Türkiye İş Bankası A.Ş. – DEGA NË KOSOVË

Financial Statements as at and for the year ended 31 December 2015 (with independent auditors' report thereon)

CONTENTS

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Independent Auditors' Report

To the shareholders and management of
Türkiye İş Bankası A.Ş.– Dega në Kosovë

Pristina, 26 February 2016

We have audited the accompanying financial statements of Türkiye İş Bankası A.Ş.– Dega në Kosovë ("the Bank"), which comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk Kosovo Branch

KPMG Albania Shpk Kosovo Branch
6, Pashko Vasa Street,
Pristina, Kosovo

Türkiye İş Bankası A.Ş.-DEGA NË KOSOVË
FINANCIAL STATEMENTS

Statement of financial position as at 31 December 2015
(Amounts in EUR)

	Notes	31 December 2015	31 December 2014
Assets			
Cash on hand and at banks and balances with Central Bank	6	8,038,219	9,204,396
Investments in securities	7	9,791,295	5,631,055
Loans and advances to costumers	8	41,908,496	20,574,792
Property and equipment	9	884,102	844,245
Intangible assets	10	58,116	29,469
Deferred tax assets	23	106,705	120,804
Prepaid income tax		6,250	6,250
Other assets	11	8,931	1,031
Total assets		**60,802,114**	**36,412,042**
Liabilities			
Due to customers	12	19,727,696	11,080,035
Short-term borrowings	13	5,003,833	4,504,038
Due to Head Office	14	26,697,561	13,602,424
Other taxes and contribution payable	15	15,031	9,872
Deferred revenues	16	52,083	48,840
Other liabilities	17	185,425	29,144
Total liabilities		**51,681,629**	**29,274,353**
Shareholders' equity			
Share capital		10,000,000	8,183,000
Accumulated losses		(879,515)	(1,045,311)
Total shareholders' equity		**9,120,485**	**7,137,689**
Total liabilities and shareholders' equity		**60,802,114**	**36,412,042**

These Financial Statements were prepared by Deloitte Kosova sh.p.k. and approved on 26 February 2016 by:

Alper Karakoc
Branch Manager
Türkiye İş Bankası A.Ş.– Dega në Kosovë

Işıl Dilmen Düzgünçınar
Sub Manager
Türkiye İş Bankası A.Ş.– Dega në Kosovë

The accompanying notes on pages from 5 to 26 to the Financial Statements form an integral part of these Financial Statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2015
(Amounts in EUR)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Interest income		2,504,213	964,665
Interest expense		(640,088)	(207,589)
Net interest income	**18**	**1,864,125**	**757,076**
Fee and commission income		214,974	122,956
Fee and commission expense		(7,743)	(10,296)
Net fee and commission income	**19**	**207,231**	**112,660**
Net foreign exchange loss	**20**	(29,856)	(16,097)
Other income	**16**	13,511	3,932
Total operating income		**(16,345)**	**(12,165)**
Expenses			
Net impairment loss	**8**	(385,032)	(179,428)
Provisions for guarantees issued to customers		(42,473)	-
Other operating expenses	**21**	(575,663)	(502,585)
Employee benefits	**22**	(749,461)	(623,143)
Depreciation and amortization	**9,10**	(122,487)	(69,535)
Total expenses		**(1,875,116)**	**(1,374,691)**
Profit/(loss) before tax		**179,895**	**(517,120)**
Income tax (expense)/benefit	**23**	(14,099)	63,688
Net profit/(loss) for the year		**165,796**	**(453,432)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**165,796**	**(453,432)**

The accompanying notes on pages from 5 to 26 to the Financial Statements form an integral part of these Financial Statements.

