Annual Report 2022

İŞBANK

TURKIYE IS BANKASI
A.S. - DEGA NË KOSOVË

Content

İşbank Kosovo

Turkiye Is Bankasi A.S. - Dega në Kosovë (hereinafter İşbank Kosovo) is a wholly-owned branch of Türkiye İş Bankası A.Ş., which is the largest privately owned bank of Turkey by the end of 2022.

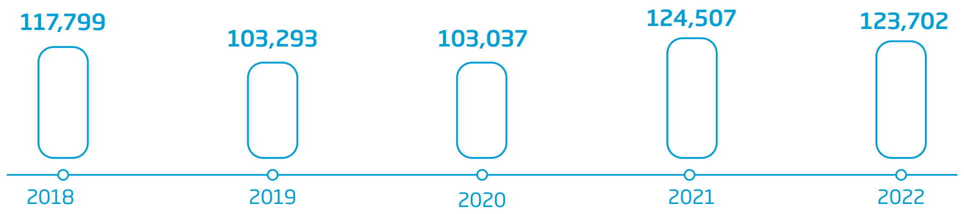
Türkiye İş Bankası A.Ş.'s strategy is achieving sustainable and profitable growth based on "the bank closest to customers" philosophy.

Key Figures

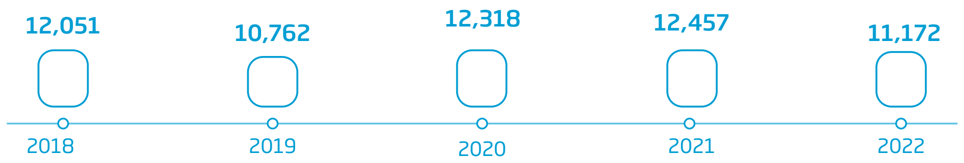
The financial year 2022 of İşbank Kosovo concluded with annual net profit of 867 thousand euros, indicating a significant increase of 522.4% compared to the previous year.

	December 31, 2022	December 31, 2021	Change
	in EUR thousand	in EUR thousand	%
Main Balance sheet items			
Total assets	123,702	124,507	-0.65
Loans	93,045	96,632	-3.71
Deposits	90,414	86,010	5.12
Due to banks	19,996	23,982	-16.62
Net income for the year	867	139	522.40
Shareholders' Equity	11,172	12,457	-10.32
Key indicators	%	%	
Capital Adequacy Ratio	10.25	10.13	0.12
Return on Average Equity	7.69	1.29	6.4
Return on Average Asset	0.7	0.13	0.57
CIR (Cost to income ratio)	55%	71%	-16
Net Interest margin	3.8%	3.7%	0.1
Portfolio Quality	%	%	
Gross NPL (non-performing loans)	1,714	1,500	14.30
Share of NPL in Total loans	1.8%	1.5%	0.3
Coverage Ratio	96.1%	90.9%	5.2

