961
Loans and advances to customers	62,383,248	54,914,817
Allowance for losses on loans and advances to customers	(2,173,660)	(2,687,855)
Contingent liabilities:	8,964,860	8,956,702
Guarantees and stand-by letters of credit	3,306,069	3,543,156
Documentary and commercial letters of credit	61,884	57,246
Credit commitments (irrevocable loan commitments)	4,399,259	3,845,076
Performance bonds	1,085,358	1,242,902
Other	112,290	268,322

1. Credit default risk from customer credit exposures

The Group defines credit default risk from customer credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on a thorough implementation of the bank's lending principles:

- intensive analysis of the debt capacity of the Group' clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of overindebting our clients
- building a personal and long-term relationship with the client and maintaining regular contact
- close monitoring of loan repayments and early warning indicators
- practising tight arrears management
- exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- rigorous application of the "dual control principle".

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for individually significant credit exposures that are risk-relevant and a specialisation for individually significant non-risk-relevant credit exposures. For individually significant credit exposures, the starting point of the analysis is the information collected from the client, ranging from audited financial statements to self-declarations. The key criteria for credit exposure decisions are based on the financial situation of the client; in particular for individually insignificant credit exposures, supplemented by a review of liquid funds and the assessment of the creditworthiness of the client. Finally, the collateral requirements are generally higher for individually significant credit exposures. As a general rule, the lower the amount of the credit

exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the bank and the higher the turnover of the client with the Group, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions on individually significant exposures are taken by a credit committee. As a general principle, the Group considers it very important to ensure that our lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The comparatively high quality of the loan portfolio reflects the application of the above lending principles, the results of follow up on early warning indicators and appropriate monitoring, in particular of our individually significant credit exposures. This is a crucial element of our strategy for managing arrears in the current difficult economic environment that is affecting our clients. The Group rigorously follows up on the non-repayment of our credit exposures, which typically allows for swift identification of any increased potential for default on a credit exposure. The Group apply strict rules regarding credit exposures for which there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Group's recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate that our loan portfolio exhibits.

Breakdown of loan portfolio by days in arrears:

Loans and advances to customers at December 31, 2014

in '000 RSD	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Collectively assessed								
Business	31,317,320	3,191,117	146,536	63,056	95,902	106,532	163,676	35,084,139
Agricultural	15,492,757	887,152	72,775	25,109	45,994	35,335	45,169	16,604,291
Housing improvement	3,635,510	388,134	11,253	3,315	4,103	9,091	16,537	4,067,943
Consumer	1,828,764	582,956	33,994	9,205	17,863	24,603	59,706	2,557,091
Finance leases	1,307,292	207,564	4,639	479	1,774	259	5,115	1,527,122
Other	757,968	46,540	264	192	212	556	95,805	901,537
Individually assessed								
Business	514,490	111,518	44,409	29,824	58,013	95,662	372,974	1,226,890
Agricultural	87,127	55,289	34,707	8,004	24,042	24,799	23,473	257,441
Housing improvement	34,282	8,833	25,017	-	-	4,184	5,657	77,973
Consumer	6,910	1,226	186	-	-	5,693	-	14,015
Finance leases	-	-	568	6,590	-	7,301	45,470	59,929
Other	4,549	-	-	-	91	237	-	4,877
Total	54,986,969	5,480,329	374,348	145,774	247,994	314,252	833,582	62,383,248

Loans and advances to customers at December 31, 2013

in '000 RSD	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Collectively assessed								
Business	26,708,914	2,426,782	101,614	43,403	106,641	136,466	443,786	29,967,606
Agricultural	13,250,618	820,547	45,417	16,991	24,741	27,541	83,353	14,269,208
Housing improvement	3,271,311	132,488	6,648	2,458	3,503	2,541	49,771	3,468,720
Consumer	2,581,261	265,717	39,683	10,049	45,396	19,310	64,727	3,026,143
Finance leases	1,150,452	262,515	4,457	2,242	9,026	6,313	41,160	1,476,165
Other	1,046,785	16,542	948	509	513	770	106,328	1,172,395
Other advances to customers	-	-	-	-	-	-	-	-
Individually assessed								
Business	265,071	201,901	39,601	14,032	22,567	89,555	601,770	1,234,497
Agricultural	81,924	30,308	11,754	38,731	-	-	26,157	188,874
Housing improvement	32,430	4,010	3,355	-	7,344	-	5,782	52,921
Consumer	51	79	278	-	-	-	-	408
Finance leases	-	-	-	-	565	8,434	44,425	53,424
Other	-	-	-	-	4,456	-	-	4,456
Total	48,388,817	4,160,889	253,755	128,415	224,752	290,930	1,467,259	54,914,817

According to the Group policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. As the majority of credit exposures are fixed instalment loans of rather short maturity, the fair value of collateral usually decreases substantially more slowly than the outstanding loan amount, and therefore the Group does not monitor it. For an insignificant number of financial assets we hold cash collateral.

The quality of the loan portfolio is monitored on an ongoing basis. Generally, all exposures in the category "1 to 30 days" are past due but not impaired. The main indicator for loan portfolio quality is the portfolio at risk (PAR > 30), which is defined as all credit exposures with one or more payment of interest and/or principal in delay by more than 30 days. This measure was chosen because the vast majority of all credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. No collateral is deducted and no other exposure-reducing measures are applied in the determining of our PAR > 30.

Additionally, the quality of credit operations is assured by the Credit Control Unit which is responsible for monitoring credit operations and compliance with its procedures. These units, made up of experienced lending staff, ensure compliance, in form and substance, with the lending policy and procedures through on-site checks and system screening.

in '000 RSD		Allowance	PAR	PAR as % of	Net write-offs	Net write-offs
As at December 31, 2014	Loan portfolio	for impairment	(> 30 days)	loan portfolio		as % of
Total	62,383,248	(2,173,660)	1,915,950	3.1%	606,361	1.0%

in '000 RSD		Allowance	PAR	PAR as % of	Net write-offs	Net write-offs
As at December 31, 2013	Loan portfolio	for impairment	(> 30 days)	loan portfolio		as % of
Total	54,914,817	(2,687,856)	2,365,111	4.3%	418,870	0.8%

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

in '000 RSD		Restructured	Restructured
As at December 31, 2014	Loan portfolio	loans	loans as % of
Regular portfolio / watched	59,715,861	2,092,441	4%
Impaired portfolio	2,667,387	919,512	34%
Total	62,383,248	3,011,953	5%

in '000 RSD		Restructured	Restructured
As at December 31, 2013	Loan portfolio	loans	loans as % of
Regular portfolio / watched	52,106,222	2,933,874	6%
Impaired portfolio	2,808,595	733,927	26%
Total	54,914,817	3,667,801	7%

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions.

Individually significant credit exposures are reviewed for impairment on an individual basis (specific impairment). Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates where 30 or more days in arrears is considered as objective evidence of impairment. For all unimpaired credit exposures, portfolio-based allowances for impairment are made, again based on historical loss experience.