Statement of changes in equity for the year ended 31 December 2015
(Amounts in EUR)

	Share capital	Accumulated losses	Total shareholders' equity
Balance at 1 January 2014	**8,093,000**	**(591,879)**	**7,501,121**
Total comprehensive loss for the year			
Net loss for the year		(453,432)	(453,432)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	**-**	**(453,432)**	**(453,432)**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners			
Paid in capital from Türkiye İş Bankası A.Ş	90,000	-	90,000
Balance at 31 December 2014	**8,183,000**	**(1,045,311)**	**7,137,689**
Balance at 1 January 2015	**8,183,000**	**(1,045,311)**	**7,137,689**
Total comprehensive loss for the year			
Net profit for the year		165,796	165,796
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**165,796**	**165,796**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners			
Paid in capital from Türkiye İş Bankası A.Ş	1,817,000	-	1,817,000
Balance at 31 December 2015	**10,000,000**	**(879,515)**	**9,120,485**

The accompanying notes on pages from 5 to 26 to the Financial Statements form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2015
(Amounts in EUR)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
I. Cash flows from (used in) operating activities			
Profit/(loss) before tax		179,895	(517,120)
Adjustments for:			
Depreciation and amortization	**9**	122,487	69,534
Net impairment loss	**8**	427,505	179,428
Interest income	**18**	(2,504,213)	(964,665)
Interest expense	**18**	640,088	207,589
Changes in operating assets and liabilities:			
Balances with CBK	**6**	1,751,043	(1,411,021)
Loans and advances to customers	**8**	(21,661,483)	(17,459,392)
Due to Head Office	**14**	12,909,857	13,259,438
Due to customers	**12**	8,586,892	10,751,753
Tax payables and other liabilities	**15,17**	118,968	27,219
Deferred revenues	**16**	3,243	48,840
Other assets	**11**	(7,900)	35,818
Interest paid		(394,244)	(188,190)
Interest received		2,411,840	856,587
Cash generated from operations		**2,583,978**	**4,895,818**
Net cash from operating activities (I)		**2,583,978**	**4,895,818**
II. Cash flows used in investing activities			
Investment in securities	**7**	(4,125,121)	(4,141,289)
Acquisition of property and equipment	**9**	(162,344)	(621,537)
Acquisition of intangible assets	**10**	(28,647)	(29,469)
Net cash used in investing activities (II)		**(4,316,112)**	**(4,792,295)**
III. Cash flows from financing activities			
Proceeds from borrowings	**13**	500,000	350,000
New capital subscribed		1,817,000	90,000
Net cash from financing activities (III)		**2,317,000**	**440,000**
IV. Net increase in cash and cash equivalents (I+II+III)		584,866	543,523
V. Cash and cash equivalents at the beginning of the year	**6**	1,148,119	604,596
VI. Cash and cash equivalents at the end of the year (IV + V)	**6**	**1,732,985**	**1,148,119**

The accompanying notes on pages from 5 to 26 to the Financial Statements form an integral part of these Financial Statements.

1. REPORTING ENTITY

Türkiye İş Bankası A.Ş.– Dega në Kosovë ("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.

During 2015, the Bank operates with two branches. One office is located at UÇK 43, 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.

(c) Functional and presentation currency

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

(d) 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 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(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

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or 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.

The calculation of the effective interest rate includes all 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, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income includes interest on financial assets and liabilities measured at amortized cost calculated on an effective interest rate basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Fees and commissions

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

Other fees and commission income – including account servicing fees, sales commission, placement fees– are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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

(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

(i) Recognition

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

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

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

- loans and receivables
- held to maturity.

Refer to notes 3(g) to 3(h).

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Refer to 3(j).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition

Financial assets

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 of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) 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 recognized in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

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

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Amortized cost measurement

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If the 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 recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the 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 recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

Impairment of loans and advances

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

(g) Loans and advances

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.

(h) Investments held-to-maturity

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

(l) 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.

(m) 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.

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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from continued use of the asset. 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.

(n) 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 three years.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) 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.

(q) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards and amendments early.

IFRS 9 Financial Instruments
IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank has started the process of evaluating the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis may result in an increase in the overall level of impairment allowances.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements:

Effective for annual reporting periods beginning on or after 1 January 2016

- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

Effective for annual reporting periods beginning on or after 1 January 2017

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*

Effective for annual reporting periods beginning on or after 1 January 2019

- IFRS 16 *Leases*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Reclassifications

When necessary, comparative figures are reclassified for the purposes of comparability.

