Türkiye İş Bankası A.Ş. – Branch in Kosovo

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
WITH INDEPENDENT AUDITORS' REPORT THEREON

CONTENTS

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Türkiye İş Bankası A.Ş. - DEGA NË KOSOVË

Opinion

We have audited the financial statements of **Türkiye İş Bankası A.Ş. - DEGA NË KOSOVË** ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements presents fairly, in all material respects the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Responsibilitie's of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process

Auditor's Responsibility for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance of **Türkiye İş Bankası A.Ş. – DEGA NË KOSOVË** regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Certified Auditors Kosovo sh.p.k.

Ernst & Young Certified Auditors Kosovo sh.p.k.

24 December 2019
Prishtina, Kosovo

Statement of financial position as at 31 December 2018
(Amounts in EUR)

	Notes	31 December 2018	31 December 2017
Assets			
Cash on hand, at banks and balances with Central Bank	8	23,070,013	19,006,820
Time deposits with banks	9	5,973,801	-
Financial investments at amortized cost	10	2,104,661	620,199
of which restricted at Central Bank	10	*2,000,000*	-
Loans and advances to costumers, net	11	85,215,636	80,948,677
Property and equipment, net	12	923,537	688,453
Intangible assets, net	13	95,311	47,015
Repossessed collaterals	14	163,647	-
Prepaid income tax	14.1	12,736	12,840
Other assets	15	240,149	5,769
Total assets		**117,799,491**	**101,329,773**
Liabilities			
Due to customers	16	58,022,292	42,808,947
Due to banks	17	13,006,432	5,525,602
Due to Head Office	18	34,435,130	42,186,943
Other taxes and contribution payable	19	68,281	21,168
Deferred tax liability	28	124,365	101,853
Deferred revenues	20	10,137	23,816
Other liabilities	21	82,092	88,721
Total liabilities		**105,748,729**	**90,757,050**
Shareholders' equity			
Share capital		10,000,000	10,000,000
Accumulated profit		2,050,762	572,723
Total shareholders' equity		**12,050,762**	**10,572,723**
Total liabilities and shareholders' equity		**117,799,491**	**101,329,773**

These Financial Statements were prepared by Deloitte Kosova sh.p.k. and were approved on behalf of the Bank on 2 October 2019 by:

Oguzhan Ceylan
Country Manager
Türkiye Is Bankasi A.S. – Branch in Kosovo

Teuta Rexhbecaj
Chief Financial Officer
Türkiye Is Bankasi A.S. – Branch in Kosovo

The accompanying notes on pages from 5 to 60 form an integral part of these Financial Statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018
(Amounts in EUR)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income		5,247,039	4,327,803
Interest expense		(2,077,529)	(1,246,969)
Net interest income	**23**	**3,169,510**	**3,080,834**
Fee and commission income		321,155	305,436
Fee and commission expense		(9,118)	(13,225)
Net fee and commission income	**24**	**312,037**	**292,211**
Net foreign exchange loss	**25**	(45,494)	152,258
Other income		26,150	25,522
Total operating income		**(19,344)**	**177,780**
Credit loss expense on loans and advances to customers	**11**	223,419	(965,542)
Credit loss expense on financial assets	**8,9,10, 14.1,15**	(33,195)	-
Repossessed assets write-downs	**14**	(43,020)	-
Provisions for guarantees issued to customers	**21**	(3,357)	(4,489)
Other operating expenses	**26**	(992,662)	(844,777)
Employee benefits	**27**	(788,650)	(882,747)
Depreciation and amortization	**12,13**	(307,286)	(178,569)
Total operating expenses		**(1,944,751)**	**(2,876,124)**
Profit before tax		**1,517,452**	**674,701**
Income tax expense	**28**	(167,723)	(101,853)
Net profit for the year		**1,349,729**	**572,848**
Other comprehensive income		**-**	-
Total comprehensive income/(loss) for the year		**1,349,729**	**572,848**

The accompanying notes on pages from 5 to 60 form an integral part of these Financial Statement.

Statement of changes in equity for the year ended 31 December 2018
(Amounts in EUR)

	Share capital	**Retained earnings**	**Total shareholders' equity**
Balance at 1 January 2017	**10,000,000**	**205,424**	**10,205,424**
Total comprehensive loss for the year			
Net profit for the year	-	572,848	572,848
Other comprehensive income	-	-	-
Total comprehensive income for the year	**10,000,000**	**778,272**	**10,778,272**
Contributions by and distributions to owners/dividend	-	**(205,549)**	**(205,549)**
Balance at 31 December 2017	**10,000,000**	**572,723**	**10,572,723**
Impact of adopting IFRS 9	**-**	**128,311**	**128,311**
Restated opening balance under IFRS 9	**10,000,000**	**701,033**	**10,701,033**
Balance at 1 January 2018	**10,000,000**	**701,033**	**10,701,033**
Profit for the year	-	1,349,729	1,349,729
Other comprehensive income	-	-	-
Total comprehensive income for the year	**10,000,000**	**2,050,762**	**12,050,762**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners/dividend	-	-	-
Balance at 31 December 2018	**10,000,000**	**2,050,762**	**12,050,762**

The accompanying notes on pages from 5 to 60 form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2018
(Amounts in EUR)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
I. Cash flows from (used in) operating activities			
Profit before tax		1,517,453	674,701
Adjustments for:			
Depreciation and amortization	**13,14**	307,286	178,569
Net impairment loss		(186,867)	970,031
Repossessed assets		(163,647)	-
Interest income	**23**	(5,247,039)	(4,327,803)
Interest expense	**23**	2,077,528	1,246,969
Changes in operating assets and liabilities:			
Movement in mandatory reserve with CBK	**8**	1,997,000	(3,000,000)
Increase in placements with banks		(6,000,000)	-
Increase in loans and advances to customers	**11**	(3,419,102)	(27,389,621)
Increase in due to customers	**16**	15,019,418	11,771,815
Increase in tax payable and other liabilities	**18,19**	8,411	7,154
Deferred revenues		(13,679)	(14,559)
Increase in prepayments and other receivables	**15**	(234,380)	(1,002)
Income tax paid		(121,500)	(19,830)
Interest paid		(1,706,192)	(1,118,966)
Interest received		4,885,801	4,318,448
Net cash generated from/(used in) operating activities (I)		**8,720,491**	**(16,704,094)**
II. Cash flows generated from/ (used in) investing activities			
Financial assets at amortized cost	**10**	(1,497,627)	4,008,737
Acquisition of property and equipment	**12**	(524,723)	(24,600)
Acquisition of intangible assets	**13**	(58,641)	-
Net cash (used in)/generated from investing activities (II)		**(2,080,991)**	**3,984,137**
III. Cash flows generated from/ (used in) financing activities			
Borrowings with the Head Office	**15**	(7,948,392)	17,055,421
Repayment of/Proceeds from borrowings	**14**	7,500,000	(2,400,000)
Dividends paid		-	(205,549)
Net cash generated from/ (used in) financing activities (III)		**(448,392)**	**14,449,872**
IV. Net increase in cash and cash equivalents (I+II+III)		**6,191,108**	**1,729,915**
V. Cash and cash equivalents at the beginning of the year	**8**	**12,006,820**	**10,276,905**
VI. Cash and cash equivalents at the end of the year (IV + V)	**8**	**18,197,928**	**12,006,820**

The accompanying notes on pages from 5 to 60 to the form an integral part of these Financial Statements.

1. REPORTING ENTITY

Türkiye İş Bankası A.Ş.– Branch in Kosovo ("the Bank" or "the Branch") is a branch of Türkiye İş Bankası A.Ş., a Turkish entity. The Bank operates as a commercial and savings bank to all categories of customers within Kosovo.

The Bank operates under a banking licence numbered 011 issued by the Central Bank of the Republic of Kosovo, registered at the Ministry of Trade and Industry on 19 November 2012 with business number 70899345 and fiscal number 600886131. The Bank operates with two branches. One office is located at Str. Ukshin Hoti No 100, in Pristina and the other one at Zahir Pajaziti street, in Prizren.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

2.1 New and amended standards and interpretations

In these financial statements, the Bank has applied IFRS 9, IFRS 15 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2.1.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.
The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 6.
IFRS 9 introduced new requirements for:

– The classification and measurement of financial assets and financial liabilities,
– Impairment of financial assets, and
– General hedge accounting, which however has limited applicability to the Bank, if any.

Details of these new requirements as well as their impact on the Bank's financial statements are described below.

The Bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

2.1.1.1 Changes to classification and measurement

The date of initial application (i.e. the date on which the Bank has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Bank has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
Specifically: debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

2. BASIS OF PREPARATION (CONTINUED)

2.1 New and amended standards and interpretations (continued)

2.1.1 IFRS 9 Financial Instruments (continued)

2.1.1.1 Changes to classification and measurement (continued)

debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

Management of the Bank reviewed and assessed the Bank's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Bank's financial assets as regards their classification and measurement:

− financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

2.1.1.2 Changes to the impairment calculation

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
Specifically, IFRS 9 requires the Bank to recognise a loss allowance for expected credit losses on:
– Debt investments measured subsequently at amortised cost or at FVTOCI;
– Lease receivables;
– Trade receivables and contract assets; and
– Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Bank is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances, however the Bank does not have significant assets falling under this category.