The policy on the treatment of repossessed property requires that all goods obtained due to customers' defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. Also, repossessed property is sold at the highest possible price, typically via public auction. Most repossessed property consists of land and buildings. A smaller part is composed of inventory and of vehicles and consumer durables (TVs, fridges, etc.). The following table presents the value of repossessed property:

in '000 RSD	12/31/2014	12/31/2013
Real estate	166,411	162,783
Movables	-	-
Movables - financial leases	6,155	9,514
Repossessed property	172,566	172,297

2. Credit portfolio risk from customer lending

The granularity of the loan portfolios is a highly effective credit risk mitigating factor. The core business of the banks, lending to very small and small enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR/USD 250,000, constitutes a supplementary area of our business in terms of our overall strategic focus. Most of these clients are enterprises that have been working with our banks for years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of both the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

in '000 RSD							
As at December 31, 2014	Business	Agricultural	Housing improvement	Consumer	Finance leases	Other	Total
Loans up to 50 KEUR/USD	13,677,758	12,970,415	3,167,625	2,551,947	920,650	596,683	33,885,078
Loans 50 - 250 KEUR/USD	11,024,565	2,828,628	960,943	19,160	490,163	309,732	15,633,191
Loans over 250 KEUR/USD	11,608,705	1,062,689	17,347	-	176,238	-	12,864,979
Total	36,311,028	16,861,732	4,145,915	2,571,107	1,587,051	906,415	62,383,248

in '000 RSD							
As at December 31, 2013	Business	Agricultural	Housing improvement	Consumer	Finance leases	Other	Total
Loans up to 50 KEUR/USD	14,370,912	11,302,606	2,681,663	3,015,626	951,141	774,085	33,096,033
Loans 50 - 250 KEUR/USD	8,325,405	2,342,166	817,831	10,891	469,164	402,766	12,368,223
Loans over 250 KEUR/USD	8,505,785	813,309	22,149	34	109,284	-	9,450,561
Total	31,202,102	14,458,081	3,521,643	3,026,551	1,529,589	1,176,851	54,914,817

The structure of the loan portfolio is regularly reviewed in order to identify concentration risks. Events which could have an impact on large areas of the loan portfolio (common risk factors) lead, if necessary, to limits of the exposure towards certain groups of clients, e.g. according to specific sectors of the economy or geographical areas.

The Group follows a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the Group Risk Management Committee. No single large credit exposure may exceed 25% of regulatory capital.

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Committee of the Bank. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.

Individually significant credit exposures are closely monitored by the Credit Risk Committee of the Bank. For such credit exposures, the Group performs an impairment test once objective evidence of impairment exists, i.e.:

- delinquencies in contractual payments of interest or principal by more than 30 days;
- breach of covenants or conditions, unless waived or modified by the Group;
- initiation of legal proceedings by the Group;
- initiation of bankruptcy proceedings;
- any specific information on the customer's business or changes in the customer's market environment that has led or is expected to lead to a reduction in the likelihood that the client will meet the contractual payment obligations towards the Group.

The impairment test also takes into consideration the realisable net value of collateral held. For the calculation of the individual impairment a discounted cash flow approach is applied.

The following tables show all applicable provisioning rates and/or methods to determine provisioning that apply for the whole loan portfolio.

On balance exposures:

Non-restructured credit exposures	Individually insignificant credit exposures	Individually significant credit exposures
Arrears ≤ 30 days, no signs of impairment	1.25%	
Impairment test, no impairment loss	Min 1.25%	
Clusters of clients :arrears ≤ 30 days but assessed as impaired	≥1.254%	
Arrears 31 – 90 days	45%	min 1.25%
arrears 91 – 180 days	70%	min 1.25%
arrears > 180 days	90%	min 1.25%
Impairment test, impairment loss	min 1.25%	min 1.25%

Restructured credit exposures	Individually insignificant credit exposures			Individually significant credit exposures		
	Standard restr.	Watch restr.	Impaired restr.	Standard restr.	Watch restr.	Imp. restr.
Arrears ≤ 30 days, no signs of impairment	4%	11%	19%	4%		
Impairment test, no impairment loss	min. 4%	min. 11%	min. 19%	min. 4%		
Clusters of clients :arrears ≤ 30 days but assessed as impaired	min. 4%	min. 11%	min. 19%	min4%		
arrears 31 – 90 days	40%	45%	50%	min.4%		
arrears 91 – 180 days	65%	70%	80%	min.4%		
arrears > 180 days	90%	90%	90%	min.4%		
Impairment test, impairment loss	min. 4%	min. 11%	min. 19%	min. 4%		

Off balance exposures:

Type of off-balance sheet exposure	Individually insignificant		Individually significant	
	No signs of impairment	Impairment	No signs of impairment	Impairment
Bank guarantees				
Sureties and guarantees	0.55%	25%	0.55%	Min. 0.55%
Performance bonds	0.30%	25%	0.30%	Min. 0.3%
Letters of credit				
Irrevocable loan commitments	0.55%	25%	0.55%	Min. 0.55%

The individual impairment of credit exposures to customers is as follows:

As at December 2014 in '000 RSD	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	1,226,890	(441,304)	785,586
Agricultural	257,440	(98,569)	158,871
Housing improvement	77,973	(10,121)	67,852
Consumer	14,016	(3,872)	10,144
Finance Lease	59,929	(38,100)	21,829
Other	4,878	(1,128)	3,750
Total	1,641,126	(593,094)	1,048,032

As at December 2013 in '000 RSD	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	1,234,499	(485,531)	748,968
Agricultural	188,873	(74,530)	114,343
Housing improvement	52,922	(7,122)	45,800
Consumer	408	(466)	(58)
Finance Lease	53,424	(33,548)	19,876
Other	4,456	(1,099)	3,357
Total	1,534,582	(602,296)	932,286

For individually insignificant credit exposures which are impaired, i.e. which are in arrears for more than 30 days, the Group apply a lump-sum approach; the impairment loss is determined depending on the number of days in arrears. In addition, credit exposures towards clusters of clients may be classified as impaired because of deterioration in the quality due to external influences and/or extraordinary events.

As at December 2014 in '000 RSD	Gross outstanding amount	Allowance for individually insignificant impaired loans & collectively assessed loans	Net outstanding amount
Business	905,549	(412,673)	492,876
Agricultural	363,922	(163,345)	200,577
Housing improvement	53,134	(34,063)	19,071
Consumer	134,490	(93,577)	40,913
Finance Lease	28,179	(9,773)	18,406
Other	97,028	(87,078)	9,950
Total	1,582,302	(800,509)	781,793

As at December 2013 in '000 RSD	Gross outstanding amount	Allowance for individually insignificant impaired loans & collectively assessed loans	Net outstanding amount
Business	831,907	(744,909)	86,998
Agricultural	198,043	(169,714)	28,329
Housing improvement	64,920	(63,149)	1,771
Consumer	179,165	(133,787)	45,378
Finance Lease	63,200	(58,898)	4,302
Other	109,068	(108,441)	627
Total	1,446,303	(1,278,898)	167,405

Individually significant credit exposures for which there is no need for an individual impairment allowance are covered by portfolio-based impairment allowances.

in '000 RSD December 31, 2014	Gross outstanding amount	Allowance for portfolio-based impairment	Net outstanding amount
Business	34,178,588	(445,999)	33,732,589
Agricultural	16,240,370	(215,767)	16,024,603
Housing improvement	4,014,809	(56,287)	3,958,522
Consumer	2,422,601	(30,715)	2,391,886
Finance Lease	1,498,943	(19,853)	1,479,090
Other	804,509	(11,436)	793,073
Total	59,159,820	(780,057)	58,379,763

in '000 RSD December 31, 2013	Gross outstanding amount	Allowance for portfolio-based impairment	Net outstanding amount
Business	29,135,696	(497,849)	28,637,847
Agricultural	14,071,165	(190,142)	13,881,023
Housing improvement	3,403,799	(48,483)	3,355,316
Finance Lease	2,846,978	(35,936)	2,811,042
Consumer	1,412,967	(19,673)	1,393,294
Other	1,063,327	(14,579)	1,048,748
Total	51,933,932	(806,662)	51,127,270

C) Market risk

Market risk

The policy of the Group is not to speculate and to keep all forms of risk at an acceptable level. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group complies with the limits on the value of risk that may be accepted as prescribed by the Central Bank as well as with limits set by internal risk committees.

C.1. Foreign currency risk

Foreign currency risk exposure is monitored regularly through compliance with the regulatory limits prescribed by the National Bank of Serbia. The Group maintains its foreign currency position by granting loans with foreign currency clauses. Furthermore, the Group takes an active approach to currency risk management, and prudently assesses and manages open foreign currency position with foreign currency swaps and by keeping open currency risk exposure within the limits set by the National bank of Serbia, as well as adhering to internal rules and limits prescribed by the Bank's management and risk committees.

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2014. The table includes the Group's assets and liabilities at the relevant carrying amounts, categorised by currency.