The interest payable of EUR 20,476 as at 31 December 2014, previously included in other liabilities was reclassified as accrued interest within balances due to customers, short-term borrowings, and due to Head Office and has increased those balances by EUR 9,498, EUR 4,038, and EUR 6,940 respectively. Interest income of EUR 161,276 for the year ended 31 December 2014, representing interest from investments in securities and from the Head Office, was reclassified from net financial income to interest income.

4. 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.

4. 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 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Balances with Central Bank of Kosovo (see Note 6)	6,305,234	8,056,277
Cash at banks (see Note 6)	1,173,467	330,558
Loans and advances to costumers, net	41,908,496	20,574,792
Investments in securities	9,791,295	5,631,055
Guarantees in favor of customers and credit commitments	4,658,617	4,134,041
Maximum exposure to credit risk	**63,837,109**	**38,726,723**

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 2015	31 December 2014
Neither past due nor impaired	41,908,496	20,574,792
Past due but not impaired	-	-
Total	**41,908,496**	**20,574,792**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	31 December 2015	31 December 2014
Past due 0-30 days	42,506,432	20,787,696
Past due over 30 days	-	-
Total Loans	**42,506,432**	**20,787,696**
Less: Allowance for impairment	(597,936)	(212,904)
Loans and advances to customers, net	**41,908,496**	**20,574,792**

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

	31 December 2015	31 December 2014
Real estate	40,948,261	22,521,226
Total	**40,948,261**	**22,521,226**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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 2015 and 2014, the Bank's financial assets and liabilities have remaining maturities as follows:

31 December 2015	**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	1,732,985	-	-	-	-	6,305,234	8,038,219
Investments in securities	-	4,649,922	1,268,166	3,756,110	117,097	-	9,791,295
Loans and advances to customers	521,234	1,631,393	8,719,062	24,675,865	6,360,942	-	41,908,496
Total	**2,254,219**	**6,281,315**	**9,987,228**	**28,431,975**	**6,478,039**	**6,305,234**	**59,738,010**
Liabilities							
Deposits from costumers	5,988,160	4,738,388	7,641,358	1,359,790	-	-	19,727,696
Short term borrowings	5,003,833	-	-	-	-	-	5,003,833
Due to Head Office	3,842,603	4,030,856	18,334,577	489,525	-	-	26,697,561
Other liabilities	185,425	-	-	-	-	-	185,425
Total	**15,020,021**	**8,769,244**	**25,975,935**	**1,849,315**	**-**	**-**	**51,614,515**
Net Position	**(12,765,802)**	**(2,487,929)**	**(15,988,707)**	**26,582,660**	**6,478,039**	**6,305,234**	**8,123,495**
Cumulative net position	**(12,765,802)**	**(15,253,731)**	**(31,242,438)**	**(4,659,778)**	**1,818,261**	**8,123,495**	**-**

31 December 2014	**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	1,148,119	-	-	-	-	8,056,277	9,204,396
Investment in securities	870,131	-	395,807	4,365,117	-	-	5,631,055
Loans and advances to customers	287,224	426,127	4,200,677	13,511,854	2,148,910	-	20,574,792
Total	**2,305,474**	**426,127**	**4,596,484**	**17,876,971**	**2,148,910**	**8,056,277**	**35,410,243**
Liabilities							
Due to customers	6,144,621	225,517	4,709,897	-	-	-	11,080,035
Short term borrowings	4,504,038	-	-	-	-	-	4,504,038
Due to Head Office	13,602,424	-	-	-	-	-	13,602,424
Other liabilities	29,144	-	-	-	-	-	29,144
Total	**24,280,227**	**225,517**	**4,709,897**	**-**	**-**	**-**	**29,215,641**
Net Position	**(21,974,753)**	**200,610**	**(113,413)**	**17,876,971**	**2,148,910**	**8,056,277**	**6,194,602**
Cumulative net position	**(21,974,753)**	**(21,774,143)**	**(21,887,556)**	**(4,010,585)**	**(1,861,675)**	**6,194,602**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk

i. Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosovo guidelines and the Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Head Office manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The foreign currencies the Bank deals with are predominantly United States Dollars (USD), Turkish Lira (TRY), Swiss Franc (CHF) and Great Britain Pound (GBP).

