Türkiye İş Bankası A.Ş. – DEGA NË KOSOVË

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
WITH INDEPENDENT AUDITORS' REPORT THEREON

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

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 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give true and fair view of the financial position of the Bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

Responsibilities of management for the financial statements

Management is responsible to prepare financial statements that give a true and fair view 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.

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. Management is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility

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 the Management 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

Ernst & Young Certified Auditors Kosovo shpk

Prishtina, March 1, 2017

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

Statement of financial position as at 31 December 2016
(Amounts in EUR)

	Notes	31 December 2016	31 December 2015
Assets			
Cash on hand and at banks and balances with Central Bank	6	14,276,905	8,038,219
Investments in securities	7	4,645,875	9,791,295
Loans and advances to costumers	8	54,491,314	41,908,496
Property and equipment	9	832,667	884,102
Intangible assets	10	56,770	58,116
Deferred tax assets	24	-	106,705
Prepaid income tax	24	-	6,250
Other assets	11	4,767	8,931
Total assets		**74,308,298**	**60,802,114**
Liabilities			
Due to customers	12	30,914,346	19,727,696
Short-term borrowings	13	7,905,295	5,003,833
Due to Head Office	14	25,146,612	26,697,561
Other taxes and contribution payable	15, 24	32,444	15,031
Deferred revenues	16	38,375	52,083
Other provision and liabilities	17	65,802	185,425
Total liabilities		**64,102,874**	**51,681,629**
Shareholders' equity			
Share capital	18	10,000,000	10,000,000
Accumulated profit/(losses)		205,424	(879,515)
Total shareholders' equity		**10,205,424**	**9,120,485**
Total liabilities and shareholders' equity		**74,308,298**	**60,802,114**

These Financial Statements were prepared by Deloitte Kosova sh.p.k. and approved on behalf of the Bank on March 1, 2017 by:

Alper Karakoc
Branch Manager
Turkiye Is Bankasi A.S. – Branch in Kosovo

Teuta Rexhbecaj

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

The accompanying notes on pages from 5 to 31 to the Financial Statements form an integral part of these Financial Statements.

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2016
(Amounts in EUR)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Interest income		3,530,730	2,504,213
Interest expense		(1,039,733)	(640,088)
Net interest income	**19**	**2,490,997**	**1,864,125**
Fee and commission income		193,643	214,974
Fee and commission expense		(29,710)	(25,966)
Net fee and commission income	**20**	**163,933**	**189,008**
Net foreign exchange loss	**21**	(56,465)	(29,856)
Other income	**16**	15,749	13,511
Total operating income		**(40,716)**	**(16,345)**
Expenses			
Loan loss provisions	**8**	279,643	(385,033)
Provisions for guarantees issued to customers		13,091	(42,472)
Other operating expenses	**22**	(714,820)	(557,441)
Employee benefits	**23**	(817,154)	(749,460)
Depreciation and amortization	**9,10**	(167,766)	(122,487)
Total expenses		**(1,407,006)**	**(1,856,893)**
Profit/(loss) before tax		**1,207,208**	**179,895**
Income tax expense	**24**	(122,269)	(14,099)
Net profit/(loss) for the year		**1,084,939**	**165,796**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**1,084,939**	**165,796**

The accompanying notes on pages from 5 to 31 to the Financial Statements form an integral part of these Financial Statements.

Statement of changes in equity for the year ended 31 December 2016
(Amounts in EUR)

	Share capital	**Retained earnings /(accumulated losses)**	**Total shareholders' equity**
Balance at 1 January 2015	**8,183,000**	**(1,045,311)**	**7,137,689**
Total comprehensive income 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 Is Bankasi Turkiye A.S.	1,817,000	-	1,817,000
Balance at 31 December 2015	**10,000,000**	**(879,515)**	**9,120,485**
Balance at 1 January 2016	**10,000,000**	**(879,515)**	**9,120,485**
Total comprehensive income for the year			
Net profit for the year	-	1,084,939	1,084,939
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**1,084,939**	**1,084,939**
Balance at 31 December 2016	**10,000,000**	**205,424**	**10,205,424**