The additional credit loss allowance of EUR 143 thousand as at 1 January 2018 has been recognised against retained earnings on the same date, net of their related deferred tax impact of EUR 14 thousand resulting in a net decrease in retained earnings of EUR 128 thousand at 1 January 2018 (Note 6).

2. BASIS OF PREPARATION (CONTINUED)

2.1 New and amended standards and interpretations (continued)

2.1.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 *Financial Instruments: Disclosures* was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 6, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 3. Reconciliations from opening to closing ECL allowances are presented in Note 6. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

2.1.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. As the focus of IFRS 15 is not on accounting for revenue from financial instruments which in Bank's case are treated under IFRS 9, the number of contracts to which the standard is applicable is very limited. The bank had no impact from the implementation of IFRS 15.
The Bank adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Bank elected to apply the standard to all contracts as at 1 January 2018. The comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

IFRS 15 primarily includes within its scope the Net Fee and Commission income of the Bank (Note 23). These fees and commissions are normally earned when transactions are executed, or are fees applied for accounts maintenance within a month or year, and typically performance obligations are satisfied, and income recognised within the financial year.

Sale of repossessed collaterals also falls under IFRS 15. Revenue from such sales are recognised when the asset's risk and rewards are transferred to the buyer, even if the ownership title is retained as guarantee for completion of payments.

There are no other material revenues streams that fall under IFRS 15 and the adoption of this standard did not change the revenue recognition practices of the Bank.

(c) Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(d) Functional and presentation currency

The Financial Statements are presented in EUR, which is also the Bank's functional currency.

(e) Use of estimates and judgments

The preparation of Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about impairment of financial assets and fair values of financial instruments is described in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

(b) Interest income and expense

Under both IFRS 9 and IAS 39 Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

− the gross carrying amount of the financial asset; or

− the amortised cost of the financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, under IFRS 9 for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Under IFRS 9 for financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(c) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Under IFRS 15 the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.
The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations,
Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.
The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.
Under IAS 18 other fees and commission income, including account servicing fees, fund transfer fees, sales commission and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in Other Comprehensive Income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realized. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

(e) Operating leases

Payments made under operating leases are charged to expenses on a straight-line basis over the term of the lease.

(f) Financial assets and financial liabilities (Policy applicable after 1 January 2018)

(i) Recognition

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

(ii) *Classification*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All Bank’s financial assets are classified as measured at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

Business model assessment

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

− The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

− How the performance of the portfolio is evaluated and reported to the Bank's management;

− The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

− How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

− The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The bank has three different business models for classification of financial assets:

- Business model aimed at holding financial assets in order to collect contractual cash flows: Financial assets held under the mentioned business model are managed to collect contractual cash flows over the life of these assets. The Bank manages its assets held under this portfolio in order to collect certain contractual cash flows
- Business model aimed at collecting contracted cash flows of financial assets and selling: In this business model, the Bank intends both to collect contractual cash flows of financial assets and to sell these assets.
- Other business models: A business model in which financial assets; are not held within the scope of a business model aimed at collection of contractual cash flows and within the scope of a business model aimed at collecting and selling contracted cash flows, are measured by reflecting fair value in profit or loss.

The bank is able to reclassify all affected financial assets in case it changes the business model that is used for the management of financial asset. In the event of the termination of the rights related to the cash flows from a financial asset, the transfer of all risks and rewards of the financial asset to a significant extent or has no longer control of the financial assets, the Bank derecognizes the financial asset.

The Bank does not hold financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis and which are measured at FVTPL.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

− Contingent events that would change the amount and timing of cash flows;
− Leverage features;
− Prepayment and extension terms;
− Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
− Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(iii) Derecognition

The Bank derecognizes 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 the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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 transferred), 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 other comprehensive income is recognised in profit or loss.

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

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

***Financial liabilities* (Policy applicable before and after 1 January 2018)**

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

(iv) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognized at fair value.
If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(v) Offsetting (policy applicable before and after 1 January 2018)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(vi) 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 on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortized cost are those financial assets that are held within the framework of a business model aimed at collecting contractual cash flows over the life of the asset and which result in cash flows that include principal and interest on the principal amount outstanding at specific dates. Financial assets measured at amortized cost with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the effective interest rate method, net of any provision for impairment. Interest income from financial assets measured at amortized cost are recognized in the income statement as an "interest income".

(vii) Fair value measurement (policy applicable before and after 1 January 2018)

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value 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 recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.
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 Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred in FV levels (note 5).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
− financial assets that are debt instruments; and
− loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).
The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:
− debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
− loans and debt investment securities for which credit risk has not increased significantly since initial recognition.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:
− Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
− Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
− Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
− Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Probability of default

Represents the probability of default of the credit over a specified time period. In this context, the Bank has developed models to calculate 12 month and life time default probabilities by using internal rating models.
Credit risk grades
The Bank allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

Significant increase in credit risk

Significant increase in the risk of default and default itself are key determinants for calculation of the expected credit losses.
At each reporting date, the Bank assesses whether there has been a significant increase in credit risk by comparing:
(i) The risk that the loan will default at or after the reporting date with
(ii) The risk of default assessed at or after the date of its initial recognition.

When performing this assessment, the Bank considers reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk. When the financial instruments are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, the Bank shall measure loss allowance at an amount equal to lifetime expected credit losses.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.
The Bank has identified whether a significant increase in credit risk has occurred for an exposure that changes the regulatory risk classification from standard to watch assessed in line with the Bank's policy for regulatory risk classification. All loans showing significant increase in credit risk are classified in Stage 2.
As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Beside the backstop indicator, the Bank also considers as a significant increase in credit risk if the loan is classified from standard to watch or a worse risk grade or other loans of the same customer with the Bank are classified from standard to watch or a worse risk grade. The Bank also considers that the risk has increased if the client requests a restructuring with easing teams such as: extended maturity, lower instalment, lower interest rate, waivers of accrued penalties and interest.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

Methodology on calculation of ECL

PD calculation

Probability of Default: Represents the likelihood of a default over a specified time period.
In this context, the Bank has developed models to calculate 12-month and life-timedefault probabilities by using internal rating based on credit rating models.

There has been a segmentation of the loan portfolio based on the similar characteristics of risk with the purposes of PD calculation. Below are presented the segments of the loan portfolio:

- Business Loans
- Individual Loans

Calculation of 12-month PD is done on monthly basis for the whole period of historical data and the long-run average of PDs is used for Business and Individual portfolio separately.

Lifetime PD is calculated by adding external factors (benchmarking) over the 12-month PD. In this regard the change of NPL ratio from 2014 to 2018 is used as external factor. So it is taken into consideration that if the NPL ratio in the market will reach the maximal point (as in 2014) this will affect the probability of default of the ISBANK Branch as well.

LGD calculation

Loss Given Default (LGD): Defined as the damage caused by the default of borrower to the total balance of the exposure at the time of default. The LGD estimates are determined in terms of credit risk groups that are detailed in the Bank's data resources and system facilities. The model used for the estimation of the LGD was established by taking into account the direct cost items during the collection process, based on the historical data of the Bank's collection, cash flows are discounted at effective interest rates.
There has been a grouping into the following segments of the loan portfolio with the purposes of LGD calculation:

- Business Loans
- Individual Loans

The Bank reviews on annual basis the set limits and criteria to ensure that they remain valid following possible changes in the loans portfolio size and composition.

Exposure at Default:

For loans covered by cash, the balance of cash at the reporting date, for loans that are not covered by cash, the balance calculated using the Credit Conversion Factor (CCF) is represented by Exposure to Failure. Credit Conversion Factor: Estimated for non-cash loans (outstanding limit for renewables, commitments, non-cash loans, etc.) The Bank's historical limit usage data for revolving loans are: analyzed and the amount of the limit that can be used up to the predetermined time is estimated. For non-cash loans, the loan to cash conversion ratio is estimated by analyzing the type of product and the amount of past bank compensation. Represents the balance at the date of report. Expected credit loss is reflected in the income statement. Released provisions in the current year are accounted under "Expected Credit Losses", the released portion of the free provisions set aside in previous years is transferred to "Other Operating Income".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

Stage 1:
An important determinant for calculating the expected credit loss in accordance with IFRS 9 is to assess whether there is a significant increase in the credit risk of the financial asset. Financial assets that have not experienced a significant increase in credit risk since the initial recognition are monitored in the first stage. Impairment for credit risk for the Stage 1 financial assets is equal to the 12-month expected credit losses.

Stage 2:
Financial assets that experienced a significant increase in the credit risk since initial recognition, are transferred to Stage 2. The expected credit loss of these financial assets are measured at an amount equal to the instrument's lifetime expected credit loss. In order to classify a financial asset in the second stage, the following criteria is considered:
-
Overdue more than 30 and less than or equal to 90 days
- Restructuring of the loan
- When a credit facility has shown a significant deterioration since origination, the Bank records an allowance based on Lifetime PD.
- Credit facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3 to Stage 2.

In the event of a significant deterioration in the probability of default, the credit risk is considered to be increased significantly and the financial asset is classified as stage 2. The absolute and gradual thresholds used to increase the probability of default are differentiated on the basis of portfolio type.