As at December 31, 2014	EUR	USD	Other currencies	Total foreign currencies	RSD	TOTAL
Assets						
Cash and cash equivalents	4,985,949	964,479	71,107	6,021,535	4,440,120	10,461,655
Loans and advances to banks	461,140	61,619	92,353	615,112	433	615,545
Financial assets at fair value through profit or loss	-	-	-	-	160	160
Financial assets afs securities	2,269	54,402	-	56,671	-	56,671
Loans and advances to customers	40,996,750	-	-	40,996,750	19,212,838	60,209,588
Tax assets	-	-	-	-	47,022	47,022
Other assets	154,405	24,877	-	179,281	530,565	709,847
Total assets	46,600,513	1,105,377	163,460	47,869,350	24,231,138	72,100,488
Open forward position (assets)	-	290,223	169,231	459,454	-	459,454
Liabilities						
Liabilities to banks	1,456,772	-	-	1,456,772	1,244,880	2,701,652
Financial liabilities at fair value through profit or loss	1,125	-	-	1,125	245	1,370
Liabilities to customers	27,391,168	1,356,615	295,243	29,043,026	13,109,252	42,152,278
Liabilities to international financial institutions	13,161,344	-	-	13,161,344	(41,011)	13,120,333
Provisions	11,944	1,551	-	13,495	125,987	139,482
Other liabilities	81,475	1,804	676	83,955	500,195	584,150
Subordinated debt	3,767,372	-	-	3,767,372	-	3,767,372
Total liabilities	45,871,200	1,359,970	295,919	47,527,089	14,939,548	62,466,637
Open forward position (liabilities)	483,833	-	-	483,833	-	483,833
Net position	245,480	35,630	36,772	317,883	9,291,590	9,609,472

The following table provides an overview of the sensitivity analysis of the exposure to currency risk assuming a change in the local currency exchange rate of 15%:

	Open Currency Position based on-balance data on 31 December		Effect of 15% Depreciation of RSD to Open Currency Position		Effect of 15% Appreciation of RSD to Open Currency Position	
	2014	2013	2014	2013	2014	2013
USD	(279,119)	(510,326)	(41,868)	(76,549)	41,868	76,549
EUR	695,048	832,363	104,257	124,854	(104,257)	(124,854)
Other Currencies	(132,368)	(133,238)	(19,855)	(19,986)	19,855	19,986

C.2. Interest rate risk

The Group's main interest rate risk indicator measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items. The indicator quantifies the loss in value of the Group that would result from a sudden shift of interest rates. The calculation of the indicator is based on different parallel shifts (shocks) of the interest rate curves. For EUR or USD, a parallel shift of the interest rate curve is assumed by +/- 200 bps. The size of the shocks for local currency is derived from historic interest rate volatilities over the last seven years. The resulting impact is limited to 10% of the Group's Basel capital; a temporarily higher limit can be approved by the Group Risk Management Committee subject to the condition that the Group will take mitigating action to reduce the risk. At the end of 2014, the Group was within approved limits.

The table below summarises the Group's exposure to interest rate risks. The table includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of either contractual re-pricing or maturity date.

Currency	Standard scenario		Worst case scenario	
	12/31/2014 Economic value Impact	12/31/2013 Economic value Impact	12/31/2014 Economic value Impact	12/31/2013 Economic value Impact
EUR	331,283	373,589	(331,283)	(373,589)
USD	-	13,898	-	(13,898)
Local currencies	(878,542)	(241,209)	(878,542)	(241,209)
Total amount	(547,259)	146,278	(1,209,825)	(628,696)
Total in relation to capital	-4.1%	1.2%	-9.0%	-4.9%

D) Liquidity risk

Liquidity risk is measured, monitored and limited based on a standard liquidity gap analysis. In order to manage liquidity on a daily level, the Group works with cash flow analyses, which is designed to provide a more realistic picture of the future short-term liquidity situation. The analysis includes assumptions about deposit and loan developments and helps to forecast highly liquid assets (as described below) in the future.

The following table shows the cash flows of financial instruments and further cash-relevant non-financial instruments of the Group according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

As at December 31, 2014	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	1 - 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	10,461,655	-	-	-	-	-	10,461,655
Loans and advances to banks	615,545	-	-	-	-	-	615,545
Financial assets at fair value through profit or loss of which derivatives	160	-	-	-	-	-	160
Financial assets afs securities	56,671	-	-	-	-	-	56,671
Loans and advances to customers	3,210,989	5,139,019	8,464,193	14,534,218	22,616,213	6,244,956	60,209,588
Current tax assets	-	-	-	2,979	-	-	2,979
Other assets	15,757	18,677	-	509,619	150,745	15,049	709,847
Total assets	14,360,777	5,157,696	8,464,193	15,046,816	22,766,958	6,260,005	72,056,445
Liabilities							
Liabilities to banks	1,998,648	703,004	-	-	-	-	2,701,652
Financial liabilities at fair value through profit or loss of which derivatives	1,370	-	-	-	-	-	1,370
Liabilities to customers	20,181,7961	5,476,720	3,849,628	10,389,328	2,129,976	124,830	42,152,278
Liabilities to international financial institutions	219,853	793,043	1,569,041	2,594,454	7,913,962	29,980	13,120,333
Subordinated debt	-	-	15,013	2,652	-	3,749,707	3,767,372
Other liabilities	259,655	-	8,745	227,947	87,803	-	584,150
Provisions	-	-	-	40,230	99,251	-	139,482
Current Tax liabilities	-	28,051	-	-	-	-	28,051
Total liabilities	22,661,322	7,000,818	5,442,427	13,254,611	10,230,992	3,904,517	62,494,688
Contingent liabilities							
Financial guarantees	4,566,141	-	-	-	-	-	4,566,141
Credit commitments (irrevocable loan commitments)	-	-	-	-	-	-	-
Liquidity gap	(12,866,686)	(1,843,122)	3,021,766	1,792,205	12,535,966	2,355,488	-

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As at December 31, 2013	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	1 - 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	13,194,655	-	-	-	-	-	13,194,655
Loans and advances to banks	1,052,866	-	-	-	-	-	1,052,866
Financial assets at fair value through profit or loss	75	-	-	-	-	-	75
of which derivatives	-	-	-	-	-	-	-
Financial assets afs securities	40,765	-	-	-	-	-	40,765
Loans and advances to customers	3,887,726	5,297,271	7,380,152	10,754,548	9,735,829	15,171,435	52,226,961
Non-financial instruments	-	-	-	-	-	-	-
Current tax assets	-	-	-	-	-	-	-
Other assets	16,952	36,476	-	600,161	348,966	37,678	1,040,233
Total assets	18,193,039	5,333,747	7,380,152	11,354,709	10,084,795	15,209,113	67,555,555
Liabilities							
Liabilities to banks	1,795,312	-	-	-	-	-	1,795,312
Financial liabilities at fair value through profit or loss	909	-	3,194	-	-	-	4,103
of which derivatives	-	-	3,194	-	-	-	3,194
Liabilities to customers	16,931,537	3,315,501	3,932,731	10,607,172	1,556,430	89,454	36,432,825
Liabilities to international financial institutions*	326,055	784,084	1,197,423	2,108,190	10,956,830	799,952	16,172,534
Subordinated debt	-	9,340	7,685	-	-	3,553,905	3,570,930
Other liabilities	177,758	-	15,404	97	-	136,544	329,803
Provisions	-	-	-	42,732	128,931	-	171,663
Current Tax liabilities	-	37,846	-	-	-	-	37,846
Total liabilities	19,231,571	4,146,771	5,159,631	12,758,191	12,642,191	4,579,855	58,518,210
Contingent liabilities							
Financial guarantees	5,111,626	-	-	-	-	-	5,111,626
Credit commitments (irrevocable loan commitments)	-	-	-	-	-	-	-
Liquidity gap	(6,150,158)	1,186,976	2,220,521	(1,403,482)	(2,557,396)	10,629,258	

The Group is required to keep sufficient liquidity to enable it to remain liquid in the month following the reporting date in a scenario based on very conservative assumptions, especially regarding deposit withdrawals.