The accompanying notes on pages from 5 to 31 to the Financial Statements form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2016
(Amounts in EUR)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
I. Cash flows from (used in) operating activities			
Profit/(loss) before tax		1,207,208	179,895
Adjustments for:			
Depreciation and amortization	**9,10**	167,766	122,487
Net impairment (gain)/loss	**8**	(292,734)	427,505
Interest income	**19**	(3,530,730)	(2,504,213)
Interest expense	**19**	1,039,733	640,088
Changes in operating assets and liabilities:			
Balances with CBK	**6**	(5,049,944)	1,751,042
Loans and advances to customers	**8**	(12,230,675)	(21,661,481)
Due to Head Office	**14**	(1,533,004)	12,909,858
Due to customers	**12**	11,092,078	8,586,892
Tax payables and other liabilities	**15,17**	(99,886)	118,966
Deferred revenues	**16**	(13,708)	3,243
Other assets	**11**	10,414	(1,650)
Income tax paid		(2,324)	(6,250)
Interest paid		(961,645)	(394,243)
Interest received		3,513,870	2,411,840
Cash generated from operations		**(6,683,581)**	**2,583,979**
Net cash from operating activities (I)		**(6,683,581)**	**2,583,979**
II. Cash flows used in investing activities			
(Purchase of)/proceeds from investment in securities	**7**	5,087,308	(4,125,122)
Acquisition of property and equipment	**9**	(92,673)	(162,344)
Acquisition of intangible assets	**10**	(22,312)	(28,647)
Net cash used in investing activities (II)		**4,972,323**	**(4,316,113)**
III. Cash flows from financing activities			
Proceeds from borrowings	**13**	2,900,000	500,000
New capital subscribed		-	1,817,000
Net cash from financing activities (III)		**2,900,000**	**2,317,000**
IV. Net increase in cash and cash equivalents (I+II+III)		1,188,742	584,866
V. Cash and cash equivalents at the beginning of the year	**6**	1,732,985	1,148,119
VI. Cash and cash equivalents at the end of the year (IV + V)	**6**	**2,921,727**	**1,732,985**

The accompanying notes on pages from 5 to 31 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. The Bank operates with two branches. One office is located at UÇK 43 street, 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) 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 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 five 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) 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

(r) 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 2016, and have not been applied in preparing these financial statements. 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 Programs. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) New standards, amendments and interpretations not yet adopted (continued)

IFRS 16 Leases
IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 2 Share-based Payment
Classification and measurement of Share-based Payment Transactions is effective for annual periods beginning on or after 1 January 2018.

Amendments to IAS 7 Statement of Cash Flows
Disclosure Initiative is effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 Income Taxes
Recognition of Deferred Tax Assets for Unrealized Losses is effective for annual periods beginning on or after 1 January 2017.

The following are adaption of new or amended standards and interpretations:

IFRS 14 Regulatory Deferral Accounts
Regulatory Deferral Accounts are effective for annual periods beginning on or after 1 January 2016.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures
Investment Entities: Applying the Consolidation Exception is effective for annual periods beginning on or after 1 January 2016.

Amendments to IFRS 11 Joint Arrangements
Accounting for Acquisitions of Interests in Joint Operations is effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 1 Presentation of Financial Statements
Disclosure Initiative is effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
Clarification of Acceptable Methods of Depreciation and Amortization is effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 27 Separate Financial Statements
Equity Method in Separate Financial Statements is effective for annual periods beginning on or after 1 January 2016.

Amendments to various standards Improvements to IFRSs (cycle 2012-2014)
Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. These amendments are to be applied for annual periods beginning on or after 1 January 2016.

(s) Reclassifications

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

The amount of EUR 18,223 for the year ended 31 December 2015, previously included in other operating expenses was reclassified as fee and commission expenses and the amount of EUR 39,652 for the period ended 31 December 2015 has been reclassified from CBK fees and other local taxes into the other tax and fee expenses category.