Stage 3:
Financial assets with sufficient and fair information for impairment at the reporting date, are classified in the third stage. Expected credit loss of these financial assets is measured at an amount equal to the lifetime expected credit loss.

. Transition to Stage 3 is realized when the financial asset is defaulted. A default is considered to have occurred with regard to a particular obligor or to financial asset when either or both of the two following events have taken place:- The bank considers that the obligor is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realizing security (if held).
- The financial asset is past due more than 90 days.

The validity of the risk parameter estimates used in the calculation of expected credit losses is reviewed and evaluated at least annually within the framework of model validation processes. Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect the changes in economic conjuncture and are updated if needed.

While calculating the expected credit loss, aside from assessment of whether there is a significant increase in credit risk or not, basic parameters expressed as probability of default, loss given default and exposure at default are used.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the Bank will consider whether the asset's credit risk has increased significantly by analysing quantitative and qualitative factors affecting risk of default.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit.
Following forbearance, a customer needs to demonstrate consistently good payment behavior over eight months before the exposure is measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:
− PD;
− loss given default (LGD); and
− exposure at default (EAD).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
− financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
− loan commitments and financial guarantee contracts: generally, as a provision;
− where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
− instruments measured at amortized cost: loss allowance is recognised in the statement of financial position.

(g) Loans and advances (policy applicable from 1 January 2018)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to banks and loans and advances to customers are classified as loans and receivables.

All loans and advances are initially recognized at fair value. After initial recognition, these are subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans and advances are reported net of provisions for loan losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments held-to-maturity (policy applicable from 1 January 2018)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(i) Cash and cash equivalents

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

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

(j) Deposits and borrowings

Deposits and borrowings are the Bank's main sources of debt funding.
Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(k) Repossessed assets

Collateral held under loan agreement can only be possessed by the Bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo which enable the Bank to take full legal title and ownership. Only after the completion of these procedures, the Bank can sell or transfer the collateral. Repossessed assets are initially recognized at the amount stipulated by the court order and are subsequently measured at the lower of cost and net realizable value and any gain or loss from the sale of these assets is recognized in the profit or loss.
From the initial recognition, the Bank classifies the repossessed property at a minimum of substandard classification and set aside provisioning according to classification. In addition, the Bank recognizes repossessed collateral as an asset only when it has full legal title of the collateral and the fair value of collateral can be determined reliably. The Bank cannot sell, transfer or re-pledge the collateral if legal procedures for transfer of ownership as a result of default have not been completed. The Bank holds the possession of properties acquired through enforcement in the form of a mortgage, for a maximal period of five years. If, within five years, the asset has not been sold by the Bank, it is written down to zero value.

(l) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(m) Employee benefits

(i) Mandatory social security contributions

The Bank makes only mandatory social security contributions that provide pension benefits for employees upon retirement. The Government of Kosovo is responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. The Company's contributions to the pension plan are charged to profit or loss as incurred.

(ii) Paid annual leave

The Bank recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is essential to the operation of the respective device is capitalized as part of that device.

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

Any gain or loss arising on the disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognized in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of the assets. Depreciation methods, useful lives and residual values (if not insignificant) are reassessed at the reporting date.

The estimated useful lives for the current and comparative years were as follows:

- Furniture, fixtures and equipment 5 years
- Other fixed assets 5 years
- Vehicles 5 years

Leasehold improvements are depreciated over 10 years which is the shorter of the lease term and their useful lives.

(o) Intangible assets

Intangible assets with finite useful life that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful life of the software is five years.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(p) Grants

Grants are not recognized until there is reasonable assurance that the Bank will comply with the conditions attaching to them and that the grants will be received. Grants are recognized in profit or loss on a systematic basis over the periods in which the Bank recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, grants are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

(q) Financial guarantees and loan commitments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Taxation

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. Effective from September 1, 2015, the tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 05/L-029 "On Corporate Income Tax".

The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date.

Taxable profit differs from profit as reported in the profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accounted for using the balance sheet liability method for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

4.1 Standards and interpretations issued but not yet effective and not yearly adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. An indication of current operating lease agreements is provided in Operating Lease Commitments in Note 26.

The Bank has estimated that, the adoption of IFRS 16 at 1 January 2019, will bring changes to its current measurement of the lease assets and lease liabilities under IAS 17. The Bank is in process of assessing the primary results from the adoption of IFRS 16.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

4.1 Standards and interpretations issued but not yet effective and not yearly adopted (continued)

For the following new standards and interpretations, the Bank anticipates that their adoption will have no material impact on the financial statements of the Bank in the period of initial application and are not expected to have an impact over the financial statements of the Bank:

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019),
- IFRS **17 "Insurance Contracts"** (effective for annual period beginning on or after 1 January 2021),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement** - accounting when a plan amendment, curtailment or settlement occurs during a reporting period (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Conceptual Framework in IFRS standards -** For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020,
- **IFRS 3: Business Combinations (Amendments)** - (effective for annual periods beginning on or after 1 January 2020),
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)** - (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS, which become effective for annual periods beginning on or after 1 January 2019, and including:
- IFRS 3 Business Combinations
- IFRS 11 Joint Arrangements
- IAS 12 Income Taxes
- IAS 23 Borrowing costs.

4.2 Standards issued and effective for the annual period

- The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period, but their adoption has not led to any changes in the Company's accounting policies:
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are applied for annual periods beginning on or after 1 January 2018).

5. USE OF ESTIMATES AND JUDGMENTS

Management discusses with the Audit Committee the development, selection and presentation of the Bank's critical accounting policies and their application, as well as assumptions made about significant estimation uncertainties. Information about the assumptions and estimates of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and of the critical judgments in applying the accounting policies that have the most significant effect on the amounts recognized in the separate financial statements are disclosed below.
These disclosures support comments on financial risk management.

a) Expected Credit Losses (policy applicable after 1 January 2018)

Financial assets measured at amortized cost are assessed for impairment on a basis described in Note 4. The Bank reviews its assumptions and judgments on a regular basis.
The Bank measures the expected credit losses of a financial instrument in a way that reflects:
(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

b) Determining fair values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following hierarchy of methods:

Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed below.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Disclosure and estimation of fair value

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Financial instruments – fair value hierarchy

The following table sets out the fair values of financial instruments measured and not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. No items have fair value measurements in accordance to Level 1.

			2018			**2017**
	Carrying value	**Fair value**		**Carrying value**	**Fair value**	
		Level 2	**Level 3**		**Level 2**	**Level 3**
Financial assets not measured at fair value						
Financial investments at amortized cost	2,104,661	2,104,661	-	620,199	620,199	-
Cash on hand and at banks	23,070,208	-	23,070,208	19,006,820	-	19,006,820
Placements to Banks	5,973,801	-	5,998,326	-	-	-
Loans and advances to customers	84,941,572	-	85,341,215	80,948,677	-	81,117,082
Other financial assets	457,874	457,874	-	16,177	16,177	-
Financial assets not measured at fair value						
Due to customers	58,022,292	-	58,200,071	42,808,947	-	42,978,384
Borrowings	13,006,432	-	12,993,319	5,525,602	-	5,498,468
Other financial liabilities	75,910	-	75,910	88,721	-	88,721

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Financial instruments – fair value hierarchy

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Placements to Banks
Due from other banks include inter-bank placements and accounts. As loans, advances and deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Investments at amortized cost
Investments include treasury bonds issued by the Government of Kosovo which are bought with the intention to hold them till maturity. The fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Loans and advances to customers
Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.
The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short-term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers, borrowings and other financial liabilities
The fair value of liabilities and Due to customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits and subordinated debt of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

6. TRANSITION DISCLOSURES

a) Classification of financial assets and liabilities from IAS 39 to IFRS 9

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

	IAS 39		**IFRS 9**	
	Measurement category	**Carrying amount as of 31 December 2017**	**Measurement category**	**Carrying amount as of 1 J1.5anuary 2018**
Financial assets				
Cash on hand and at banks	Amortised cost (Loans and receivables)	2,826,857	Amortised cost	2,821,260
Balances with Central Bank of Kosovo	Amortised cost (Loans and receivables)	16,179,963	Amortised cost	16,047,917
Loans and advances to banks	Amortised cost (Loans and receivables)	-	Amortised cost	-
Investment securities	Held to maturity	370,994	Amortised cost	366,818
Loans and advances to customers	Amortised cost (Loans and receivables)	82,366,022	Amortised cost	82,630,323
Other assets	Amortised cost (Loans and receivables)	16,310	Amortised cost	16,177
Non-Financial Assets				
Deferred Tax Asset	Amortised Cost	-	Amortised Cost	-
Non-Financial Liabilities				
Provisions (financial guarantees)	Amortised cost (Loans and receivables)	9,755,015	Amortised cost	9,775,233
Deferred Tax Liability	Amortised Cost	101,853	Amortised Cost	116,110

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6. TRANSITION DISCLOSURES (CONTINUED)

b) Reconciliation of carrying amounts of financial assets and liabilities from IAS 39 to IFRS 9