The exchange rates used for conversion of foreign currency values at 31 December 2015 and 2014 are as follows:

Compared to EUR	31 December 2015	31 December 2014
1 USD	0.9185	0.8236
1 TRY	0.3148	0.3531
1 GBP	1.3623	1.2838
1 CHF	0.9229	0.8316

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2015 and 2014 as translated into EUR:

2015	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	7,761,079	20,943	78,566	26,483	151,148	8,038,219
Investment securities	9,791,295	-	-	-	-	9,791,295
Loans and advances to customers	41,861,132	-	47,364	-	-	41,908,496
Total	**59,413,506**	**20,943**	**125,930**	**26,483**	**151,148**	**59,738,010**
Liabilities						
Deposits from costumers	19,128,553	-	488,648	12	110,483	19,727,696
Short term borrowings	5,003,833	-	-	-	-	5,003,833
Due to Head Office	26,697,561	-	-	-	-	26,697,561
Other liabilities	185,425	-	-	-	-	185,425
Total	**51,015,372**	**-**	**488,648**	**12**	**110,483**	**51,614,515**
Net position	**8,398,134**	**20,943**	**(362,718)**	**26,471**	**40,665**	**8,123,495**
Cumulative net position	**8,398,134**	**8,419,077**	**8,056,359**	**8,082,830**	**8,123,495**	**-**

2014	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	9,068,790	14,429	86,406	22,557	12,214	9,204,396
Investment in securities	5,631,055	-	-	-	-	5,631,055
Loans and advances to customers	20,498,134	-	76,658	-	-	20,574,792
Total	**35,197,979**	**14,429**	**163,064**	**22,557**	**12,214**	**35,410,243**
Liabilities						
Customer deposits	11,047,821	-	31,858	-	356	11,080,035
Short term borrowings	4,504,038	-	-	-	-	4,504,038
Due to Head Office	13,190,943	-	411,470	11	-	13,602,424
Other liabilities	29,144	-	-	-	-	29,144
Total	**28,771,946**	**-**	**443,328**	**11**	**356**	**29,215,641**
Net position	**6,426,033**	**14,429**	**(280,264)**	**22,546**	**11,858**	**6,194,602**
Cumulative net position	**6,426,033**	**6,440,462**	**6,160,198**	**6,182,744**	**6,194,602**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

ii. Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. 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. Included in the tables are the Bank's monetary assets and liabilities.

2015	**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	-	-	-	-	-	8,038,219	8,038,219
Investments in securities	-	4,649,922	1,268,166	3,756,110	117,097	-	9,791,295
Loans and advances to customers – fixed rate	521,234	1,575,093	8,588,012	24,316,464	6,360,944	-	41,361,747
Loans and advances to customers – floating rate	-	323,000	223,749	-	-	-	546,749
Total	**521,234**	**6,548,015**	**10,079,927**	**28,072,574**	**6,478,041**	**8,038,219**	**59,738,010**
Liabilities							
Deposits from costumers	2,249,585	4,738,388	7,641,358	1,359,790	-	3,738,575	19,727,696
Short term borrowings	5,003,833	-	-	-	-	-	5,003,833
Dues to Head Office – fixed rate	2,016,012	3,710,856	18,108,052	489,525	-	1,823,591	26,148,036
Dues to Head Office – floating rate	-	323,000	226,525	-		-	549,525
Other liabilities	185,425	-	-	-	-	-	185,425
Total	**9,454,855**	**8,772,244**	**25,975,935**	**1,849,315**	**-**	**5,562,166**	**51,614,515**
Net Position	**(8,933,621)**	**(2,224,229)**	**(15,896,008)**	**26,223,259**	**6,478,041**	**2,476,053**	**8,123,495**
Cumulative net position	**(8,933,621)**	**(11,157,850)**	**(27,053,858)**	**(830,599)**	**5,647,442**	**8,123,495**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

ii. Interest rate risk (continued)