The core assumptions used for the purpose of calculating the sufficient liquidity indicator are as follows:

- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month, another 50% will be withdrawn within the following two months
- 20% of customer deposits contractually due at sight will be withdrawn within the next month, 80% will be withdrawn later
- 5% of exposures guaranteed by the bank will require a payment within the next month
- 20% of credit lines which the bank has committed to its customers, but which are currently undrawn, will be drawn within the next month.

As of end December, the Group met this requirement.

The following table is based on the financial instruments and further cash-relevant non-financial instruments according to their contractual maturities as shown in the previous table but with the application of the above mentioned assumptions and in a form which illustrates the liquidity management of the Group in a more detailed manner. The result shows the expected maturities which are used to measure liquidity risk and to show the distribution of liquidity relevant positions across certain time buckets.

The expected liquidity gap quantifies the potential liquidity needs within a certain time period in case it has a negative value, and it shows a potential excess of liquidity in case it has a positive one. This calculation includes excess liquidity from the previous time buckets.

The funding structure of the Group is subject to limits on short-term interbank funding. The Group must not rely on overnight funding exceeding 4% of their total liquidity-relevant liabilities and must not draw on more than 40% of their interbank lines at once. Temporarily higher limits can be granted by the Group Risk Management Committee or Group ALCO in exceptional cases. The Group was within approved short-term interbank funding limits as of end-December.

In addition to these limits, the Group monitors two early warning indicators and report if these indicators are exceeded. The first indicator is the relation of highly liquid assets to customer deposits

As a general rule the Group must hold enough highly liquid assets to pay out at least 20% of all customer deposits. The total ratio of highly liquid assets to customer deposits was 26% as of end-December. The second early warning indicator measures the deposit concentration; if the Group's ten largest depositors account for more than 20% of its total deposit base, the Group must report and explain this.

Stress test calculations are performed in order to safeguard the liquidity of the Group even in an extreme case. The banks' available liquidity reserve is calculated in a stress scenario, which simulates exceptionally high deposit withdrawals and a limited availability of the mandatory reserve.

The starting points for addressing funding risk (structural liquidity risk) are the business plans, which are reviewed annually by ProCredit Holding and the supervisory boards. The funding plans, derived from the business plans, serve as a basis for determining medium-term funding needs in regard to both equity and debt financing for the Group.

ProCredit Holding supports the Group in meeting their funding needs not only through equity investments but also with subordinated debt.

E) Fair values of financial assets and liabilities

Fair values of financial assets measured at fair value

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). 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 that are unobservable. 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.

Fair value determinations are based on inputs observable for the asset or liability, either directly or indirectly (Level 2). The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters, e.g. interest rates and exchange rates.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies.

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However, judgment is necessarily required to interpret market data to determine the estimated fair value.

Fair values of financial instruments

in '000 RSD

	2014				2014
	Carrying value	Fair value	Level1	Level2	Level3
Financial assets					
Cash and cash equivalents	10,461,655	10,461,655	-	10,461,655	-
Cash	1,282,294	1,282,294	-	1,282,294	-
Cash balances with central bank	9,179,361	9,179,361	-	9,179,361	-
Loans and advances to banks	615,545	615,545	-	357,480	258,065
Financial assets at fair value through profit or loss	160	160	-	160	-
Designated at Fair value	160	160	-	160	-
Financial assets afs securities	56,671	56,671	-	56,671	-
Shares	56,671	56,671	-	56,671	-
Loans and advances to customers	60,209,588	60,115,390	-	-	60,115,390
Total	71,343,619	71,249,421	-	10,875,966	60,373,455
Financial liabilities					
Liabilities to banks	2,701,652	2,701,652	-	-	2,701,652
Financial liabilities at fair value through profit or loss	1,370	1,370	-	1,370	-
Liabilities to customers	42,152,278	42,202,466	-	15,367,232	26,835,234
Liabilities to international financial institutions	13,120,333	14,343,375	-	-	14,343,375
Subordinated debt	3,767,372	2,567,414	-	-	2,567,414
Total	61,743,005	61,816,277	-	15,368,602	46,447,675

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Fair values of financial instruments

in '000 RSD

	Carrying value	2013		Level1	Level2	2013 Level3
		Fair value				
Financial assets						
Cash and cash equivalents	13,194,655	13,194,655	-	13,194,655	-	
Cash	1,776,399	1,776,399	-	1,776,399	-	
Cash balances with central bank	9,317,816	9,317,816	-	9,317,816	-	
Afs financial assets in cash and cash equivalents	2,100,440	2,100,440	-	2,100,440	-	
Loans and advances to banks	1,052,866	1,052,866	-	348,438	704,428	
Financial assets at fair value through profit or loss	75	75	-	75	-	
Designated at Fair value	75	75	-	75	-	
Available-for-sale financial assets	40,765	40,765	-	40,765	-	
Shares	40,765	40,765	-	40,765	-	
Loans and advances to customers	52,226,961	51,455,799	-	-	51,455,799	
Total	66,515,322	65,744,160	-	13,583,933	52,160,227	
Financial liabilities						
Liabilities to banks	1,795,312	1,795,312	-	-	1,795,312	
Financial liabilities at fair value through profit or loss	4,103	4,103	-	4,103	-	
Liabilities to customers	36,432,825	49,396,511	-	12,793,390	36,603,121	
Liabilities to international financial institutions	16,172,534	15,834,178	-	-	15,834,178	
Subordinated debt	3,570,930	2,430,379	-	-	2,430,379	
Total	57,975,704	69,460,483	-	12,797,493	56,662,990	

Loans and advances to banks

The fair value of placements with and loans to other banks approximately equals the carrying amount since they all have less than a six-month maturity.

The estimated fair value of fixed-interest bearing deposits to other banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

The fair value of loans and advances to customers is their expected cash flow discounted at current market rates. Current market rates are interest rates that Group would charge at the moment (year-end). Loans and advances to customers are stated net of provisions for impairment.

Liabilities to banks

The fair value of liabilities to banks approximately equals the carrying amount since they all have less than a six-month maturity.

Liabilities to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of term deposits is calculated by discounting the cash flows at agreed dates with current market rates on deposit that have more than a six-month maturity and where actual interest rate is not the same as the agreed for these deposits.

Liabilities to IFI's

Fair value of liabilities to international financial institutions shows that the Group – based on its current position in the market, strong shareholders and results achieved – was able to contract very good conditions for long term loans.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

Fair value is smaller than the carrying amount, discounted by the interest rate normally demanded by ProCredit Holding.

Subordinated debts

Subordinated debts variable rates and due that carrying value is not different from their fair value.

F) Operational Risk

In line with Basle II Accord, we define operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This category includes all “risk events” in the areas of personnel, processes, and information technology.

To further expand the processes for managing operational risks, a new Operational Risk Policy was implemented in the Group in 2009 and Policy is updated regularly on annual level. The principles outlined in this document have been designed to effectively manage the operational risk exposure, and they are in compliance with the Basle II requirements for the “standard approach”. Furthermore, Fraud Prevention Policy was implemented in 2011 which is also updated annually.

The overall framework to manage operational risks is as a complementary and balanced system with its key components Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, Scenario Analysis, New Risk Approvals (NRAs), Outsourcing Risk and the Risk Event Database. While of the Corporate Culture, the Governance Framework, and Policies and Procedures are installed to set the basic organisational requirements, Risk Assessments, New Risk Approvals (NRAs) and the Risk Event Database are the key instruments to execute the risk management process.

The overall objectives of the Group’s approach to the management of operational risks are:

- to understand the drivers of the Group’s operational risks;
- to be able to identify critical issues as early as possible;
- to avoid losses caused by operational risks and
- to ensure efficient use of the Group’s capital.

To deliver on these goals the following tools and processes have been implemented in detail, being part of the framework components as depicted above. They are presented as they are used within the process to manage operational risks. This process is subdivided into the phases of identification, evaluation, treatment, monitoring, documentation and communication, and follow-up. All corresponding details have been implemented in the Group by approving the Group Operational Risk Policy.