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash on hand and at banks				
Opening balances under IAS 39 and closing balance under IFRS 9	2,826,857	-	-	-
Remeasurement: ECL allowance	-	-	(5,597)	-
Closing balance under IFRS 9	-	-	-	2,821,260
Balances with Central Bank of Kosovo				
Opening balances under IAS 39	16,179,963	-	-	-
Remeasurement: ECL allowance	-	-	(132,046)	-
Closing balance under IFRS 9	-	-	-	16,047,917
Placements to banks				
Opening balances under IAS 39	-	-	-	-
Remeasurement: ECL allowance	-	-	-	-
Closing balance under IFRS 9	-	-	-	-
Financial investments at amortized cost				
Opening balances under IAS 39	370,994	370,994-	-	-
Remeasurement: ECL allowance	-	-	(4,176)	-
Closing balance under IFRS 9	-	-	-	366,818
Loans and advances to customers				
Opening balance under IAS 39	82,366,022	-	-	-
Remeasurement: ECL allowance	-	-	264,301	-
Closing balance under IFRS 9	-	-	-	82,630,323

6. TRANSITION DISCLOSURES (CONTINUED)

b) Reconciliation of carrying amounts of financial assets and liabilities from IAS 39 to IFRS 9

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Other assets				
Opening balance under IAS 39	16,310	-	-	-
Remeasurement: ECL allowance	-	-	(133)	-
Closing balance under IFRS 9	-	-	-	16,177
Total financial assets measured at amortised cost	**101,760,146**	**370, 994**	**122,349**	**101,882,495**
Non-Financial Assets				
Deferred tax Asset				
Opening balance under IAS 39	-	-	-	-
Remeasurement: ECL allowance	-	-		
Closing balance under IFRS 9	-	-		
Total non-financial assets	**-**	**-**		
Non-Financial Liabilities				
Provisions (financial guarantees)				
Opening balance	9,755,015	-	-	-
Remeasurement: ECL allowance	-	-	20,218	-
Closing balance under IFRS 9	-	-	-	9,775,233
Deferred tax Liability				
Opening balance under IAS 39	101,853	-	**-**	**-**
Remeasurement: ECL allowance	-	-	14,257	-
Closing balance under IFRS 9	-	-	-	116,110
Total non - financial Liabilities	**9,856,868**	**-**	**34,475**	**9,891,343**

6. TRANSITION DISCLOSURES (CONTINUED)

c) Reconciliation of impairment loss

Measurement category	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassi fication	Remeasu rement	Loan loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash on hand and at banks	**-**	**-**	5,597	**5,597**
Balances with Central Bank of Kosovo	**-**	**-**	132,046	**132,046**
Financial investments at amortized cost	-	-	4,176	4,176
Loans and advances to banks	1,283,835	**-**	(264,301)	**1,019,534**
Other assets	-	**-**	133	**133**
Total	**1,283,835**	**-**	**(122,349)**	**1,161,486**
Loan commitments and financial guarantee contracts				
Provisions (financial guarantees)	33,870	**-**	(20,218)	**13,652**
Total	**33,870**	**-**	**(20,218)**	**13,652**

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Reserves and Retained Earnings
Retained Earnings	
Closing balance under IAS 39 (31 December 2017)	572,722
Reclassification adjustments in relation to adopting IFRS 9	-
Recognition of IFRS 9 ECLs	142,567
Deferred tax in relation to the above	(14,256)
Opening balance under IFRS 9 (1 January 2018)	**701,033**
Total change in equity due to adopting IFRS 9	**128,311**

7. FINANCIAL RISK MANAGEMENT

Risk management process and the functions involved in the process are some of the primary responsibilities of the Board of Directors of the Parent Company (Head Office). The Risk Management Department, which operates under the Board of Directors, has been organized as Asset-Liability Management Risk Unit, Credit Risk and Economic Capital Unit, Operational Risk and Model Verification and Subsidiary Risk Unit.

The Bank's risk management process is carried out within the framework of risk policies which are set by the Risk Management Department and issued by the Board of the Directors and written standards which contains risk policies.

These policies which are in line with international practices are general standards which contain: organization and scope of the risk management function, risk measurement policies, duties and responsibilities of the risk management group, procedures for determining risk limits, ways to eliminate limit violations and approval and confirmation to be given in a variety of events and situations. The scope and content of the Bank's risk management system is given by the main risk types.

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(a) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investments.

Credit risk is defined as the risk of the failure to comply with the requirements or failing to fulfill its obligations partially or totally of the counter side of the transaction contract with the Bank. The methodology and responsibilities of the credit risk management, controlling and monitoring and the framework of credit risk limitations are specified with the credit risk policy. The Bank defines, measures and manages credit risk of all products and activities. The Board of Directors reviews the Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Management is responsible for the implementation of credit risk policies which are approved by the Board of Directors.

As a result of loan and credit risks analysis all findings are reported to the Board of Directors and Management on a regular basis. In addition to credit risk assessment process, monitoring of credit risk also comprises monitoring and managing the credit by sector, security, geography, currency, credit type and credit rating.

As part of the Bank's credit risk management, as well as limits required by legal regulations, the Bank utilizes the risk limits to undertake the maximum credit risk within risk groups or sectors that the Board of Directors determines.

These limits are determined in such a way that minimize risk concentration within particular sectors. Excess risk limits up to legal requirements and boundary limits are considered as an exception. The Board of Directors has the authority to approve exceptions. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Management and the Board of Directors.

The Bank uses credit decision support systems which are created for the purpose of credit risk management, lending decisions, controlling the credit process and credit provisioning. The consistency of the credit decision support systems with the structure of the Bank's activities, size and complexity is examined continuously. Credit decision support systems include the Risk Committee assessment and approval of Board of Directors.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Maximum Credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Balances with Central Bank of Kosovo (see Note 8)	14,304,157	16,179,963
Cash at banks (see Note 8)	8,531,043	2,262,181
Loans and advances to costumers, net	85,215,636	80,948,677
Financial investments at amortized cost	2,104,661	620,199
Guarantees in favor of customers and credit commitments	11,504,823	12,159,228
Maximum exposure to credit risk	**121,660,320**	**112,170,248**

Credit quality by class of financial assets:

31 December 2018	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo (see Note 7)	14,304,157	-	-	14,304,157
Cash at banks (see Note 7)	8,531,043	-	-	8,531,043
Loans and advances to costumers, net	76,362,288	7,632,038	1,221,310	85,215,636
Investments in securities at amortized cost	2,104,661	-	-	2,104,661
Guarantees in favor of customers and credit commitments	11,504,823	-	-	11,504,823
Maximum exposure to credit risk	**112,806,972**	**7,632,038**	**1,221,310**	**121,660,320**

31 December 2017	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo (see Note 7)	16,179,963	-	-	16,179,963
Cash at banks (see Note 7)	2,262,181	-	-	2,262,181
Loans and advances to costumers, net	78,469,513	225,365	2,253,799	80,948,677
Investments in securities at amortized cost	620,199	-	-	620,199
Guarantees in favor of customers and credit commitments	12,159,228	-	-	12,159,228
Maximum exposure to credit risk	**109,691,084**	**225,365**	**2,253,799**	**112,170,248**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Loans and advances to customer's bears fixed and floating interest rates.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/security.

Past due but not impaired loans

Loans and securities, where contractual interest or principal payment are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Loans and advances to customers, net	**31 December 2018**	**31 December 2017**
Neither past due nor impaired	76,362,288	78,469,513
Past due and impaired	1,221,310	2,253,799
Past due but not impaired	7,632,038	225,365
Total	**85,215,636**	**80,948,677**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	**31 December 2018**	**31 December 2017**
Standard (0 days)	76,675,182	78,749,853
Watch (31-60 days)	7,990,569	254,584
Substandard (61-90 days)	81,935	770,265
Doubtful (91-180 days)	24,572	45,312
Loss (more than 180 days)	732,140	2,304,066
Accrued interest	601,081	241,942
Less: Deferred disbursement fee	(93,727)	(133,510)
Total Loans at amortized cost, gross	**86,011,752**	**82,232,512**
Less: Allowance for impairment	(796,116)	(1,283,835)
Loans and advances to customers, net	**85,215,636**	**80,948,677**

Set out below is an analysis of collateral obtained as coverage in respect of loans and advances to customers:

Loans and advances to customers	**Maximum exposure to credit risk**	**Real Estate**	**Total collateral**	**Surplus collateral**	**Net Exposure**
31 December 2017	85,215,636		74,948,677	121,842,324	6,000,000
31 December 2018	80,948,677	307,439,429	77,809,282	217,630,147	7,132,290

The Bank is not permitted to sell or re-pledge collateral held under loan contracts in absence of default by the owner of collateral.

The net exposure consist of a loan to a group client approved centrally, for which the collateral is not held locally but at parent level.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Concentrations

IS Bank has a credit strategy which determines the types of investments (concentrations) based primarily on economic segments such as industry, trade, construction, etc. Due to the small size of the Republic of Kosovo, geographical concentrations within Kosovo are not significant; this strategy is reviewed and updated on an annual basis by the management board or the bank.

The following table breaks down the Bank's main credit exposure at their net amounts, as categorized by the industry sectors of our counterparties.