2014	**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	-	-	-	-	-	9,204,396	9,204,396
Investments in securities	870,131	-	395,807	4,365,117	-	-	5,631,055
Loans and advances to customers-fixed rate	287,224	426,127	4,200,677	13,511,854	2,148,910		20,574,792
Total	**1,157,355**	**426,127**	**4,596,484**	**17,876,971**	**2,148,910**	**9,204,396**	**35,410,243**
Liabilities							
Due to customers	5,209,497	225,517	4,709,897	-	-	935,124	11,080,035
Short term borrowings	4,504,038	-	-	-	-	-	4,504,038
Due to Head Office – fixed rate	12,506,940	-	-	-	-	1,095,484	13,602,424
Other liabilities	29,144	-	-	-	-	-	29,144
Total	**22,249,619**	**225,517**	**4,709,897**	**-**	**-**	**2,030,608**	**29,215,641**
Net Position as at 31 December 2014	**(21,092,264)**	**200,610**	**(113,413)**	**17,876,971**	**2,148,910**	**7,173,788**	**6,194,602**
Cumulative net position	**(21,092,264)**	**(20,891,654)**	**(21,005,067)**	**(3,128,096)**	**(979,186)**	**6,194,602**	**-**

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 and 2014 are as follows:

	2015		**2014**	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	N/a	-	N/a	-
Loans and advances to customers	N/a	7.31%	N/a	7.73%
Investment securities (HTM)	N/a	2.56%	N/a	2.23%
Liabilities				
Customer deposits	1.51%	1.55%	N/a	1.23%
Short term borrowings	N/a	1.20%	N/a	1.24%

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:

	2015		**2014**	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	81,235	(81,235)	61,194	(61,194)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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.

(e) 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 2015 and 2014.

5. USE OF ESTIMATES AND JUDGMENTS

(a) Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.(f).(vii).

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Committee.

A collective component of the total allowance is established for groups of homogeneous loans that are not individually impaired.

Collective allowance for groups of assets that are not considered individually significant and those that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

5. USE OF ESTMATES AND JUDGMENTS (CONTINUE)

(a) Impairment (continue)

In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Bank considers the market's assessment of creditworthiness as reflected in the bond yields, the rating agencies' assessments of the creditworthiness, the ability of the country to access the capital markets for new debt issuance, the probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness and the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about governments' and agencies' willingness to use those mechanisms. This includes an assessment as to the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

(b) Fair value of financial instruments

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Cash and cash equivalents and mandatory reserve

Cash and cash equivalents include balances that are short term. Their fair value is considered to equate to their carrying amount.

Investment in securities

The treasury bills have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying yield rates, which approximate market rates.

Due to Head Office and Short term borrowings

Short term borrowings due to IS Bank AG, and Parent Company (Head Office) have an estimated fair value approximately equal to their carrying amount, because of their short-term nature.

Had all the declines in fair value below carrying value been considered significant or prolonged, the Bank would suffer an additional EUR 570,401 loss in its 2015 financial statements (2014: EUR 1,516,828).

	2015		2014	
	Carrying value	**Fair value Level 2**	**Carrying value**	**Fair value Level 2**
Loans and advances to customers	41,908,496	41,299,135	20,574,792	19,042,238
Due to customers	19,727,696	19,766,656	11,080,035	11,095,761

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

	31 December 2015	31 December 2014
Cash on hand		
Cash on hand	559,518	817,561
Cash at banks		
Current account with Raiffeisen Bank Kosovo	497,326	190,443
Current account with IS Bank AG, Germany	655,198	125,686
Current account with Head Office	20,943	14,429
	1,173,467	**330,558**
Cash and cash equivalents	**1,732,985**	**1,148,119**
Restricted balances with Central Bank		
Balances with Central Bank of Kosovo ('CBK')	6,305,234	8,056,277
Total	**8,038,219**	**9,204,396**

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. 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 2015 and 2014 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit (see note 4(e)). Investments in securities (see Note 7) are also used as capital equivalency deposits required for a branch of a foreign bank.