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 (includes currency 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 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Balances with Central Bank of Kosovo (see Note 6)	11,355,178	6,305,234
Cash at banks (see Note 6)	2,208,972	1,173,467
Loans and advances to costumers, net	54,491,314	41,908,496
Investments in securities	4,645,875	9,791,295
Guarantees in favor of customers and credit commitments	12,110,437	4,658,617
Maximum exposure to credit risk	**84,811,776**	**63,837,109**

Credit quality by class of financial assets

			31 December 2016
	Neither past due nor impaired	Past due but not impaired	Total
Balances with Central Bank of Kosovo (see Note 6)	11,355,178	-	11,355,178
Cash at banks (see Note 6)	2,208,972	-	2,208,972
Loans and advances to costumers, net	53,058,338	1,432,976	54,491,314
Investments in securities	4,645,875	-	4,645,875
Guarantees in favor of customers and credit commitments	12,110,437	-	12,110,437
Maximum exposure to credit risk	**83,627,244**	**1,502,825**	**84,811,776**

			31 December 2015
	Neither past due nor impaired	Past due but not impaired	Total
Balances with Central Bank of Kosovo (see Note 6)	6,305,234	-	6,305,234
Cash at banks (see Note 6)	1,173,467	-	1,173,467
Loans and advances to costumers, net	41,908,496	-	41,908,496
Investments in securities	9,791,295	-	9,791,295
Guarantees in favor of customers and credit commitments	4,658,617	-	4,658,617
Maximum exposure to credit risk	**63,837,109**	**-**	**63,837,109**

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

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 2016**	**31 December 2015**
Neither past due nor impaired	53,058,338	41,908,496
Past due but not impaired	1,432,976	-
Total	**54,491,314**	**41,908,496**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	**31 December 2016**	**31 December 2015**
Not past due	53,306,782	42,506,432
Past due up to 30 days	1,502,825	-
Past due over 30 days	-	-
Total Loans	**54,809,607**	**42,506,432**
Less: Allowance for impairment	(318,293)	(597,936)
Loans and advances to customers, net	**54,491,314**	**41,908,496**

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

	31 December 2016	**31 December 2015**
Real estate	197,609,163	40,948,261
Total	**197,609,163**	**40,948,261**

4. 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, 2016 and 2015, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2016	31 December 2015
Mining and quarrying	344,894	-
Manufacturing	4,361,166	3,722,646
Water, supply, sewerage and waste management and services	1,391,176	1,686,917
Construction	4,847,657	3,633,728
Wholesale and retail trade	41,188,442	31,489,998
Transportation and storage	234,681	99,413
Accommodation and food service activities	1,300,858	1,240,406
Information and communication	35,909	-
Professional, scientific and technical activities	312,097	247,291
Administrative and support service activities	115,533	79,447
Individual	550,430	242,065
Accrued interest	207,659	137,972
Total gross loans and advances to costumers	**54,890,502**	**42,579,883**
Deferred revenue on disbursement fee	-80,895	-73,451
Loan loss provisions	-318,293	-597,936
Net Loans	**54,491,314**	**41,908,496**

(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 2016 and 2015, the Bank's financial assets and liabilities have remaining maturities as follows:

(Amounts in EUR, unless otherwise stated)

31 December 2016	**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	2,921,727	-	-	-	-	11,355,178	14,276,905
Investments in securities	249,993	3,525,620	752,542	117,720	-	-	4,645,875
Loans and advances to customers	1,724,536	3,056,811	18,239,833	27,280,495	4,189,639	-	54,491,314
Total	**4,896,256**	**6,582,431**	**18,992,375**	**27,398,215**	**4,189,639**	**11,355,178**	**73,414,094**
Liabilities							
Deposits from costumers	8,068,022	2,538,105	17,121,767	3,186,452	-	-	30,914,346
Short term borrowings	7,403,828	-	501,467	-	-	-	7,905,295
Due to Head Office	5,701,290	4,914,121	12,929,424	-	1,601,777		25,146,612
Other liabilities	65,802	-	-	-	-	-	65,802
Total	**21,238,942**	**7,452,226**	**30,552,658**	**3,186,452**	**1,601,777**		**64,032,055**
Net Position	**(16,342,686)**	**(869,795)**	**(11,560,283)**	**24,211,763**	**2,587,862**	**11,355,178**	**9,382,039**
Cumulative net position	**(16,342,686)**	**(17,212,481)**	**(28,772,764)**	**(4,561,001)**	**(1,973,139)**	**9,382,039**	**-**

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
Investment 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							
Due to customers	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**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
(d) Market Risk
i. Foreign currency risk

Foreign currency sensitivity analysis

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). However these transactions are limited and assets and liabilities denominated in foreign currency are insignificant on the balance sheet date. As a result the bank is not sensitive to changes in foreign currency rates. The exchange rates used for conversion of foreign currency values at 31 December 2016 and 2015 are as follows:

Compared to EUR	**31 December 2016**	**31 December 2015**
1 USD	0.9487	0.9185
1 TRY	0.2697	0.3148
1 GBP	1.1680	1.3623
1 CHF	0.9312	0.9229

Asset and liabilities in accordance with their original currencies in 2016 and 2015 as translated into EUR are:

2016	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central	14,091,624	6,213	90,695	17,854	70,519	14,276,905
Investment securities	4,645,875	-	-	-	-	4,645,875
Loans and advances to customers	54,389,475	-	101,839	-	-	54,491,314
Total	**73,126,974**	**6,213**	**192,534**	**17,854**	**70,519**	**73,414,094**
Liabilities						
Deposits from costumers	30,098,806	-	582,908	207,554	25,078	30,914,346
Short term borrowings	7,905,295	-	-	-	-	7,905,295
Due to Head Office	24,763,328	-	300,754	82,530	-	25,146,612
Other liabilities	65,802	-	-	-	-	65,802
Total	**62,833,231**	**-**	**883,662**	**290,085**	**25,078**	**64,032,056**
Net position	**10,293,743**	**6,213**	**(691,128)**	**(272,231)**	**45,441**	**9,382,038**
Cumulative net position	**10,293,743**	**10,299,956**	**9,608,828**	**9,336,597**	**9,382,038**	**-**

2015	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central	7,761,079	20,943	78,566	26,483	151,148	8,038,219
Investment in 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						
Customer deposits	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**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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.

2016	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	-	-	-	-	-	14,276,905	14,276,905
Investments in securities	249,993	3,525,620	752,542	117,720	-	-	4,645,875
Loans and advances to customers – fixed rate	1,581,055	2,487,454	16,866,369	27,280,495	4,189,638	-	52,405,011
Loans and advances to customers – floating rate	143,481	569,357	1,373,465	-	-	-	2,086,303
Total	**1,974,529**	**6,582,431**	**18,992,376**	**27,398,215**	**4,189,638**	**14,276,905**	**73,414,094**
Liabilities							
Deposits from costumers	4,743,779	2,538,104	17,121,767	3,186,452	-	3,324,244	30,914,346
Short term borrowings	7,403,828	-	501,467	-	-	-	7,905,295
Dues to Head Office – fixed rate	2,546,775	4,344,764	11,555,960	-	1,601,775	3,011,035	23,060,309
Dues to Head Office – floating rate	143,481	569,357	1,373,465	-	-	-	2,086,303
Other liabilities						65,802	65,802
Total	**14,837,863**	**7,452,225**	**30,552,659**	**3,186,452**	**1,601,775**	**6,401,081**	**64,032,055**
Net Position	**(12,863,334)**	**(869,794)**	**(11,560,283)**	**24,211,763**	**2,587,863**	**7,875,824**	**9,382,039**
Cumulative net position	**(12,863,334)**	**(13,733,128)**	**(25,293,411)**	**(1,081,648)**	**1,506,215**	**9,382,039**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk (continued)

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**	**-**

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2016 and 2015 are as follows:

	2016		**2015**	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	N/a	-	N/a	-
Loans and advances to customers	N/a	6.96%	N/a	7.31%
Investment securities (HTM)	N/a	2.09%	N/a	2.56%
Liabilities				
Customer deposits	N/a	1.44%	1.51%	1.55%
Short term borrowings	N/a	1.04%	N/a	1.20%
Dues to parent company	N/a	2.84%	N/a	2.12%

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:

	2016		**2015**	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	72,926	(72,926)	81,235	(81,235)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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.

(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 2016 and 2015.

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 (CONTINUED)

(a) Impairment (continued)

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.

5. USE OF ESTMATES AND JUDGMENTS (CONTINUED)

(b) Fair value of financial instruments

Had all the declines in fair value below carrying value been considered significant or prolonged, the Bank would suffer an additional EUR 153,216 loss in its 2016 financial statements (2015: EUR 570,401).