As of December 31, 2018 and 2017, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2018	31 December 2017
Wholesale and retail trade	55,404,066	49,926,751
Electricity, gas, steam and air conditioning supply	12,290,036	12,570,000
Construction	3,793,366	9,090,686
Manufacturing	9,097,834	5,340,869
Accommodation and food service activities	1,210,173	1,372,617
Water, supply, sewerage and waste management and services	736,813	1,075,947
Individual	850,756	1,063,095
Mining and quarrying	455,160	750,938
Other services	645,506	528,263
Transportation and storage	530,594	248,117
Administrative and support service activities	4,853	78,880
Professional, scientific and technical activities	478,675	39,539
Information and communication	6,564	39,377
Accrued interest	601,083	240,943
Deferred revenue on disbursement fee	(93,727)	(133,510)
Total Loans at amortized cost, gross	**86,011,752**	**82,232,512**
Less: Allowance for impairment	(796,116)	(1,283,835)
Loans and advances to customers, net	**85,215,636**	**80,948,677**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may raise as a result of funding long-term assets with short-term resources. Care is taken to maintain the consistency between the maturities of assets and liabilities and strategies are used to acquire funds over longer terms.

Based on cash flow projections, prices are differentiated for different maturities and thereby measures are taken to meet liquidity requirements; moreover liquidity that may be required for extraordinary circumstances is estimated and alternative liquidity sources are determined for possible utilization.

The purpose of Liquidity Risk Management is to ensure, as far as possible, that the Bank will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Liquidity Risk Management is handled in collaboration and close supervision of Treasury Group Department in Head Office. As at 31 December 2018 and 2017, the Bank's financial assets and liabilities have remaining contractual maturities as follows:

31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with Central Bank	18,197,928	-	-	-	-	5,003,000	23,200,928
Placements with banks	6,000,000	-	-	-	-	-	6,000,000
Financial investments at amortized cost	-	-	998,432	1,123,140	-	-	2,121,572
Loans to customers	32,696,539	421,995	9,280,112	23,757,241	19,949,592	-	86,105,479
Total assets	**56,894,467**	**421,995**	**10,278,544**	**24,880,381**	**19,949,592**	**5,003,000**	**117,427,979**
Liabilities							
Deposits from costumers	11,922,203	4,349,770	26,566,627	14,969,691	214,000	-	58,022,291
Short term borrowings	13,006,432	-	-	-	-	-	13,006,432
Dues to Head Office	3,240,074	17,189,203	13,292,662	713,191	-	-	34,435,130
Other liabilities	150,373	-	-	-	-	-	150,373
Total liabilities and equity	**28,319,082**	**21,538,973**	**39,859,289**	**15,682,882**	**214,000**	**-**	**105,614,226**
Net Position	**28,575,385**	**(21,116,978)**	**(29,580,745)**	**9,197,499**	**19,735,592**	**5,003,000**	**11,813,753**
Cumulative net position	**28,575,385**	**7,458,407**	**(22,122,338)**	**(12,924,839)**	**6,810,753**	**11,813,753**	**-**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash, at banks and balances with Central Bank	12,006,820	-	-	-	-	7,000,000	19,006,820
Investments in securities	-	-	499,326	120,236	-	-	619,562
Loans and advances to customers	6,706,084	7,910,169	31,524,894	30,108,542	6,114,517	-	82,364,206
Total	**18,712,904**	**7,910,169**	**32,024,220**	**30,228,778**	**6,114,517**	**7,000,000**	**101,990,588**
Liabilities							
Due to customers	8,258,072	2,311,185	23,350,391	8,889,299	-	-	42,808,947
Short-term borrowings	5,174,265	-	351,337	-	-	-	5,525,602
Due to Head Office	4,250,761	14,780,151	21,683,745	1,472,286	-	-	42,186,943
Other liabilities	21,168	54,851	-	-	-	-	76,019
Total	**17,704,266**	**17,146,187**	**45,385,473**	**10,361,585**	**-**	**-**	**90,597,511**
Net Position	**1,008,638**	**(9,236,018)**	**(13,361,253)**	**19,867,193**	**6,114,517**	**7,000,000**	**11,393,077**
Cumulative net position	**1,008,638**	**(8,227,380)**	**(21,588,633)**	**(1,721,440)**	**4,393,077**	**11,393,077**	**-**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. Foreign currency risk (continued)

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2018 and 2017 as translated into EUR:

2018	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	22,583,092	22,219	358,406	73,748	32,548	23,070,013
Placements with banks	5,973,801	-	-	-	-	5,973,801
Investment securities	2,104,661	-	-	-	-	2,104,661
Loans and advances to customers	85,104,699	-	110,937	-	-	85,215,636
Total assets	**115,766,253**	**22,219**	**469,343**	**73,748**	**32,548**	**116,364,111**
Liabilities						
Deposits from costumers	57,257,652	-	474,917	256,749	32,973	58,022,291
Short term borrowings	13,006,432	-	-	-	-	13,006,432
Dues to parent company	34,378,049	-	57,081	-	-	34,435,130
Other liabilities	150,373	-		-	-	150,373
Total liability and equity	**104,792,506**	**-**	**531,998**	**256,749**	**32,973**	**105,614,226**
Net position	**10,973,747**	**22,219**	**(62,655)**	**(183,001)**	**(425)**	**10,749,885**
Cumulative net position	**10,973,747**	**10,995,966**	**10,933,311**	**10,750,310**	**10,749,885**	**-**

2017	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	18,348,828	93,316	-	-	-	18,442,144
Investment securities	620,199	-	-	-	-	620,199
Loans and advances to customers	80,849,287	-	99,390	-	-	80,948,677
Total	**99,818,314**	**93,316**	**99,390**	**-**	**-**	**100,011,020**
Liabilities						
Deposits from costumers	41,861,403	-	684,901	172,100	90,543	42,808,947
Short term borrowings	5,525,602	-	-	-	-	5,525,602
Due to Head Office	41,973,053	-	134,258	79,632	-	42,186,943
Other liabilities	76,019	-	-	-	-	76,019
Total	**89,436,077**	**-**	**819,159**	**251,732**	**90,543**	**90,597,511**
Net position	**10,382,237**	**93,316**	**(719,769)**	**(251,732)**	**(90,543)**	**9,413,509**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the bank carry fixed and variable interest rates while borrowings are at variable interest rate. The interest rates applicable to financial assets and liabilities are disclosed in relevant note to these financial statements. Interest rate risk management policy of the bank defines the method of identification, measurement, following up and controlling the risk in the event of interest rate modification. The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. The tables below summarize the Bank's exposure to interest rate risks.

Assets	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and balances with Central Bank	-	-	-	-	-	23,070,013	23,070,013
Placements with banks	5,973,801	-	-	-	-	-	5,973,801
Investment securities	-	-	1,984,623	120,038	-	-	2,104,661
Loans to customers - fixed	32,732,210	293,798	8,847,150	21,655,103	19,904,914	-	83,433,175
Loans to customers - variable	85,108	117,356	270,926	1,309,071		-	1,782,461
Total assets	**38,791,119**	**411,154**	**11,102,699**	**23,084,212**	**19,904,914**	**23,070,013**	**116,364,111**
Liabilities							
Deposits from customers	1,251,928	4,318,770	28,469,060	13,242,564	214,000	10,525,969	58,022,291
Short Term Borrowings	13,006,432					-	13,006,432
Due to Head Office - Fixed	2,548,511	17,000,000	12,400,369	60,937	-	532,176	32,541,993
Due to Head Office - Variable	159,387	189,203	892,294	652,253	-	-	1,893,137
Other Liabilities	-	-	-	-	-	150,373	150,373
Total liabilities	**16,966,258**	**21,507,973**	**41,761,723**	**13,955,754**	**214,000**	**11,208,518**	**105,614,226**
Net Position	**21,824,861**	**(21,096,819)**	**(30,659,024)**	**9,128,458**	**19,690,914**	**11,861,495**	**10,749,885**
Cumulative net position	**21,824,861**	**728,042**	**(29,930,982)**	**(20,802,524)**	**(1,111,610)**	**10,749,885**	

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

iii. Interest rate risk

2017	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	-	-	-	-	-	18,442,144	18,442,144
Investments in securities	-	-	499,963	120,236	-	-	620,199
Loans and advances to customers – fixed rate	6,367,437	7,257,530	29,310,245	29,597,832	6,002,238	-	78,535,282
Loans and advances to customers – floating rate	222,698	523,117	1,667,580	-	-	-	2,413,395
Total	**6,590,135**	**7,780,647**	**31,477,788**	**29,718,068**	**6,002,238**	**18,442,144**	**100,011,020**
Liabilities		-	-	-			
Deposits from costumers	3,560,504	2,311,185	23,350,391	8,889,299	-	4,697,568	42,808,947
Short term borrowings	5,174,265	-	351,337	-	-	-	5,525,602
Dues to Head Office – fixed rate	1,931,199	14,506,234	20,876,751	300,000	-	2,159,364	39,773,548
Dues to Head Office – floating rate	160,198	273,917	806,994	1,172,286	-	-	2,413,395
Other liabilities	-	-	-	-	-	76,019	76,019
Total	**10,826,166**	**17,091,336**	**45,385,473**	**10,361,585**	**-**	**6,932,951**	**90,597,511**
Net Position	**(4,236,031)**	**(9,310,689)**	**(13,907,685)**	**19,356,483**	**6,002,238**	**11,509,193**	**9,413,509**
Cumulative net position	**(4,236,031)**	**(13,546,720)**	**(27,454,405)**	**(8,097,922)**	**(2,095,684)**	**9,413,509**	**-**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. *Interest rate risk (continued)*

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2018 and 2017 are as follows:

	2018		2017	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	N/a		N/a	-
Loans and advances to customers	5.65%	6.08%	5.59%	6.26%
Investment securities (HTM)	N/a	0.61%	N/a	1.72%
Liabilities				
Customer deposits	1.86%	2.27%	1.92%	1.73%
Short term borrowings	N/a	0.91%	N/a	1.76%
Dues to parent company	N/a	3.74%	3.42%	3.21%

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	2018		2017	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	107,501	(107,501)	94,135	(94,135)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Banks's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk and carried out with collaboration with Head Office.