7. INVESTMENTS IN SECURITIES

	31 December 2015	31 December 2014
Nominal Value - Treasury Bills	**1,530,000**	**1,270,000**
Treasury Bills (price)	1,505,733	1,255,859
Amortization of discount	10,969	11,097
Carrying amount	**1,516,702**	**1,266,956**
Nominal Value - Bonds	8,220,000	4,350,000
Bonds (price)	8,206,889	4,330,361
Interest receivable	61,219	26,100
Amortization of discount	11,410	8,458
Amortization of premium	(4,925)	(820)
Carrying amount	**8,274,593**	**4,364,099**
Total	**9,791,295**	**5,631,055**

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. Treasury Bills have short maturity terms with the last maturing by 7 December 2016, whilst the bonds mature on 31 August 2020.

8. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2015	31 December 2014
Commercial Loans	36,063,111	18,595,716
Individual Loans	201,533	147,673
Staff Loans	40,532	78,296
Overdrafts	6,136,736	1,885,293
Accrued interest	137,971	80,718
Deferred disbursement fee	(73,451)	-
Total gross loans and advances to costumers	**42,506,432**	**20,787,696**
Allowance for impairment	(597,936)	(212,904)
Loans and advances to customers	**41,908,496**	**20,574,792**

Movements in the impairment allowance in 2015 and 2014 are composed as follows:

	2015	2014
Allowance as at 1 January	**212,904**	**33,476**
Charge for the year	385,032	179,428
Allowance as at 31 December	**597,936**	**212,904**

9. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Other Assets	Vehicles	Assets in progress	Total
Cost						
Balance at 1 January 2014	294,537	13,172	23,804	-	-	**331,513**
Additions	452,990	119,252	22,345	26,950	-	**621,537**
Balance at 31 December 2014	**747,527**	**132,424**	**46,149**	**26,950**	**-**	**953,050**
Accumulated depreciation						
Balance at 1 January 2014	31,723	2,669	4,878	**-**	**-**	**39,270**
Charge for the year	47,171	11,420	6,705	4,239	-	**69,535**
Balance at 31 December 2014	**78,894**	**14,089**	**11,583**	**4,239**	**-**	**108,805**
Net Balance at 31 December 2014	**668,633**	**118,335**	**34,566**	**22,711**	**-**	**844,245**
Cost						
Balance at 1 January 2015	747,528	132,423	46,149	26,950	-	**953,050**
Additions	12,125	17,995	60	22,500	109,664	**162,344**
Balance at 31 December 2015	**759,653**	**150,418**	**46,209**	**49,450**	**109,664**	**1,115,394**
Accumulated depreciation						
Balance at 1 January 2015	**78,894**	**14,089**	**11,584**	**4,238**	**-**	**108,805**
Charge for the year	75,651	31,463	9,233	6,140	-	**122,487**
Balance at 31 December 2015	**154,545**	**45,552**	**20,817**	**10,378**	**-**	**231,292**
Net Balance at 31 December 2015	**605,108**	**104,866**	**25,392**	**39,072**	**109,664**	**884,102**

During the year 2015, the Bank received assets with a total cost of EUR 16,391 (2014: EUR 52,016) as donations from the Head Office.

Assets in progress represent acquisition of servers for the purpose of supporting the banking activities. As at 31 December 2015, these assets were not yet available for use.

10. INTANGIBLE ASSETS

	Software in Progress
Cost	
Balance at 1 January 2014	-
Additions	29,469
Balance at 31 December 2014	**29,469**
Accumulated Amortization	
Balance at 1 January 2014	-
Charge for the year	-
Balance at 31 December 2014	-
Net Balance at 31 December 2014	**29,469**
Cost	
Balance at 1 January 2015	29,469
Additions	28,647
Balance at 31 December 2015	**58,116**
Accumulated Amortization	
Balance at 1 January 2015	-
Charge for the year	-
Balance at 31 December 2015	**-**
Net Balance at 31 December 2015	**58,116**

Software in progress represent acquisition of software and licenses for the purpose of supporting the banking activities. The software is under development and customizing phase and has not been ready for use at 31 December 2015. Software currently in use by the Bank is provided by the Head Office at no cost for the Branch.