	2016		2015	
	Carrying value	Fair value Level 2	Carrying value	Fair value Level 2
Loans and advances to customers	54,491,314	54,470,878	41,908,496	41,299,135
Due to customers	30,914,346	30,781,912	19,727,696	19,766,656

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

	31 December 2016	31 December 2015
Cash on hand		
Cash on hand	712,755	559,518
Cash at banks		
Current account with Bank for Business	2,009,997	-
Current account with Raiffeisen Bank Kosovo	124,958	497,325
Current account with IS Bank AG, Germany	67,804	655,198
Current account with Head Office	6,213	20,943
	2,921,727	**1,732,985**
Cash and cash equivalents		
Restricted balances with Central Bank		
Balances with Central Bank of Kosovo (‘CBK’)	11,355,178	6,305,234
Total	**14,276,905**	**8,038,219**

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 2016 and 2015 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 2016	31 December 2015
Nominal Value - Treasury Bills	**750,000**	**1,530,000**
Treasury Bills (price)	748,787	1,505,734
Amortization of discount	654	10,968
Carrying amount	**749,441**	**1,516,702**
Nominal Value - Bonds	3,870,000	8,220,000
Bonds (price)	3,876,528	8,206,889
Interest receivable	27,127	61,219
Amortization of discount	1,584	11,410
Amortization of premium	(8,805)	(4,925)
Carrying amount	**3,896,434**	**8,274,593**
Total	**4,645,875**	**9,791,295**

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 14 June 2017, whilst the bonds mature on 31 August 2020.

8. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	31 December 2015
Commercial Loans	40,668,980	36,063,111
Individual Loans	486,835	201,533
Staff Loans	70,516	40,532
Overdrafts	13,456,512	6,136,736
Accrued interest	207,659	137,972
Deferred disbursement fee	(80,895)	(73,451)
Total gross loans and advances to costumers	**54,809,607**	**42,506,432**
Allowance for impairment	(318,293)	(597,936)
Loans and advances to customers	**54,491,314**	**41,908,496**

Movements in the impairment allowance in 2016 and 2015 are composed as follows:

	2016	2015
Allowance as at 1 January	**597,936**	**212,903**
(Collection)/ Charge for the year for loans and advances to customers	(279,643)	385,033
Allowance as at 31 December	**318,293**	**597,936**

9. PROPERTY AND EQUIPMENT

	Leasehold improvements	IT Equipment (*)	Furniture, fixtures and equipment	Other Assets	Vehicles	Assets in progress (*)	Total
Cost							
Balance at 1 January 2015	747,528	-	132,423	46,149	26,950	-	**953,050**
Additions	12,124	-	17,995	60	22,500	109,664	**162,344**
Balance at 31 December 2015	**759,652**	**-**	**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	75,652	-	31,463	9,232	6,140	-	**122,487**
Balance at 31 December 2015	**154,546**	**-**	**45,552**	**20,816**	**10,378**	**-**	**231,292**
Net Balance at 31 December 2015	**605,106**	**-**	**104,866**	**25,393**	**39,072**	**109,664**	**884,102**
Cost							
Balance at 1 January 2016	759,652	-	150,418	46,209	49,450	-	**1,005,729**
Additions	2,821	188,510	10,156	850	-	-	**202,337**
Balance at 31 December 2016	**762,473**	**188,510**	**160,574**	**47,059**	**49,450**	**-**	**1,208,066**
Accumulated depreciation							
Balance at 1 January 2016	**154,546**	**-**	**45,552**	**20,816**	**10,378**	**-**	**231,292**
Charge for the year	77,832	15,709	31,149	9,512	9,905	-	**144,107**
Balance at 31 December 2016	**232,378**	**15,709**	**76,701**	**30,328**	**20,283**	**-**	**375,399**
Net Balance at 31 December 2016	**530,095**	**172,801**	**83,873**	**16,731**	**29,167**	**-**	**832,667**

The value of EUR 16,391 and EUR 52,016 categorized into the furniture, fixtures and equipment category represent assets received as donations from Head Office during the fiscal years of 2015 and 2014.

(*) Asset in progress categorized in 2015 has been transferred to IT Equipment as they were put in use as of 7 of August 2016, and depreciated accordingly.