- **Identification**
 - Annual Operational Risk Assessments
 - Scenario analysis
 - Detailed Process Reviews as appropriate
 - New Risk Approval (NRA) process
 - Outsourcing risk analysis
 - Risk identification and documentation in Risk Event Database (RED)
 - Ad hoc identification of potential risks
- **Evaluation / Quantification**
 - Agreed standards to quantify risks (impact * likelihood, Scenario Analysis, Stress testing, Risk Bearing Capacity)
- **Mitigation and Treatment**
 - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
 - Transfer of risk to an insurance or other party
- **Monitoring & Control**
 - Process owners responsibility to monitor risks
 - Operational Risk Reports as form of MIS, Risk Bearing Capacity calculation and monitoring
- **Communication, Escalation, Documentation**
 - Escalation levels to management bodies, regular reporting, Operational risk committees
 - RED, Management summary documents for risk events

- **Issue Tracking / Follow up tables for material action plans**
 - Follow up tools used in the Group

The following categories of operational risk are looked at specifically:

- **People Risks**
 - the Group seeks to avoid key person dependencies and enforces a two-weeks consecutive leave policy
 - staff training has a very high priority in the Group and ensures continuous development of staff members' personal attitude and commitment and their professional skills
- **IT Risks:**
 - business continuity plans are in place
 - Information Security standards are in place
- **Legal Risks:**
 - suitable legal resources are employed to deal with legal matters (internal legal staff and / or external legal counsel)
 - the legal function is involved whenever required and appropriate (e.g. NRA process, all legal issues)
- **Compliance and Regulatory Risk**
 - The Group ensures the identification of new regulations or updates on the interpretation of regulations and covenants agreed with financing institutions in a timely manner. This function is hosted in legal/ AML and Compliance department.
- **Fraud Risk and AML Risk**
 - Group AML Policy and a Group Fraud Prevention Policy have been implemented in the Group and corresponding risk assessments have been executed for these areas, based on the German standards.
 - Fraud team was established as group of professionals from relevant departments with main duties to receive and analyse critical information including whistle blowing, organize or supervise fraud investigation, assess and advise about fraud risk development on country level etc.
 - A group wide IT solution to manage unusual transactions has been acquired and is being rolled out to the Group.
- **Reputational Risk**
 - Any extraordinary mentions (whether positive or negative) are reported to the management board and to the risk management department to decide on possible responses.
- **External Risk Factors** external risk events such as a natural disaster that damages a firm's physical assets as well as electrical or telecommunications failures that disrupt business are analysed by risk managers.

Provisions for imminent losses from pending transactions are mainly composed of provisions established for legal cases with former employees (2014: RSD 57,577 thousand, 2013: RSD 47,069 thousand) and with clients (2014: RSD 3,824 thousand, 2013: RSD 19,941 thousand). They represent best estimates of the amounts with which the legal cases will be settled in future periods. The majority of the legal cases are expected to be settled within a one-year period and the maximum expected settlement time is two years. For the settlements expected to be made after six months, for discounting of expected cash flows is used average interest rate on loans from pricelist for the client's category in line with average required amount in legal processes.

4. Net interest income

	Year ended 31 December	
	2014	2013
Interest income		
Interest income from cash and cash equivalents and loans and advances to banks	217,024	279,212
Interest income from loans and advances to customers	6,427,503	6,946,705
Interest income from finance leases	115,403	135,864
Interest income from early closure	21,895	19,082
Other interest income (unwinding effect – Note 16)	44,819	63,498
Interest income	6,826,644	7,444,361
Interest expenses		
Interest expenses on liabilities to banks	(16,263)	(4,464)
Interest expenses on liabilities to customers	(868,499)	(1,059,188)
Interest expenses on subordinated debt	(277,283)	(290,866)
Interest expenses on liabilities to IFI's	(583,018)	(694,392)
Interest expenses	(1,745,063)	(2,048,910)
Net interest income	5,081,581	5,395,451

5. Net fee and commission income

	Year ended 31 December	
	2014	2013
Fee and commission income		
Payment transfers and transactions	588,524	606,858
Account maintenance fee	214,719	238,901
Letters of credit and guarantees	106,111	118,941
Debit/credit cards	126,922	122,886
E banking fees	95,916	92,770
Other fee and commission income	86,127	43,589
Total fee and commission income	1,218,319	1,223,945
Fee and commission expense		
Payment transfers and transactions	(162,141)	(140,498)
Fee exp. processing centre	(47,807)	(48,135)
Debit/credit cards	(16,152)	(2,903)
Other fee and commission expenses	(73,169)	(25,876)
Total fee and commission expenses	(299,269)	(217,412)
Net fee and commission income	919,050	1,006,533

Other fee and commission income include fees and commissions from banks amounting to RSD 7,092 thousand (2013 RSD 4,702 thousand), and other fees from customers of RSD 79,035 thousand (2013: RSD 38,887 thousand).

Other fees and commission expenses include fee expenses to banks amounting to RSD 68,913 thousand (2013: RSD 21,116 thousand) and fees to other parties amounting to RSD 4,256 thousand (2013: RSD 4,760 thousand).

6. Trading result

	Year ended 31 December	
	2014	2013
Currency transactions	141,538	174,861
Net (losses)/gains from revaluation	(39,296)	14,479
Total	102,242	189,340

7. Gains and losses from available for sale securities

	Year ended 31 December	
	2014	2013
Net result from fair value changes of financial instruments at fair value through profit or loss:		
Financial instruments designated at fair value through profit or loss	(47,981)	(169,094)
Net interest income from financial instruments at fair value through profit or loss:		
Financial instruments designated at fair value through profit or loss	83,991	151,870
Net gains and losses from available for sale securities	36,010	(17,224)

8. Other operating income

	Year ended 31 December	
	2014	2013
Insurance indemnity	4,983	687
Income from previous years	433	18
Reversal of provisions	10,857	14,973
Deferred income from grants	9,612	2,693
Income from reimbursement of expenses	6,533	7,847
Income surplus of sale repossessed property	12,814	5,644
Surplus from sale/reversal of impairment of repossessed property	206	9,808
Surplus from reversal of provision not related to lending	20,069	1,107
Income from litigation settlements	31,524	29,583
Income from disposal of property, plant and equipment	7,360	12,311
Others	703	1,862
Total Other operating income	105,094	86,533

9. Other operating expense

	Year ended 31 December	
	2014	2013
Expenses for disposal of property, plant and equipment	(30,631)	(5,390)
Expenses for litigation settlements	(25,009)	(38,232)
Others	(12,247)	(793)
Expenses for administration of foreclosed assets	(1,857)	(1,061)
Previous year's tax expenses	(100)	(7)
Expenses to be reimbursed	(11,517)	(8,533)
Deposits insurance fund	(208,925)	(121,343)
Expenses repossessed property	(5,912)	(24,013)
Total	(296,198)	(199,372)

10. Allowance for impairment losses loans and advances

	Year ended 31 December	
	2014	2013
Charge for the year loans to customers	(4,360,707)	(4,234,578)
Expenses derived from write-offs	(30,912)	(6,637)
Release of provision loans to customers	4,081,011	3,969,998
Recovery of written-off loans	233,967	171,464
Total	(76,641)	(99,753)

11. Personnel expenses

	Year ended 31 December	
	2014	2013
Salary expenses	(1,306,540)	(1,353,036)
Social security expenses	(88,722)	(221,985)
Post-employment benefits plans (Defined contribution plans)	(338,278)	(366,086)
Post-employment expenses defined benefit plan	875	(1,585)
Short-term employee benefits	(81,604)	(119,888)
Total personnel expenses	(1,814,269)	(2,062,580)

12. Other administrative expenses

	Year ended 31 December	
	2014	2013
Operating lease expenses	(252,595)	(288,801)
Utility and electricity expenses	(129,408)	(62,798)
Communication and royalties on software	(197,449)	(162,503)
Transport	(67,853)	(68,119)
Office supplies	(52,891)	(65,522)
Security services	(51,475)	(51,637)
Marketing, advertising and representation	(87,350)	(186,465)
Repairs and maintenance	(63,408)	(40,838)
Depreciation fixed and intangible assets including impairment	(286,449)	(294,494)
Legal and audit fees	(26,543)	(19,172)
Non-profit tax	(122,115)	(141,939)
Consulting services	(125,413)	(128,021)
Recruitment and other personnel-related expenses	(90,692)	(78,713)
Other administrative expenses	(106,020)	(108,931)
Total Administrative expenses	(1,659,661)	(1,697,953)