11. OTHER ASSETS

	31 December 2015	31 December 2014
Prepayments	8,931	1,031
Total	**8,931**	**1,031**

12. DUE TO CUSTOMERS

	31 December 2015	31 December 2014
Current Accounts		
Individuals	1,288,974	395,787
Corporations	2,443,471	459,204
State owed entities	6,130	80,133
Total current accounts	**3,738,575**	**935,124**
Term Deposits		
Individuals	6,692,381	1,885,413
Corporations	9,152,773	3,250,000
State owed entities	73,700	5,000,000
Interest payable	70,267	9,498
Total term deposits	**15,989,121**	**10,144,911**
Total deposits	**19,727,696**	**11,080,035**

13. SHORT-TERM BORROWINGS

	31 December 2015	31 December 2014
IS Bank AG, Germany	-	4,500,000
TEB Sh.a	5,000,000	-
Accrued interest payable	3,833	4,038
Total	**5,003,833**	**4,504,038**

The short-term borrowing with an interest rate of 1.20% p.a. (2014: 0.95% p.a.) mature on 8 January 2016 (2014: 5 January 2015).

14. DUE TO HEAD OFFICE

	31 December 2015	31 December 2014
Current accounts with Head Office	1,823,591	1,066,262
Short-term borrowings and deposits	24,195,000	12,500,000
Long-term borrowing	486,750	-
Other payables	-	29,222
Interest payable	192,220	6,940
Total	**26,697,561**	**13,602,424**

The short-term borrowings and deposits from the Head Office bear interest rates ranging from 1.25% p.a. to 3.00% p.a. (2014: 0.95% p.a. to 1.25% p.a.). The long-term borrowings bear interest rates ranging from 1.25% p.a. to 2.40% p.a. (2014: nil) and have maturities ranging from 13 October 2017 to 19 November 2020.

15. OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2015	31 December 2014
Withholding tax on salary	5,383	4,469
Pension contributions payable	1,749	1,912
Withholding tax on rent and interest	7,899	3,491
Total	**15,031**	**9,872**

16. DEFERRED REVENUE

	31 December 2015	31 December 2014
Deferred revenue	52,083	48,840
Total	**52,083**	**48,840**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank. Other income of EUR 13,511 (2014: EUR 3,932) for the year ended 31 December 2015 represent the value of deferred revenue recognized as income from asset donations.

17. OTHER LIABILITIES

	31 December 2015	31 December 2014
Accrued expenses	39,002	29,144
Payables to suppliers for servers purchased in 2015	103,951	-
Provision for off-balance sheet items	42,472	-
Total	**185,425**	**29,144**

18. NET INTEREST INCOME

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income from loans and advances to customers	2,284,773	803,389
Interest income from securities	219,440	129,881
Interest income from Head Office	-	31,395
Total interest income	**2,504,213**	**964,665**
Interest expenses		
Interest expenses for deposits	(202,988)	(95,178)
Interest expenses for borrowings	(437,100)	(112,411)
Total interest expenses	**(640,088)**	**(207,589)**
Net interest income	**1,864,125**	**757,076**

19. NET FEE AND COMMISION INCOME

	Year ended 31 December 2015	Year ended 31 December 2014
Fees for early termination of the contracts	89,295	-
Fees for letter of guarantees	57,352	26,559
Other fee and commission income	68,327	96,397
Total fee and commission income	**214,974**	**122,956**
Fee and commission expense	(7,743)	(10,296)
Net fee and commission income	**207,231**	**112,660**

20. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2015	Year ended 31 December 2014
Foreign exchange gain	5,292	838
Foreign exchange loss	(35,148)	(16,935)
Net foreign exchange loss	**(29,856)**	**(16,097)**