10. INTANGIBLE ASSETS

	Software	Assets in Progress	Total
Cost			
Balance at 1 January 2015	29,469	-	29,469
Additions	4,323	24,324	28,647
Balance at 31 December 2015	**33,792**	**24,324**	**58,116**
Accumulated Amortization			
Balance at 1 January 2015	-	-	-
Charge for the year	-	-	
Balance at 31 December 2015	-	-	-
Net Balance at 31 December 2015	**33,792**	**24,324**	**58,116**
Cost			
Balance at 1 January 2016	33,792	-	33,792
Additions	46,637	-	46,637
Balance at 31 December 2016	**80,429**	**-**	**80,429**
Accumulated Amortization			
Balance at 1 January 2016	-	-	-
Charge for the year	23,659	-	23,659
Balance at 31 December 2016	**23,659**	**-**	**23,659**
Net Balance at 31 December 2016	**56,770**	**-**	**56,770**

Asset in progress categorized in 2015 has been categorized as Software and put in use as of 7 August 2016, for supporting the banking activities.

11. OTHER ASSETS

	31 December 2016	31 December 2015
Prepayments	4,767	8,931
Total prepayments	**4,767**	**8,931**

12. DUE TO CUSTOMERS

	31 December 2016	31 December 2015
Current Accounts		
Individuals	2,166,931	1,288,975
Corporations	1,148,943	2,443,471
State owed entities	6,096	6,129
Correspondent banks	2,273	-
Total current accounts	**3,324,243**	**3,738,575**
Term Deposits		
Individuals	11,723,606	6,692,381
Corporations	15,618,378	9,152,773
State owed entities	83,280	73,700
Interest payable	164,839	70,267
Total term deposits	**27,590,103**	**15,989,121**
Total deposits	**30,914,346**	**19,727,696**

All due to customers' accounts bears fixed interest rate ranging from 0.80 – 2.25% as of 31 December 2016 (2015: 0.65% - 1.85%).

13. SHORT-TERM BORROWINGS

	31 December 2016	31 December 2015
TEB Sh.a	6,000,000	5,000,000
Banka per Biznes - BPB	1,400,000	-
NLB Prishtina	500,000	-
Accrued interest payable	5,295	3,833
Total	**7,905,295**	**5,003,833**

The short-term borrowing with commercial banks bear fixed interest rates ranging from 0.4% of 1.1% p.a. (2015: 1.20% p.a.) mature on 26 September 2017 (2015: 8 January 2016).

14. DUE TO HEAD OFFICE

	31 December 2016	31 December 2015
Current accounts with Head Office	3,011,035	1,823,591
Short-term borrowings and deposits	20,362,983	24,195,000
Long-term borrowing	1,598,319	486,750
Interest payable	174,275	192,220
Total	**25,146,612**	**26,697,561**

The short-term borrowings and deposits from the Head Office bear fixed and floating interest rates ranging from 2.90% p.a. to 2.95% p.a. (2015: 1.25% p.a. to 3.00% p.a.). The long-term borrowings bear interest rates ranging from 1.75% p.a. to 2.40% p.a. (2015: 1.25% p.a. to 2.40%) and have maturities ranging from 21 February 2017 to 19 August 2021.

15. OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2016	31 December 2015
Withholding tax on salary	5,549	5,383
Pension contributions payable	2,784	1,749
Withholding tax on rent and interest	15,610	7,899
VAT payable	1,511	-
CIT payable	6,990	-
Total	**32,444**	**15,031**

16. DEFERRED REVENUE

	31 December 2016	31 December 2015
Deferred revenue	38,375	52,083
Total	**38,375**	**52,083**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank. Other income of EUR 15,749 (2015: EUR 13,511) for the year ended 31 December 2016 represent the value of deferred revenue recognized as income from asset donations.

17. OTHER PROVISIONS AND LIABILITIES

	31 December 2016	31 December 2015
Other accruals	36,421	142,953
Provision for off-balance sheet items	29,381	42,472
Total	**65,802**	**185,425**

18. SHARE CAPITAL

As at December 31, 2016, the share capital amounted to EUR 10,000 thousand (2015: EUR 10,000 thousand).