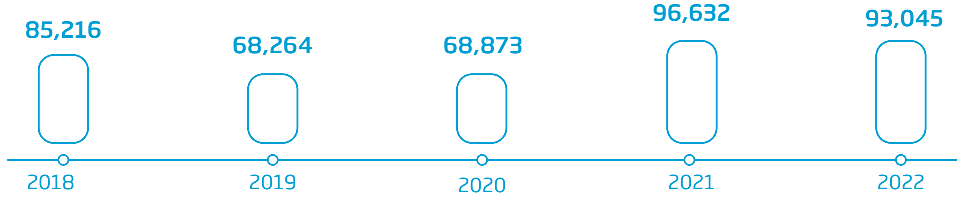
Total assets in EUR thousand



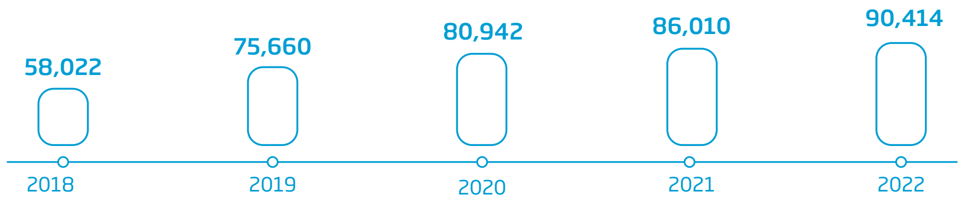
Shareholder's Equity EUR thousand



Loans in EUR thousand



Deposits in EUR thousand



Türkiye İş Bankası A.Ş. at a Glance

Türkiye İş Bankası A.Ş. is determined to reinforce its support for its customers by taking advantage of the opportunities created by its sustainable and strong financial structure.

İşbank Kosovo is a wholly-owned branch of İşbank, which is the largest private bank of Turkey by the end of 2022. As of 2022 year-end, İşbank's total assets reached TL 1,408 billion, total loans and total deposits amounted TL 759 billion and TL 931 billion, respectively. İşbank also has a robust capital base with a capital adequacy ratio comfortably above the minimum required level by regulation. İşbank is determined to reinforce its support for its customers by taking advantage of the opportunities created by its sustainable and strong financial structure. İşbank serves retail, SME and large corporate customers and provides all kinds of banking services through a strategy of achieving sustainable and profitable growth based on being "the bank closest to customers". Having the most extensive distribution network among private banks with its 1,131 branches and 6,169 ATMs as of the year-end 2022, İşbank positions its physical and digital channels so as to complement one another, and delivers multidimensional banking services through its diversified digital service platforms. The number of İşbank's digital customers is around 13.0 million by the end of the year, while the share of non-branch channels reached 96.2% of total transactions. As a highly trusted financial institution, İşbank also maintains its pioneering position in foreign trade through its extensive correspondent bank network.

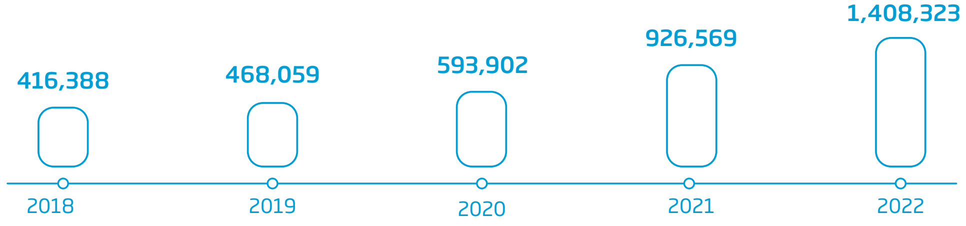
Main Balance Sheet Items	Market Share (%) [1]	Ranking [2]
Total Assets	10.7	1st
Total Loans	10.7	1st
TL Loans	9.9	2nd
FX Loans	12.3	1st
Consumer Loans [3]	11.4	2nd
Non-Retail Loans	10.4	1st
Total Deposits	11.1	1st
TL Deposits	8.6	3rd
FX Deposits	14.0	1st
Demand Deposits [4]	15.2	1st

Other Products & Distribution Network	Market Share (%) [1]	Ranking [2]
Acquiring Volume [5]	15.6	3rd
Number of Credit Cards [5]	12.6	3rd
Issuing Volume [5]	14.2	3rd
Volume of Debit Cards [5]	10.0	3rd
Number of Branches	11.7	1st
Number of ATMs	11.9	1st

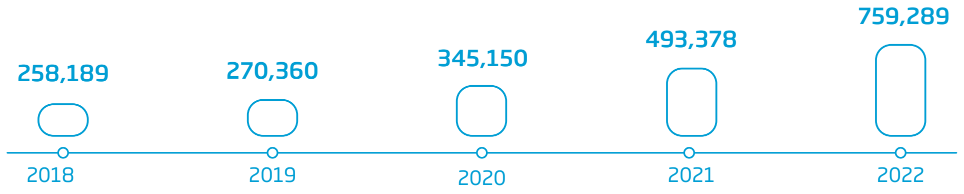
[1] Market share calculations are based on weekly BRSA data excluding participation banks. Total assets market share is based on monthly BRSA data.
[2] Ranking among private sector banks
[3] Including retail overdraft accounts
[4] Excluding interbank deposits
[5] Market share calculations are based on Interbank Card Center (BKM) data

52% growth in asset size
As of 2022 year-end, İşbank's total assets reached TL 1,408 billion, total loans and total deposits amounted TL 759 billion and TL 931 billion, respectively.