13. Income tax

	Year ended 31 December	
	2014	2013
Deferred income tax expenses	(31,674)	(137,997)
Current income tax expense	(358,800)	(264,691)
Deferred taxes on measurement of defined benefit plans	-	255
Deferred income tax credit	4,423	73,599
Total income tax expenses	(386,051)	(328,834)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the official rate as follows:

	Year ended 31 December	
	2014	2013
Profit before tax	2,397,208	2,601,157
Tax calculated at a tax rate of 15% (2013: 15%)	(359,581)	(390,174)
Fines and penalties	(149)	(195)
Accounting depreciation above tax depreciation	(12,078)	(9,824)
Other non-deductible expenses	(85,884)	(65,461)
Utilised tax credits	22,994	126,276
Income not subject to tax	48,802	12,008
Provisions not subject to tax	(155)	(1,464)
Income tax expense	(386,051)	(328,834)

	Effective tax rate 2014	2014	Effective tax rate 2013	2013
Profit before tax		2,397,208		2,601,157
Tax calculated at a tax rate	(15%)	(359,581)	(15%)	(390,174)
Non-deductible expenses	(4%)	(98,111)	(3%)	(75,481)
Income not subject to tax	2%	48,648	0%	10,545
Utilized tax credit	1%	22,993	5%	126,276
	(16%)	(386,051)	(13%)	(328,834)

14. Cash and cash equivalents

	2014	2013
Cash on hand	1,282,295	1,776,399
Mandatory reserve	9,176,795	8,804,127
Other Balances with the Central Bank	2,565	513,689
Treasury bills	-	2,100,440
Total included in Cash and cash equivalents	10,461,655	13,194,655
Loans and advances to banks with the maturity up to three months (Note 15)	615,545	1,052,866
Minimum reserve with central bank	(9,217,407)	(8,660,724)
Cash and cash equivalents for the statement of cash flows	1,859,792	5,586,797

Regulations of the National Bank of Serbia (NBS) related to mandatory reserve haven't changed during 2014 (except for the rates which were changed in November and December).

Below are the rates valid at the end of December.

Mandatory reserve in local currency is calculated by applying the following ratios:

- 5% – on the average daily amount of deposits in local currency maturing in less than two years
- 0% – on the average daily amount of deposits in local currency maturing in over two years.

Mandatory reserve in foreign currency is calculated by applying the following ratios:

- 27% – on the borrowings from abroad and deposits in foreign currency maturing in less than two years (without indexed liabilities), 50% – on the borrowings indexed to foreign currency maturing in less than two years,
- 20% – on the borrowings from abroad and deposits in foreign currency maturing in over two years (without indexed liabilities), 50% – on the borrowings indexed to foreign currency maturing in over two years.

Required reserve in local currency is a sum of: required reserves in local currency calculated plus 36% of the accrued foreign currency reserve up to 2 years maturity plus 28% of the accrued foreign currency reserve in over 2 years maturity.

Required reserve in foreign currency is a sum of: 64% of the accrued foreign currency reserve up to 2 years maturity plus 72% of the accrued foreign currency reserve in over 2 years maturity.

Mandatory reserves on subordinated debt are calculated applying the rate of 0% on the average daily liabilities for subordinated debt in preceding month.

Group does not calculate required reserves at liabilities in local and foreign currency in respect of funds received from international financial institutions, governments and financial institutions founded by foreign states, through the intermediation of the government as the main debtor and/or owner of these funds or received directly, provided that the agreed principles of setting interest spreads are complied with reinvestment of these funds.

Mandatory reserves can be used by the Group in its day-to-day operations. The NBS pays interest of 2.5% on mandatory reserve in RSD and does not pay any interest on mandatory reserve in foreign currency.

15. Loans and advances to banks

	As at 31 December	
	2014	2013
up to three months	615,545	1,052,866
Loans and advances to banks	615,545	1,052,866

16. Loans and advances to customers and Allowance for impairment on loans and advances

	At 31 December	
	2014	2013
Legal entities	30,778,444	22,877,465
Entrepreneurs	7,159,823	8,082,460
Agricultural	16,640,758	13,472,035
Private individuals	6,684,546	9,557,010
Gross investment in finance leases	1,679,004	1,581,687
	62,942,575	55,570,657
Unearned future finance income on finance leases	(157,723)	(161,772)
Deferred fee income	(401,604)	(494,068)
Loans and advances to customers	62,383,248	54,914,817
Allowance for impairment	(2,173,660)	(2,687,856)
Loans and advances to customers, net	60,209,588	52,226,961

Movements in the allowance for impairment on loans and advances are as follows:

	<u>2014</u>	<u>2013</u>
Balance at 1 January	2,687,856	3,114,375
Provision charge for impairment of loans and advances (Note 10)	4,360,707	4,234,579
Release of provision loans to customers	(4,926,222)	(4,611,503)
Direct write offs	(30,912)	(6,637)
Unwinding effect (Note 4)	(44,819)	(63,498)
Exchange rate differences	127,050	20,540
Balance at 31 December	<u>2,173,660</u>	<u>2,687,856</u>

Loans and advances to customers include finance lease receivables:

	At 31 December	
	<u>2014</u>	<u>2013</u>
Gross investment in finance leases		
No later than 1 year	750,239	696,536
Later than 1 year and no later than 5 years	927,187	882,985
Later than 5 years	1,578	2,166
	<u>1,679,004</u>	<u>1,581,687</u>
Unearned future finance income on finance leases	(157,723)	(161,772)
Net investment in finance leases	<u>1,521,281</u>	<u>1,419,915</u>

Net investment in finance lease

	At 31 December	
	<u>2014</u>	<u>2013</u>
No later than 1 year	663,748	608,664
Later than 1 year and no later than 5 years	855,997	809,189
Later than 5 years	1,536	2,063
	<u>1,521,281</u>	<u>1,419,916</u>

17. Derivative financial assets

Derivative financial assets amounting to RSD 160 thousand (31 December 2013: RSD 75 thousand) include receivables arising from changes in value of currency swaps with Barclays Bank for EUR 3,800 thousand. Currency swaps are commitments to exchange one set of cash flows for another. The risk is monitored on an ongoing base with reference to the current fair value, and the liquidity of the market.

During 2014 the Group entered into foreign currency swap agreements in order to hedge its open currency position. The foreign currency swaps were economic hedges only and hedge accounting was not applied.

The changes in fair value of interest rate and currency swaps are presented in the profit and loss in the position "Gains and losses from available for sale securities" (Note 7).

18. Available-for-sale securities

Financial assets available for sale include Visa International shares worth RSD 54,402 thousand and SWIFT shares worth RSD 2,269 thousand.