19. NET INTEREST INCOME

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income from loans and advances to customers	3,380,687	2,284,773
Interest income from securities	150,043	219,440
Total interest income	**3,530,730**	**2,504,213**
Interest expenses		
Interest expenses for deposits	(311,382)	(202,988)
Interest expenses for borrowings	(728,351)	(437,100)
Total interest expenses	**(1,039,733)**	**(640,088)**
Net interest income	**2,490,997**	**1,864,125**

20. NET FEE AND COMMISION INCOME

	Year ended 31 December 2016	Year ended 31 December 2015
Fees for early termination of the contracts	767	89,295
Fees for letter of guarantees	86,109	57,353
Other fee and commission income	106,767	68,326
Total fee and commission income	193,643	**214,974**
Fee and commission expense	(29,710)	(25,966)
Net fee and commission income	**163,933**	**189,008**

21. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2016	Year ended 31 December 2015
Foreign exchange gain	7,805	5,292
Foreign exchange loss	(64,270)	(35,148)
Net foreign exchange loss	**(56,465)**	**(29,856)**

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Consultancy and auditing	123,780	95,618
Rent	122,637	122,637
Fees paid to CBK	119,674	87,626
Other tax and fee expenses	97,470	39,652
Payments system expenses	86,443	71,793
Utilities and Fuel	28,532	29,901
Other expenses	20,421	27,572
Maintenance and repair	20,502	17,691
Communication expenses	50,592	16,160
Representation expenses	15,885	14,512
Memberships	16,235	14,083
Security expenses	11,449	10,183
Lease expenses for vehicle	1,200	10,012
Total other operating expenses	**714,820**	**557,440**

23. EMPLOYEE BENEFITS

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries	691,107	637,811
Welfare and pension contribution expenses	99,025	88,553
Health insurance	7,826	7,496
Other employee compensations	19,196	15,600
Total employee benefits	**817,154**	**749,460**

At 31 December 2016, the Bank had 24 employees (2015:20).

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

24. INCOME TAX

The income tax (expense)/benefit for the years ended 31 December 2016 and 31 December 2015 is composed of the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Current tax expense	(122,269)	(14,099)
Deferred tax income	-	-
Total income tax	**(122,269)**	**(14,099)**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2016	Year ended 31 December 2015
Opening	6,250	-
Addition during the year Prepaid tax	2,324	6,250
Current tax expense	(122,269)	(14,009)
Utilization of losses carried forward	106,705	14,099
Tax Payable/prepaid	**(6,990)**	**6,250**

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 2016	Effective Tax rate	Year ended 31 December 2015
Profit/(Loss) before tax		**1,207,554**		**179,896**
Tax calculated at 10%	10%	120,720	10%	17,990
Tax effect of interest earned from investments in Kosovo Governments securities	(1%)	(15,004)	(12%)	(21,944)
Tax effect of non-deductible expenses	1%	806	1%	1,140
Tax effect of exchange loss		5,646		-
Tax effect of the accrued interest on term deposits	1%	10,100	9%	16,913
Total corporate income tax expenses		**122,269**		**14,099**
Deferred tax asset (utilized)/recognized		**(106,705)**		**(14,099)**
Utilizing of CIT advance payment		**(8,574)**		**-**
Total tax charge payable		**6,990**		**-**

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
2016	1,222,692	10%	(106,705)	-

25. 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 2016 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).

Related party balances and transactions as at 31 December 2016 and 31 December 2015 are composed as follows:

	31 December 2016	31 December 2015
Due from Head Office		
Current accounts with Head Office	6,213	20,943
Due to Head Office		
Current accounts with Head Office	3,011,035	1,823,591
Short term borrowing	20,362,983	24,195,000
Long term borrowings	1,598,319	486,750
Other payables to Head office	-	-
Interest payable related to short and long term borrowing	174,275	192,220
Deferred revenue from donated assets	38,375	52,083
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	67,804	655,198
Due to other related parties		
Due to Is Bank AG, Germany	-	-

	Year ended	Year ended
Income generated from Head Office		
Interest income from Head Office	-	-
Other income from donated assets	15,749	13,511
Expense incurred with related parties		
Management remuneration	261,648	278,152
Interest expense for short-term borrowings	661,241	393,223
Interest expense for balances due to IS Bank AG, Germany	-	4,965

26. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	31 December 2016	31 December 2015
Guarantees in favor of customers	9,318,949	2,655,353
Loans approved but not yet disbursed	43,154,834	-
Undrawn credit commitments	2,791,488	2,003,264
Total	**55,265,271**	**4,658,617**

Non-cancelable lease commitments	31 December 2016	31 December 2015
Less than one year	30,659	30,659
Total	**30,659**	**30,659**

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Legal

In 2016, 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 2016 (2015: Nil).

27. SUBSEQUENT EVENT

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