21. OTHER OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Fees paid to CBK	127,278	185,168
Rent	122,637	97,912
Consultancy and audit fees	95,618	51,746
Payments system expenses	90,016	39,742
Utilities and Fuel	29,901	27,833
Other expenses	27,571	20,527
Maintenance and repair	17,691	19,577
Communication expenses	16,160	12,740
Representation expenses	14,512	14,141
Memberships	14,083	13,634
Security expenses	10,183	7,465
Lease expenses for vehicle	10,013	12,100
Total	**575,663**	**502,585**

22. EMPLOYEE BENEFITS

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries	637,811	490,174
Welfare and pension contribution expenses	88,553	77,210
Health insurance	7,497	5,792
Other employee compensations	15,600	49,967
Total	**749,461**	**623,143**

At 31 December 2015, the Bank had 19 employees (2014:18).

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

23. INCOME TAX

The income tax (expense)/benefit for the years ended 31 December 2015 and 31 December 2014 is composed of the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax expense	(14,099)	-
Deferred tax income	-	63,688
Total	**(14,099)**	**63,688**

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 seven years.

The Bank has recognized a deferred tax asset arising from tax losses as it is confident that future taxable income will be sufficient to allow the benefit of the loss to be realized.

	Effective Tax rate	Year ended 31 December 2015	Effective Tax rate	Year ended 31 December 2014
Profit/(Loss) before tax		**179,895**		**(517,120)**
Tax calculated at 10%	10%	17,990	10%	(51,712)
Tax effect of interest earned from investments in Kosovo Governments securities	(12%)	(21,944)	(3%)	(12,989)
Tax effect of non-deductible expenses	1%	1,140	-	1,013
Tax effect of the accrued interest on term deposits	9%	16,913	-	-
Total corporate income tax expenses/(benefit)		**14,099**		**(63,688)**
Deferred tax asset (utilized)/recognized		**(14,099)**		**63,688**
Total tax charge	**-**	**-**	**-**	**-**

The composition of deferred tax assets is as follows:

Fiscal Year	Taxable Profit/(Loss)	Tax rate	Recognized/ (utilized) deferred tax asset	Cumulative deferred tax asset
2012	(32,157)	10%	3,216	3,216
2013	(539,012)	10%	53,900	57,116
2014	(636,876)	10%	63,688	120,804
2015	140,993	10%	(14,099)	106,705

24. RELATED PARTY TRANSACTIONS

Türkiye İş Bankası A.Ş.– Dega në Kosovë (“the Bank” or “the Branch”) 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 2015 are as follows:

- Isbank Pension Fund, acting on behalf of both active and retired Bank employees: 40.15%;
- Free Float: 31.76% (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).

24. RELATED PARTY TRANSACTIONS (CONTNUED)

Related party balances and transactions as at 31 December 2015 and 31 December 2014 are composed as follows:

	31 December 2015	31 December 2014
Due from Head Office		
Current accounts with Head Office	20,943	14,429
Due to Head Office		
Current accounts with Head Office	1,823,591	1,066,262
Short term borrowing	24,195,000	12,500,000
Long term borrowings	486,750	-
Other payables to Head office	-	29,222
Interest payable related to short and long term borrowing	192,220	6,940
Deferred revenue from donated assets	52,083	48,840
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	655,198	125,686
Due to other related parties (subsidiaries of HO)		
Due to Is Bank AG, Germany	-	4,500,000

	Year ended 31 December 2015	Year ended 31 December 2014
Income generated from Head Office		
Interest income from Head Office	-	31,395
Other income from donated assets	13,511	3,932
Expense incurred with related parties		
Management remuneration	278,152	198,307
Interest expense for short-term borrowings	392,414	39,533
Interest expense for balances due to IS Bank AG, Germany	4,965	76,809

25. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	31 December 2015	31 December 2014
Guarantees in favor of customers	2,655,353	2,920,084
Loans approved but not yet disbursed	-	849,250
Undrawn credit commitments	2,003,264	364,707
Total	**4,658,617**	**4,134,041**

Non-cancelable lease commitments	31 December 2015	31 December 2014
Less than one year	30,659	30,659
Total	**30,659**	**30,659**

Legal

In 2015, 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 outstanding as at 31 December 2015 (2014: Nil).

26. SUBSEQUENT EVENT

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