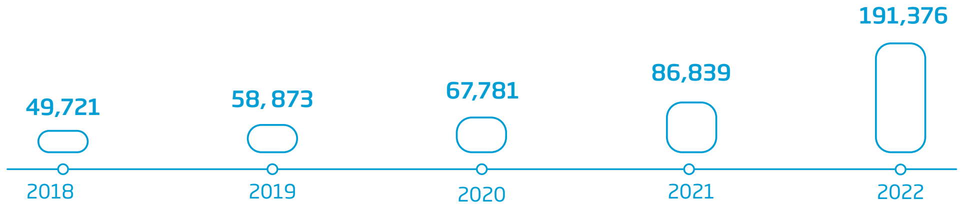
Total assets in TL million



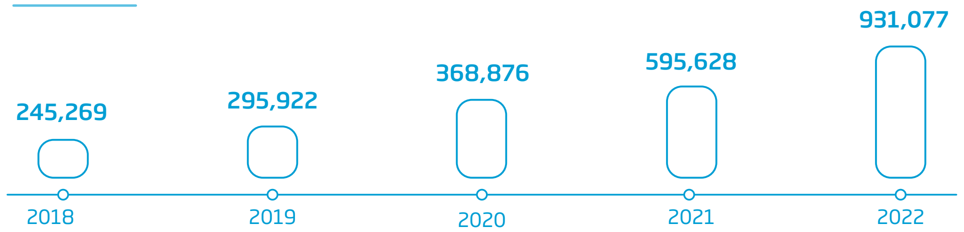
Loans in TL million



Shareholders Equity in TL million



Deposits in TL million



Message from the Country Director

Onur Kütük
Country Director

İşbank Kosovo will continue to support Kosovo's economy with greater dedication in the years to come.

İşbank, with its strong financial structure for 98 years, is a leading financial institution in line with the banking expectations of the future, with its innovative products, services and applications. We have 22.8 million customers by the end of 2022 with 23,309 employees all over the world. Being the largest private bank in Turkey, İşbank is one of the most respected organizations in the banking sector globally.

As of end of 2022, İşbank carries out its cross-border banking activities with 2 branches in Iraq, 2 branches in Kosovo, 2 branches in England, 1 branch in Bahrain and 14 branches in the TRNC. The Bank operates two representative offices, one in Shanghai (China) and one in Cairo (Egypt). İşbank carries out banking activities through its subsidiaries in Germany, Russia and Georgia. İşbank Group is an integrated group with its domestic and international subsidiaries operating in many fields.

As of end of 2022, İşbank has direct and indirect partnerships in 136 companies. The number of companies that the Bank directly or indirectly controls is 113.
The year 2022 was marked by the increase in global commodity prices, especially energy, and the rising inflation throughout the world, with the effect of the tension between Russia and Ukraine. The world economy displayed a slower growth than expected throughout the year, as the tension between the two countries turned into a hot conflict in February 2022. International organizations made downward revisions in their global growth forecasts and upward revisions in their inflation expectations throughout the year.

The Turkish economy continued to grow in 2022, thanks to strong domestic demand and the moderate contribution of net exports and investments. In this period, depreciation in TL as well as global inflationary pressures caused inflation to remain high. Being the pioneer of the sector, İşbank has strengthened its position in the sector by displaying a good performance.
Turkish Republic, which was founded in 1923 by the Great Leader Gazi Mustafa Kemal Atatürk, is turning 100 years old. A year later, İşbank will celebrate its 100th anniversary. We continue to create value for all our stakeholders in line with our vision of "to be the bank of the future that creates sustainable value with an inclusive and participatory approach".