	At 31 December	
	2014	2013
Shares in companies situated in OECD countries	56,671	40,765
Total available-for-sale securities	56,671	40,765

The revaluation of available for sale financial assets in "other comprehensive income" shows the following changes:

Movements in revaluation reserve (AFS)

	2014	2013
As at January 1	25,401	15,527
Fair value measurement	8,026	12,474
Deferred taxes	(762)	(2,600)
As at December 31	32,665	25,401

19. Intangible assets

Movements in intangible assets for the years 2014 and 2013 are presented in the table below:

	Software
Cost	
Balance, 1 January 2013	433,299
Additions	170,175
Disposals	(4,523)
Balance, 31 December 2013	598,951
Accumulated amortisation	
Balance, 1 January 2013	234,840
Charge for the year	73,775
Disposals	(4,371)
Balance, 31 December 2013	304,244
Net book value at 31 December 2013	294,707
Cost	
Balance, 1 January 2014	598,951
Additions	123,553
Disposals	(918)
Balance, 31 December 2014	721,586
Accumulated amortisation	
Balance, 1 January 2014	304,244
Charge for the year	62,953
Disposals	(918)
Balance, 31 December 2014	366,279
Net book value at 31 December 2014	355,307

20. Property, plant and equipment

Movements in property and equipment for 2014 and 2013 are presented in the table below:

	Building	Leasehold improvements	IT and other equipment	Furniture and fixtures	Total
Cost					
Balance, 1 January 2013	936,538	287,265	1,464,980	175,603	2,864,386
Additions	238,034	35,335	217,841	8,968	500,178
Disposals	-	(42,871)	(229,936)	(16,486)	(289,293)
Balance, 31 December 2013	1,174,572	279,729	1,452,885	168,085	3,075,271
Accumulated Depreciation					
Balance, 1 January 2013	74,736	208,044	1,024,250	123,366	1,430,396
Disposals	-	(40,706)	(210,645)	(14,642)	(265,993)
Charge for the year	24,520	19,074	163,433	13,691	220,718
Balance, 31 December 2013	99,256	186,412	977,038	122,415	1,385,121
Net book value at 31 December 2013	1,075,316	93,317	475,847	45,670	1,690,150
Cost					
Balance, 1 January 2014	1,174,572	279,729	1,452,885	168,085	3,075,271
Additions	204,755	17,102	124,070	11,862	357,789
Disposals	-	(54,152)	(185,158)	(40,645)	(279,955)
Balance, 31 December 2014	1,379,327	242,679	1,391,797	139,302	3,153,105
Accumulated Depreciation					
Balance, 1 January 2014	99,256	186,412	977,038	122,415	1,385,121
Disposals	-	(33,911)	(168,744)	(33,654)	(236,309)
Charge for the year	30,443	15,086	166,873	11,094	223,496
Balance, 31 December 2014	129,699	167,587	975,167	99,855	1,372,308
Net book value at 31 December 2014	1,249,628	75,092	416,630	39,447	1,780,797

The Group has not registered the total surface of the building in 17 Milutina Milanković Street in Belgrade on cadastre parcel No. 1222/22.

21. Deferred tax assets

Deferred tax assets are calculated on all temporary differences under the liability method using an effective tax rate of 15% (2013: 15%).

Deferred tax assets are attributable to the following items:

	At 31 December	
	2014	2013
Tax credit carried forward (expiring in the period over 5 years)	-	36,077
Other temporary differences	4,929	-
Accelerated tax depreciation	46,674	42,251
Other provision	1,947	2,472
Temporary differences, equity reserve	(9,507)	(6,224)
As at 31 December	44,043	74,576

Movements in the deferred tax assets account are as follows:

	2014	2013
As of 1 January	74,576	141,572
Deferred tax on other assets	155	1,464
Fair value measurement of available for sale securities	(1,282)	(2,600)
Deferred tax on tax credit	(29,406)	(65,860)
As at 31 December	44,043	74,576

The deferred tax charge and income in the consolidated statement of profit or loss and other comprehensive income comprises the following temporary differences:

	01.01-31.12.2014	01.01-31.12.2013
Accelerated tax depreciation	-	2,624
Other provisions	526	2,405
Derivatives fair value remeasurement	-	841
Other temporary differences	31,148	131,872
Deferred tax charges	31,674	137,742
Accelerated tax depreciation	(4,423)	(1,189)
Other temporary differences	-	(72,410)
Deferred tax income	(4,423)	(73,599)

All deferred tax assets are to be recovered after more than 12 months. The Group is profitable and it is expected to generate deferred tax assets.

22. Other assets

a)	At 31 December	
	2014	2013
Accounts receivables	341,093	621,231
Prepayments	167,631	152,455
Repossessed properties	149,200	128,339
Deferred items	23,318	108,476
Claims from customs and taxes	690	656
Inventory items	1,544	11,042
Advance payments on fix assets	15,049	15,049
Other	11,322	2,985
Total	709,847	1,040,233

Prepayments mostly related to claims for maternity pay amounting to RSD thousand 51,442 (31 December 2013: RSD 46,337 thousand).

Deferred items consist of the following:

- Deferred expenses that are related to rent amounting to RSD 0 thousand (31 December 2013: RSD 137 thousand),
- Deferred advance payments to creditors amounting to RSD 212 thousand (31 December 2013: RSD 6,964 thousand),
- Other deferred expenses amounting to RSD 23,106 thousand (31 December 2012: RSD 101,375 thousand).

Reposessed property consists of the following:

	At 31 December	
	2014	2013
Real estate	140,800	116,884
Inventory	8,400	11,455
Total:	149,200	128,339

23. Liabilities to banks

	At 31 December	
	2014	2013
Liabilities for spot transactions	241,875	114,642
Liabilities for term transactions	10,886	23,501
Received loans from banks	1,330,542	917,137
Other banks deposits	1,104,196	738,270
Accrued interest on deposits	14,153	1,762
Total	2,701,652	1,795,312

in '000 EUR	2013	2014
up to three month	877,969	1,370,884
up to one year	206	514,299
more than one year	917,137	816,469
Liabilities to banks	1,795,312	2,701,652

24. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss amounting to RSD 1,370 thousand (2013: RSD 4,103 thousand) comprise liabilities based on change in the value of interest rate swaps amounting to RSD 1,125 thousand (2013: RSD 3,194 thousand) and liabilities based on change in the value of currency swaps amounting to RSD 245 thousand (2013: RSD 909 thousand).

Interest rate swaps are used to exchange commitments with floating interest rates for commitments with fixed interest rates. The Group entered into swap agreements in order to hedge its open maturity gap between the re-pricing of long-term loans taken at floating rates and the re-pricing of loans disbursed at floating interest rates (Note 3.C.2 Interest rate risk).

During 2013 the Group entered into foreign currency swap agreements in order to hedge its open currency position. This agreement is relevant and for 2014. The foreign currency swaps were economic hedges only and hedge accounting was not applied.

The fair value of interest rate and currency swaps are presented in the profit and loss in the position "Gains and losses from afv securities" (Note 7).

25. Liabilities to customers

	At 31 December	
	2014	2013
Current accounts		
–private clients	3,297,521	2,765,455
–business clients	8,903,543	6,947,749
Savings accounts		
– private clients	2,651,815	2,436,215
Term deposit accounts		
– private clients	17,704,605	18,577,649
– business clients	6,629,895	2,700,240
Other liabilities	2,722,186	2,723,104
	41,909,565	36,150,412
Accrued interest on deposits	242,713	282,413
Total	42,152,278	36,432,825

The category “Legal entities” includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

26. Liabilities to IFI's

	2014	2013
Liabilities to IFI's	9,521,664	12,072,048
Accrued interests	45	113
Deferred fees	(28,067)	(28,717)
Other borrowed funds	3,584,808	4,069,794
Accrued interest on other borrowed funds	54,828	76,130
Deferred fees other borrowed funds	(12,945)	(16,834)
Total	13,120,333	16,172,534

Following table shows liabilities for principal to IFI's and to other borrowing funds.

	Due in 2015	Due in 2016	Due in 2017	Due in 2018	Due after 2018	Total	31.12.2013
Liabilities IFI with fixed interest rates	1,379,502	1,244,634	330,889	223,370	148,376	3,326,771	4,186,473
Liabilities IFI with variable interest rates	9,779,701					9,779,701	11,955,369
Total	11,159,203	1,244,634	330,889	223,370	148,376	13,106,472	16,141,842

The Group is obliged to comply with a number of debt covenants set in the borrowing contracts, such as risk weighted capital adequacy ratio, single client exposure ratio, aggregate large exposure ratio, group exposure ratio, related party exposure ratio, interest rate risk ratio, open credit exposure ratio, open foreign currency positions in any currency and in aggregate, etc.

As of 31 December 2014 the Bank was not in breach of any debt covenants in respect of its borrowed funds.