All risks except financial risks are considered within the scope of operational risk. Studies are undertaken by execution of identification, definition, measurement, analysis, monitoring of operational risk, providing and reporting the necessary control related to monitoring the progress of the country and world, the development of techniques and methods, necessary legal reporting, notification and conduct of follow-up transactions. Studies on the subject are conducted by the Department of Risk Management.

Qualitative and quantitative methods are used in a combination for measurement and evaluation of the operational risks. In this process, information used is obtained from "Impact-Probability Analysis", "Missing Event Data Analysis", "Risk Indicators" methods. Methods prescribed by legal regulations are applied as minimum in determining the capital requirement level for the operating risk.

All risks are assessed in the context of operational risk, loss events and the risk indicators, together with operational risks are monitored on a regular basis by the Department of Risk Management and reported periodically to the Risk Committee and the Board of Directors.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory Capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity. The Bank's overall strategy remains unchanged from previous year. In accordance with the regulations of the Central Bank of Republic of Kosovo, the Bank should maintain a capital equivalency deposit of not less than EUR 7,000,000. The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank has met the regulatory requirements as at 31 December 2018 and 2017.

8. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK

	31 December 2018	**31 December 2017**
Cash on hand and at banks:		
Cash on hand	234,812	564,676
Current account in Raiffeisen Bank Kosovo	207,909	200,970
Current account in IS Bank AG	5,670,744	880,966
Current account in Bank for Business	1,503,989	1,060,456
Current account in Bankën Kombetare Tregtare	1,111,908	-
Nostro account with parent company	49,710	119,789
Cash and cash equivalents	**8,779,072**	**2,826,857**
Allowance for ECL/Impairment losses	(13,217)	-
Cash on hand and at banks after provisions	**8,765,855**	**2,826,857**
Current and Restricted balances with Central Bank:		
Unrestricted balances with Central Bank of Kosova	3,735,675	3,302,963
Liquidity reserves (restricted)	5,683,181	5,877,000
Capital equivalent deposit (restricted)	5,003,000	7,000,000
Current and Restricted balances with Central Bank:	**14,421,856**	**16,179,963**
Allowance for ECL/Impairment losses	(117,698)	-
Current and Restricted balances with Central Bank after provisions	**14,304,158**	**16,179,963**
Total	**23,070,013**	**19,006,820**

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. Balances with Central Bank of Kosovo include a mandatory liquidity reserve balance with CBK of EUR 5,683 thousand (31 December 2017: EUR 5,877 thousand). The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy the liquidity requirements are the deposits in EUR with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base. Balances with CBK at 31 December 2018 and 2017 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit, Investments in securities are also used as capital equivalency deposits required for a branch of a foreign.

8. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK (CONTINUED)

Cash at bank

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	8,544,260			8,544,260
Standard (1-30 days)				-
Watch (31-60 days)				-
Substandard (61-90 days)				-
Doubtful (91-180 days)				-
Loss (more than 180 days)				-
Total	**8,544,260**	**-**	**-**	**8,544,260**

	Gross Carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**2,262,182**	**-**	**(5,597)**	**-**	**2,256,585**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	6,282,078	-	**(7,620)**	-	**6,274,458**
Write-offs		-		-	-
Foreign currency effect and other movements		-		-	-
Net change in Profit and Loss	-	-	**(7,620)**	-	**(7,620)**
As at 31 December 2018	**8,544,260**	**-**	**(13,217)**	**-**	**8,531,043**

8. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK (CONTINUED)

Current and restricted balances with central bank

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	14,421,855			14,421,855
Standard (1-30 days)				-
Watch (31-60 days)				-
Substandard (61-90 days)				-
Doubtful (91-180 days)				-
Loss (more than 180 days)				-
Total	**14,421,855**	**-**	**-**	**14,421,855**

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**16,179,963**		**(132,046)**		**16,047,917**
All transfers	-		-		
Derecognitions other than write-offs	-		-		
Repayments and change in cash flow	-		-		
New financial assets originated or purchased	(1,758,108)		14,348		**(1,743,760)**
Write-offs					
Foreign currency effect and other movements					
Net change in Profit and Loss	-		**14,348**		
As at 31 December 2018	**14,421,855**	**-**	**(117,698)**	**-**	**14,304,157**

9. TIME DEPOSITS WITH BANKS

	31 December 2018	31 December 2017
Fixed Term Placements to Banks		
Placements to Banka per Biznes	2,000,000	-
Placements to Banka Kometare Tregtare	4,000,000	-
Total	**6,000,000**	**-**
Allowance for ECL/Impairment losses	(26,199)	-
Fixed Term Placements to Banks	**5,973,801**	**-**

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Standard (0 days)	6,000,000	-	-	6,000,000
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**6,000,000**	**-**	**-**	**6,000,000**

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2018	**-**		**-**		-
All transfers					
Derecognitions other than write-offs	-		-		-
Repayments and change in cash flow	-		-		-
New financial assets originated or purchased	6,000,000		(26,199)		5,973,801
Write-offs	-		-		-
Foreign currency effect and other movements	-		-		-
Net change in Profit and Loss	-		(26,199)		(26,199)
As at 31 December 2018	**6,000,000**	**-**	**(26,199)**	**-**	**5,973,801**

10. FINANCIAL INVESTMENTS AT AMORTIZED COST

	31 December 2018	31 December2017
Nominal Value T-Bills	**-**	**250,000**
T-Bills	-	249,146
Amortisation of discount	-	59
Net Value T-Bills	**-**	**249,205**
Nominal Value – Bonds	2,120,000	370,000
Bonds	2,113,137	367,432
Interest Receivables	4,025	2,926
Amortisation of discount	1,764	1,128
Amortisation of premium	-	(491)
Net value of Bonds	**2,118,926**	**370,994**
Allowance for ECL/Impairment losses	(14,265)	249,205
Net book value of securities	**2,104,661**	**620,199**

Investments in securities represent investments in Government Treasury Bills and Bonds classified as held to maturity and issued by the Government of the Republic of Kosovo. Bonds have short maturity terms maturing by on 31 August 2020.

Bonds amounting to a nominal value of Eur 2,000,000 are part of the Capital Equivalent Deposit, and are restricted in the same manner as Restricted Balances with Central Bank as described in Note 8.

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Standard (0 days)	2,118,926	-	-	2,118,926
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**2,118,926**	**-**	**-**	**2,118,926**

10. FINANCIAL INVESTMENTES AT AMORTIZED COST (CONTINUED)

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**620,199**		**(4,176)**		**616,023**
All transfers	-		-		-
Derecognitions other than write-offs	(497,520)		-		(497,520)
Repayments and change in cash flow	-		-		-
New financial assets originated or purchased	1,996,247		(10,089)		**1,986,158**
Write-offs	**-**		-		-
Foreign currency effect and other movements	-		-		-
Net change in Profit and Loss	-		**(10,089)**		**(10,089)**
As at 31 December 2018	**2,118,926**	**-**	**(14,265)**	**-**	**2,104,661**

11. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Commercial Loans	54,761,411	53,929,519
Individual Loans	807,678	898,557
Staff Loans	43,078	67,777
Overdrafts	29,892,231	27,229,226
Accrued interest	601,081	240,943
Total gross loans and advances to costumers	**86,105,479**	**82,366,022**
Deferred revenue on disbursement fee	(93,727)	(133,510)
Loan loss provisions	(796,116)	(1,283,835)
Net Loans	**85,215,636**	**80,948,677**

Movements in the impairment allowance in 2018 and 2017 are composed as follows:

	31 December 2018	31 December 2017
Allowance as at 1 January	1,283,835	**318,293**
Additional reserve adjustment for opening figures according to IFRS 9	(264,300)	-
Charge/(Release) for the year	(223,419)	965,542
Allowance as at 31 December	**796,116**	**1,283,835**

Gross carrying amount for total loans are, as follows:

Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	83,791,171	-	-	-	**83,791,171**
Watch (31-60 days)	-	209,001	-	-	**209,001**
Substandard (61-90 days)	-	746,908	-	-	**746,908**
Doubtful (91-180 days)	-	-	25,178	-	**25,178**
Loss (more than 180 days)	-	-	732,140	-	**732,140**
Accrued interest	426,665	11,789	162,627	-	**601,081**
Less: Deferred disbursement fee	**(66,530)**	**(1,838)**	**(25,359)**	-	**(93,727)**
Total Loans at amortized cost, gross	84,151,306	965,860	894,586	-	**86,011,752**
Less: Allowance for impairment	(156,981)	(5,549)	(633,586)	-	**(796,116)**
Loans and advances to customers, net	**83,994,325**	**960,311**	**261,000**	-	**85,215,636**

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans are as follows:

Total Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
Gross carrying amount as at 1 January 2018	**78,988,445**	**1,029,904**	**2,444,146**	**-**	**82,462,495**
Transfers:					
Transfer from Stage 1 to Stage 2	(393)	393	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Payments and assets derecognized other than write-offs	(21,080,626)	(292,173)	(1,583,565)		**(22,956,364)**
Changes to contractual cash flows due to modifications not resulting in derecognition	2,402,879	93,534	59,364		**2,555,777**
New loans originated	23,907,532	136,039	-	-	**24,043,571**
Gross carrying amount as at 31 December 2018	**84,217,837**	**967,697**	**919,945**	**-**	**86,105,479**

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis in the Expected Credit Losses is presented below:

Total Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
ECL amount as at 1 January 2018	**107,985**	**3,792**	**907,758**		**1,019,535**
Transfers:					**-**
Transfer from Stage 1 to Stage 2	(436)	436			**-**
Transfer from Stage 1 to Stage 3	-		-		**-**
Transfer from Stage 2 to Stage 3	-	-	-		**-**
Transfer from Stage 3 to Stage 2					**-**
Transfer from Stage 3 to Stage 1					**-**
Changes in PDs/LGDs/EADs	14,860	979	11,072		**26,911**
Derecognitions other than write-offs	(19,504)	(427)	(504,550)		**(524,481)**
Changes to contractual cash flows due to modifications not resulting in derecognition	9,495		219,305		**228,800**
New loans originated or purchased	44,582	769			**45,351**
Write-offs					**-**
FX and other movements					**-**
Net change in Profit and Loss	**48,997**	**1,757**	**(274,173)**	**-**	**(223,419)**
ECL amount as at 31 December 2018	**156,982**	**5,549**	**633,585**	**-**	**796,116**

12. PROPERTY AND EQUIPMENT

	Leasehold improvements	IT Equipment	Furniture, fixtures and equipment	Other Assets	Vehicles	Total
Cost						
Balance at 1 January 2017	**762,473**	**188,510**	**160,574**	**47,059**	**49,450**	**1,208,066**
Additions	3,438	-	12,566	8,596	-	24,600
Disposals	-	-	-	-	-	-
Balance at 31 December 2017	**765,911**	**188,510**	**173,140**	**55,655**	**49,450**	**1,232,666**
Additions	400,192	25,030	62,062	37,439	-	524,723
Disposals	(303,420)	-	-	-	-	(303,420)
Balance at 31 December 2018	**862,683**	**213,540**	**235,202**	**93,094**	**49,450**	**1,453,969**
Accumulated depreciation						
Balance at 1 January 2017	**232,378**	**15,709**	**76,701**	**30,328**	**20,283**	**375,399**
Charge for the year	77,894	37,702	33,400	9,928	9,890	**168,814**
Balance at 31 December 2017	**310,272**	**53,411**	**110,101**	**40,256**	**30,173**	**544,213**
Charge for the year	206,289	38,327	35,900	6,536	9,890	296,942
Disposals	(303,544)	-	(6,637)	(542)	-	(310,723)
Balance at 31 December 2018	**213,017**	**91,738**	**139,364**	**46,250**	**40,063**	**530,432**
Carrying amounts						
Balance at 31 December 2017	**455,639**	**135,099**	**63,039**	**15,399**	**19,277**	**688,453**
Balance at 31 December 2018	**649,665**	**121,802**	**95,838**	**46,844**	**9,387**	**923,537**

The value of EUR 16,391 and EUR 52,003 categorized into the furniture, fixtures and equipment category represent assets received as donations from Head Office during the fiscal years of 2015 and 2014.

13. INTANGIBLE ASSETS

	Software	Total
Cost		
Balance at 1 January 2017	**80,429**	**80,429**
Additions	-	-
Balance at 31 December 2017	**80,429**	**80,429**
Additions	58,641	58,641
Balance at 31 December 2018	**139,069**	**139,069**
Accumulated Amortization		
Balance at 1 January 2017	**23,659**	**23,659**
Charge for the year	9,755	9,755
Balance at 31 December 2017	**33,414**	**33,414**
Charge for the year	10,344	10,344
Balance at 31 December 2018	**43,758**	**43,758**
Carrying amounts		
Balance at 31 December 2017	**47,015**	**47,015**
Balance at 31 December 2018	**95,311**	**95,311**

14. REPOSSESSED COLLATERALS WRITE-DOWNS

	31 December 2018	31 December 2017
Repossessed assets	206,667	-
Impairment for repossessed assets	(43,020)	-
Total	**163,647**	**-**

Repossessed assets consist of a residential building repossessed during 2018.

Internal rating grade	Stage 1	Stage 2	Stage 2	Total
Standard (0 days)	**206,667**	-	-	**206,667**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**206,667**	**-**	**-**	**206,667**

14. REPOSSESSED COLLATERALS WRITE DOWNS (CONTINUED)

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**-**	**-**	**-**	**-**	**-**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	**206,667**	**-**	**(43,020)**	**-**	**163,647**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	**-**	**(43,020)**	**-**	**(43,020)**
As at 31 December 2018	**206,667**	**-**	**(43,020)**	**-**	**163,647**

14.1 PREPAID INCOME TAX

Prepaid income tax is comprised from balance of prepayment carried forward from previous period, net of ECL in the amount of EUR 12,736. Based on tax laws in Kosovo, prepayment income tax cannot be netted off against income tax payable, until this is allowed by tax authorities.

15. OTHER ASSETS

	31 December 2018	31 December 2017
Rent Prepayment	229,127	-
Prepayments	12,998	5,769
Adjustment for ECL	(1,976)	-
Total	**240,149**	**5,769**

An analysis of the gross amount of other assets by rating is presented below:

Internal rating grade	Stage 1	Stage 2	Stage 2	Total
Standard (0 days)	**242,125**	-	-	**242,125**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**242,125**	**-**	**-**	**242,125**

An analysis of gross carrying amount and ECL by stages, is presented below:

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2018	**5,769**		**(133)**		**5,636**
All transfers	-		-		-
Derecognitions other than write-offs	-		-		-
Repayments and change in cash flow	-		-		-
New financial assets originated or purchased	**236,356**		**(1,843)**		**234,513**
Write-offs	-		-		-
Foreign currency effect and other movements	-		-		-
Net change in Profit and Loss	**-**		**(1,843)**		**(1,843)**
As at 31 December 2018	**242,125**	**-**	**(1,976)**	**-**	**240,149**

16. DUE TO CUSTOMERS

	31 December 2018	31 December 2017
Current Accounts		
Individuals- CA	3,038,988	2,597,839
Corporations	5,130,682	1,841,855
State owned entities	2,063,606	7,253
Correspondent banks	38,694	12,084
Non-profit organizations	292,694	238,537
Total current accounts	**10,564,664**	**4,697,568**
Term Deposits		
Individuals – TDA	21,657,185	15,886,271
Corporations	22,618,890	16,962,382
State owed entities	800,000	2,875,100
Non-profit organizations	1,900,000	2,100,000
Interest payable - deposit	481,553	287,626
Total term deposits	**47,457,628**	**38,111,379**
Total deposits	**58,022,292**	**42,808,947**

Term deposits bear fixed interest rates ranging from 0.36% - 2.56% as of 31 December 2018 (2017: 0.5% - 3.1%).

17. DUE TO BANKS

Fixed-term deposits:	31-Dec-2018	31-Dec-2017
TEB Bank	10,000,000	3,000,000
Bank for Business	3,000,000	2,500,000
Interest Payable - Local Banks	6,432	25,602
Total	**13,006,432**	**5,525,602**

The short-term borrowing with commercial banks bear interest rates ranging from 0.85%% p.a. (2017: 0.9% to 1.1% p.a.), and have maturities ranging from 04e January 2019 to 11 June 2019.

18. DUE TO HEAD OFFICE AND OTHER AFFILIATES

	31 December 2018	31 December 2017
Current account with Head Office	493,481	2,159,364
Short term borrowing and deposits	31,700,000	38,396,108
Long term borrowing	1,885,885	1,472,286
Interest payable - HQ	355,764	159,185
Total	**34,435,130**	**42,186,943**

The short-term borrowings from the Head Office bear interest rates ranging from 0.85% p.a. to 5.35% p.a. (2017: 2.70% p.a. to 3.00% p.a.). The long-term borrowings bear interest rates ranging from 1.25% p.a. to 2.45% p.a. (2017: 1.00% p.a. to 2.99%) and have remaining weighted average maturity of 2 years.

Depending on needs for additional disbursements, the Branch has the right at its discretion, to renew or obtain additional funds at short notice from Head Office, as well as return to Head Office any extra liquidity.

19. OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2018	31 December 2017
Withholding tax on salary	5,203	6,499
Pension contributions payable	4,091	4,379
Withholding tax on rent and interest	21,018	10,290
Corporate tax payable (Note 28)	37,969	-
Total	**68,281**	**21,168**

20. DEFERRED REVENUE

	31 December 2018	31 December 2017
Deferred revenue	10,137	23,816
Total	**10,137**	**23,816**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank. Other income of EUR 13,679 (2017: EUR 14,559) for the year ended 31 December 2018 represent the value of deferred revenue recognized as income from asset donations.

21. OTHER LIABILITIES

	31 December 2018	31 December 2017
Other accruals	65,112	54,851
ECL/Provision for off-balance sheet items	16,980	33,870
Total	**82,092**	**88,721**

	2018 - letters of guarantees					2017
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Standard (0-30 days)	8,626,204	-	-	-	8,626,204	9,650,015
Watch (31-60 days)		150,000	-	-	150,000	105,000
Substandard (61-90 days)		5,000	-	-	5,000	-
Doubtful (91-180 days)	-	-	-	-	-	-
Loss (more than 180 days)	-	-	-	-	-	-
Total	**8,626,204**	**155,000**	**-**	**-**	**8,781,204**	**9,755,015**

21. OTHER LIABILITIES (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for letters of guarantees are as follows:

	Stage 1	Stage 2	Stage 3	POCI	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at 1-Jan-18	**9,650,015**	**105,000**	**-**	**-**	**9,755,015**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(4,161,092)	**50,000**	-	-	**(4,111,092)**
New loans originated or purchased	2,982,281				**2,982,281**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31-Dec-18	**8,471,204**	**155,000**	**-**	**-**	**8,626,204**

	Stage 1	Stage 2	Stage 3	POCI	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
ECL amount as at 1 January 2018	**13,652**	**-**	**-**	**-**	**13,652**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	**(1,903)**	455	-	-	**(1,448)**
Derecognitions other than write-offs	(963)	-	-	-	**(963)**
New loans originated or purchased	5,768	-	-	-	**5,768**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**2,902**	**455**	**-**	**-**	**3,357**
ECL amount as at 31 December 2018	**16,554**	**455**	**-**	**-**	**17,009**

22. SHARE CAPITAL

As at December 31, 2018, the share capital amounted to EUR 10,000 thousand (2017: EUR 10,000 thousand).

23. NET INTEREST INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income from loans and advances to customers	5,234,417	4,282,357
Interest income from securities	12,112	44,963
Interest income from deposits in local banks	510	483
Total interest income	**5,247,039**	**4,327,803**
Interest expenses		
Interest expenses for deposits	(813,774)	(519,209)
Interest expenses for borrowings	(1,263,755)	(727,760)
Total interest expenses	**(2,077,529)**	**(1,246,969)**
Net interest income	**3,169,510**	**3,080,834**

24. NET FEE AND COMMISION INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Fees for letter of guarantees	141,420	137,333
Fees for early termination of contracts	27,573	15,574
Other fee and commission income	152,162	152,529
Total fee and commission income	**321,155**	**305,436**
Fee and commission expense	(9,118)	(13,225)
Net fee and commission income	**312,037**	**292,211**

25. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2018	Year ended 31 December 2017
Foreign exchange gain	50,589	172,467
Foreign exchange loss	(96,083)	(20,209)
Net foreign exchange gain\(loss)	**(45,494)**	**152,258**

26. OTHER OPERATING EXPENSES

	Year ended 31 December 2018	**Year ended 31 December 2017**
Rent	232,681	122,637
Fees paid to CBK	150,908	180,861
Other tax and fee expenses	145,253	95,491
Consultancy and auditing	117,085	130,712
Payments system expenses	84,169	88,367
Communication expenses	65,338	74,922
Representation expenses	63,967	29,378
Utilities and Fuel	30,936	34,205
Maintenance and repair	22,888	26,426
Memberships	13,508	14,087
Security expenses	12,975	12,810
Operating lease expenses for vehicle	1,000	1,399
Other expenses	51,954	33,482
Total other operating expenses	**992,662**	**844,777**

27. EMPLOYEE BENEFITS

	Year ended 31 December 2018	**Year ended 31 December 2017**
Salaries	704,368	772,967
Welfare and pension contribution expenses	63,236	84,318
Health insurance	9,203	9,097
Other employee compensations	11,843	16,365
Total employee benefits	**788,650**	**882,747**

At 31 December 2018, the Bank had 28 employees (2017: 30).

Other compensations for international employees include health insurance, transportation and other related costs of transfer to Kosovo.

28. INCOME TAX EXPENSE

The income tax expense for the years ended 31 December 2018 and 31 December 2017 is composed of the following:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Current tax expense	224,251	-
Deferred tax	(56,528)	(101,853)
Total income tax	**167,723**	**(101,853)**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2018	**Year ended 31 December 2017**
Opening	12,840	(6,990)
Paid	-	6,990
Current tax expense	(224,251)	-
Addition during the year Prepaid tax	121,500	12,840
Utilization of losses carried forward	64,782	-
Tax prepaid/payable	**(37,969)**	**12,840**

Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Kosovo tax laws and regulations are subject to interpretations by the tax authorities.

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosovo is six years.

Movement in deferred tax liability is presented below:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Opening balance	101,853	-
deferred tax asset arising from tax losses carried forward	64,783	(64,719)
IFRS 9 impact on deferred tax asset	14,257	-
Movement of deferred tax	(56,528)	166,572
Deferred tax liability as at year end	**124,365**	**101,853**

28. INCOME TAX EXPENSE (CONTINUED)

The table below represents the calculation of corporate income tax for the year ended 31 December 2018 and 31 December 2017:

	Effective Tax rate	Year ended 31 December 2018	Effective Tax rate	Year ended 31 December 2017
Profit before tax		**1,517,453**		**674,701**
Tax calculated at 10%	10%	151,745	10%	67,470
Tax effect of interest earned from investments in Kosovo Governments securities	-10%	(1,211)	-10%	(4,496)
Tax effect of additional release/ impairment for CBK provisioning	-10%	72,791	10%	(166,573)
Tax effect of non-deductible expenses	10%	2,052	10%	7,266
Tax effect of exchange loss		4,549	10%	-
Tax effect of the accrued interest on term deposits	10%	6,286	10%	31,614
Tax effect on the impairment of repossessed assets	10%	4,302	10%	-
Tax effect on the differences in accrued interest for CBK and IFRS purposes	10%	(16,263)	10%	-
Total corporate income tax expenses/(benefit)	**10%**	**224,251**	**-**	**(64,720)**
Deferred tax asset (utilized)/recognized	**10%**	**(56,528)**	**-**	**-**
Deferred tax liability from temporary differences utilized/(recognized)	**-**	**-**	**-**	**166,573**
Total tax charge	**-**	**167,723**	**-**	**101,853**

29. RELATED PARTY TRANSACTIONS

Türkiye İş Bankası A.Ş.– Branch in Kosovo is a branch of Türkiye İş Bankası A.Ş. The major shareholders of Türkiye İş Bankası A.Ş and their participations in share capital as at 31 December 2018 are as follows:

- Isbank Pension Fund, acting on behalf of both active and retired Bank employees: 39.95%;
- Free Float: 31.96% (about 60% of the free float is held by foreign investors);
- Ataturk's Shares: 28.09%. The Republican People's Party (CHP) is the testamentary heir to the shares initially held by Ataturk (founder of Isbank).

Related party balances and transactions as at 31 December 2018 and 31 December 2017 are composed as follows:

	31 December 2018	31 December 2017
Due from Head Office		
Current accounts with Head Office	49,710	119,789
Due to Head Office		
Current accounts with Head Office	493,481	2,159,364
Short term borrowing	31,700,000	38,396,108
Long term borrowings	1,885,885	1,472,286
Interest payable related to short and long-term borrowing	355,763	159,185
Deferred revenue from donated assets	10,137	23,816
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	5,670,744	880,966
Due to other related parties	4,000,000	-
	Year ended 31 December 2018	**Year ended 31 December 2017**
Income generated from Head Office		
Other income from donated assets	11,270	14,559
Expense incurred with related parties		
Management remuneration	189.906	253,275
Interest expense for short-term borrowings	1,186,400	662,339

30. CONTINGENCIES AND COMMITMENTS

Guarantees and letters of credit	31 December 2018	31 December 2017
Guarantees in favour of customers	8,458,065	9,141,329
Letters of credit issued to customers	323,139	613,686
Total	**8,781,204**	**9,755,015**

Other	31-Dec-2018	31-Dec-2017
Loans approved but not disbursed	72,250	-
Unused balance of overdraft	2,609,332	2,404,213
Total	**2,681,582**	**2,404,213**

Lease commitments

	31-Dec-2018	31-Dec-2017
Less than one year	46,919	30,659
Total	**46,919**	**30,659**

Legal

In 2018, the Bank had no outstanding legal claims and litigations, and consequently the Bank’s management is of the opinion that no material losses will be incurred in relation to legal claims as at 31 December 2018 (2017:Nil).

31. SUBSEQUENT EVENTS

There are no significant events after the reporting date that may require adjustment or disclosure in the financial statements.