2022 was a challenging year for Kosovo economy as well. Rapidly increasing international commodity prices sparked an increase in inflation in 2022 world wide. Kosovo also experienced the highest inflation in the last years. However, unlike the other economies in emerging Europe, Kosovo has proven remarkably resilient with a growth rate of % 3.5 annualy, which is a relatively positive figure given the circumstances. Within this context, İşbank Kosovo has continued to increase the customer base and to support Kosovo economy through utilizing loans to customers who contribute the economic growth. İşbank Kosovo's total assets remained the same while client deposits grew by % 5.5. The net profit of İşbank Kosovo increased nearly 5-fold comparing the previous year. As a result, ROAE of the bank increased to % 7.7. NPL rate of İşbank Kosovo was % 1.8 which is a sign of good asset quality. İşbank Kosovo will continue to support Kosovo economy in the coming years with more engaged intension. We will introduce new banking products and digitalize our services to adapt the fast changing environment.

As a final note, I would like to thank all our employees who contributed to these results. In addition, I would like to thank our customers as well for their support and cooperation with us.

Senior Management


Sidar Vural
Chief Operation Officer (COO)


Deniz Ulupınar
Chief Technology Officer (CTO)


Onur Kütük
Country Director


Mehmet Halit Yazıcıoğlu
Deputy Country Director


Fatbardha Uruqi Mustafa
Deputy Country Director and CFO

Management Report
for the Financial Year 2022

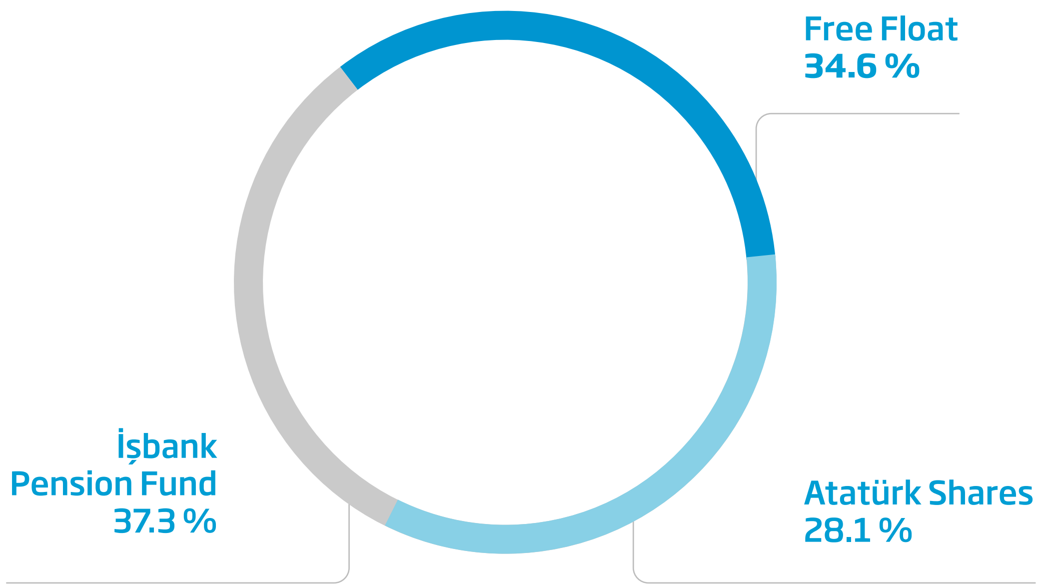
Fundamentals of İşbank Kosovo

Basic information

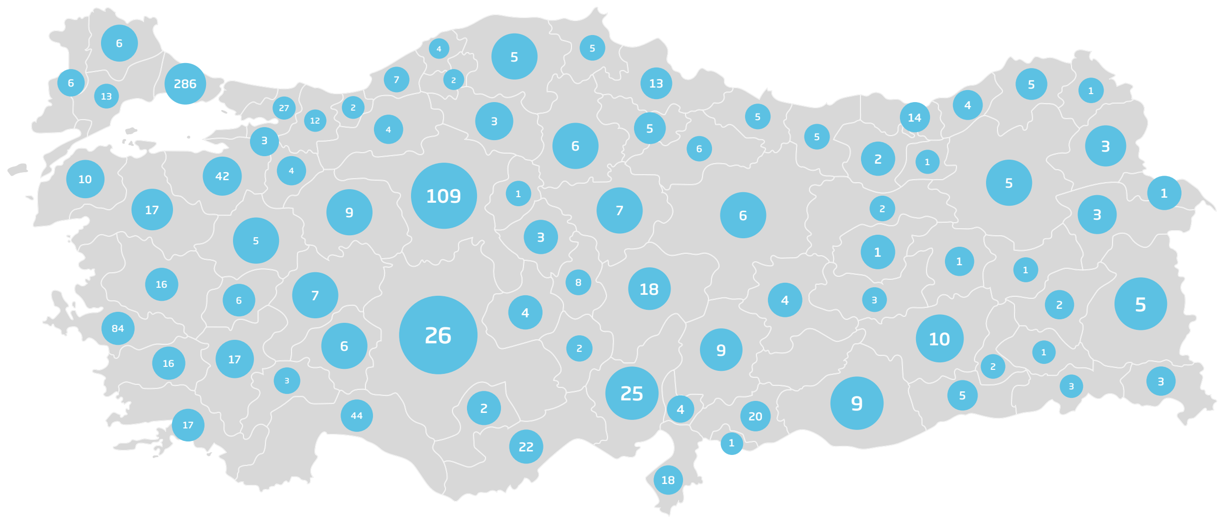