27. Subordinated debt

	Initial loan in EUR	Carrying value in EUR 2014	Maturity	RSD thousand 2014	RSD thousand 2013
ProCredit Holding	16,000,000	16,000,000	2011-2023	1,935,333	1,834,274
EFSE-subordinated debt	27,000,000	27,000,000	2006-2019	1,814,375	1,719,631
Accrued interest	-	-	-	17,664	17,025
Total				3,767,372	3,570,930

Subordinated liabilities are fully paid-up and their agreed maturity is at least five years from the date of payment. There is no possibility to repay early, except in the case of conversion of these liabilities into bank shares other than cumulative preferential shares. They are available for the coverage of losses only in the event of bankruptcy or liquidation of the Group. In mentioned events, these liabilities may be settled only after the settlement of all other non-subordinated obligations, but before the bank shareholders and owners of hybrid instruments issued by the Group.

28. Current income tax liabilities

Tax liability as at 31 December 2014 amounted to RSD 28,051 thousand is current income tax liability (31 December 2013: RSD 37,846).

29. Provisions

	At 31 December	
	2014	2013
Provisions for post-employment benefits	13,885	28,096
Provisions for imminent losses from off-balance sheet items	23,965	33,825
Provisions for imminent losses from pending transactions	61,401	67,010
Provisions for untaken vacation	40,012	42,732
Other provisions	219	-
Total provisions	139,482	171,663

Retirement benefit obligations are paid upon the regular retirement of the employee. The right to this benefit is conditional on retaining the employee until the regular retirement age. Expected costs for this allowance are accumulated during the employee's working years. The defined retirement obligation is estimated on a yearly basis by an independent, certified actuary by applying a projected credit sample. The net present value of this liability is determined by discounting future net cash outflows and applying interest rates on long-term bonds issued in the same currency and with similar maturity terms as the retirement benefit obligations.

Retirement benefit obligations which mature more than 12 months after the date of consolidated statement of financial position are discounted to net present value.

Movement in provisions is as follows:

	<u>2014</u>	<u>2013</u>
Balance at 1 January	171,663	177,816
Exchange rate adjustments	1,215	(53)
Additions	50,709	80,104
Used	(48,712)	(49,318)
Releases	(35,712)	(37,631)
Unwinding	319	745
Balance at 31 December	139,482	171,663

30. Other liabilities

	<u>At 31 December</u>	
	<u>2014</u>	<u>2013</u>
Deferred income	246,603	69,656
Liabilities for goods and services	72,780	66,590
Liabilities to employees	88	71
Liabilities from social insurance contributions	1	-
Donations grants for investments	87,803	97,416
Non income tax liabilities	2,657	10,168
Received prepayments	74,084	54,959
Other due payments	87,316	26,596
Other	12,818	4,347
Total other liabilities	584,150	329,803

31. Equity

	<u>At 31 December</u>	
	<u>2014</u>	<u>2013</u>
Subscribed capital	3,663,012	3,663,012
Capital reserve	2,776,745	2,776,745
Retained earnings	3,604,411	2,981,078
Revaluation reserve	53,872	35,273
Legal reserve	1,643,864	1,643,864
Total equity	11,741,904	11,099,972

The ownership structure as at 31 December 2014 and 2013 was as follows:

	<u>Number of shares</u>		<u>Share in %</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
ProCredit Holding	3,663,012	3,663,012	100	100
	3,663,012	3,663,012	100	100

The Group is controlled by ProCredit Holding, Germany, which owns 100% of the shares from June 2012. The ultimate parent of the Group is ProCredit Holding.

The total number of shares at the end of the year was 3,663,012 (2013: 3,663,012) with nominal value of 1,000 RSD per share (2013: 1,000 RSD per share). In 2014 there was no issue of new shares.

In July 2014 the Group paid dividends to ProCredit Holding amounting RSD 1,387,824 thousand (2013: RSD 1,826,679 thousand).

As at 31 December 2014, the special banking risk reserves under the National bank of Serbia regulations (legal reserves) amounted to RSD 1,643,864 thousand (2013: RSD 1,643,864). During 2014 there was no additional allocation to special account reserves.

32. Contingent liabilities and commitments

The following table indicates the contractual amounts of the Group's off-balance financial instruments that commit it to extend credit to customers:

	At 31 December	
	2014	2013
Guarantees	3,306,069	3,543,156
Loan commitments	4,399,259	3,845,076
Letters of credit	61,884	57,246
Credit related commitments	7,767,212	7,445,478
Performance guarantees	1,085,358	1,242,902
Others	112,290	268,322
Balance as at 31 December	8,964,860	8,956,702

The following table shows the operating lease commitments for business premises rental:

	At 31 December	
	2014	2013
No later than 1 year	2,405	1,655
Later than 1 year and no later than 5 years	199,132	346,737
Later than 5 years	496,881	614,333
	698,418	962,725

Operating lease contracts are so defined that for a number of contract price is defined by the expiration of the contract (typically a period of 10 years), and for the second part of the contract price is defined for a period of 5 +5 years, that after five years of the new contract price, depending on market movements.

The lease agreements provided for a right of pre-emption and defines the way of continuing the lease.

33. Related party transactions

In the normal course of business, the Group enters into transactions with its shareholders and other ProCredit institutions in Central and Eastern Europe.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. There were related-party transactions with the ultimate parent company ProCredit Holding, in addition to the payment of dividends on ordinary shares.

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	At 31 December	
	2014	2013
Loans and advances to banks		
ProCredit Bank Bulgaria	23,551	23,052
ProCredit Germany	58	-
Other assets		
ProCredit Holding	1,867	8,839
PC Finance II	725	665
ProCredit Academy Germany	-	9,550
ProCredit bank Bosnia	-	51
Quipu GMBH	403	984
ProCredit Germany	220	-
Liabilities to banks		
ProCredit Bank Bosnia	1,369	-
ProCredit Bank Germany	1,330,767	917,607
PC Finance II	113,746	739,556
Liabilities to customers		
ProCredit Holding	11,672	11,365
Subordinated debt		
ProCredit Holding	1,947,450	1,846,230
Other liabilities		
ProCredit Holding	9,657	8,614
ProCredit Bank Kosovo	200	42
Quipu GMBH	54	-
Off balance items		
Undrawn credit line from ProCredit Holding	3,628,749	3,439,263
Guarantees issued to ProCredit Kosovo	4,838	5,386
Guarantees issued to ProCredit Bulgaria	188,419	270,548

The volumes of related party transactions and related expenses for the year are as follows:

	<u>2014</u>	<u>2013</u>
Interest income	2,684	2,398
ProCredit Bank Germany	58	-
PC Finance II	2,626	2,398
Fee and Commission income	3,845	1,430
ProCredit Holding	1,031	1,375
ProCredit Bank Germany	217	4
ProCredit Bank Bosnia	1,385	51
ProCredit Bank Macedonia	167	-
Quipu SHPK	1,045	-
Interest expenses	211,486	215,376
ProCredit Holding	151,498	109,951
ProCredit Holding	-	56,569
ProCredit Bank Germany	30,388	755
ProCredit bank Bulgaria	-	2
PC Finance II	29,600	48,099
Fee and commission expense	105,656	50,064
ProCredit Holding	57,787	1,722
ProCredit Bank Germany	62	207
Quipu GMBH	42,168	45,221
Quipu Kosovo	5,639	2,914
Other administrative expenses	171,568	164,356
ProCredit Bank Germany	-	12
Procredit Academy Germany	34,986	25,900
Procredit Academy Macedonia	15,180	17,745
ProCredit Holding	112,458	117,875
ProCredit bank Bulgaria	1,033	-
Quipu GMBH	7,911	2,824

Other expenses is related to Management Service Agreement amounted RSD 89,119 thousand (2013: RSD 104,783 thousand), training amounted RSD 51,199 thousand (2013: RSD 45,441 thousand) and other expenses amounted RSD 31,250 thousand (2013: RSD 14,132 thousand).

Paid salaries and other short-term employee benefits to the members of Executive Board as of 31 December 2014 amounted RSD 39,457 thousand (2013: RSD 37,143 thousand). No other benefits were paid to key management staff.

34. Events after the date of consolidated statement of financial position

For the period up to and including, no events have occurred which have any substantial impact on the consolidated financial statements for the year ending 31 December 2014.