İşbank Kosovo is a branch of Türkiye İş Bankası A.Ş. that has its country directorate in Prishtina and maintains two branches one in Prishtina and another in Prizren. Since it was licensed in 2012, İşbank Kosovo has worked to provide lasting support to finance, trade and business relationships between Europe, Kosovo and Turkey. It aimed to operate on the one hand as an investment bank, which offers its customers in Kosovo a selected range of facility products and services especially in the area of corporate banking, and on the other hand to act as a strong partner in the area of foreign trade payments and the financing. The bank will continue to perform this important role in the Country in the future as well by expanding its possibilities especially on lending facilities.

The sole shareholder of İşbank Kosovo is Türkiye İş Bankası A.Ş., the largest private bank in Turkey. Since it was founded in 1924, it has played a significant role in the development of the Turkish economy. With its unique shareholder structure, characterized by the 37.3-percent capital share held by the bank employees through their pension fund, Türkiye İş Bankası A.Ş. is one of the most lucrative companies in Turkey and one of the largest companies worldwide.

Widespread Shareholder Base



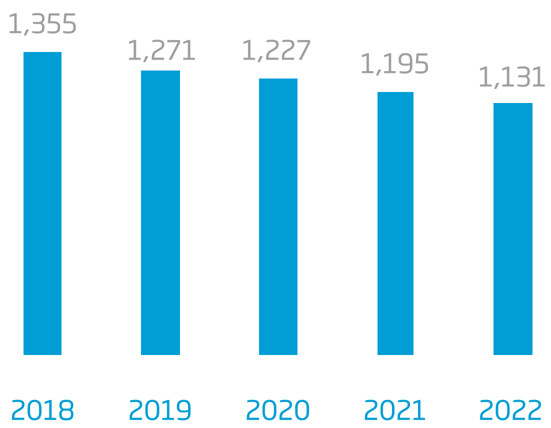
Nationwide Coverage



International Coverage

- 14 İşbank Branches in Northern Cyprus
- 2 İşbank Branches in London, UK
- 2 Branches in Arbil and Baghdad, Iraq
- 2 Branches in Prishtina and Prizren, Kosovo
- HO + 8 İşbank AG Branches in Germany Bank Subsidiary
- 1 İşbank AG Branch in Amsterdam, the Netherlands
- HO + 1 İşbank Russia Branch 2 Representative Offices in Russia - Bank Subsidiary
- 1 Representative Office in Shanghai, China
- 1 Representative Office in Cairo, Egypt
- 1 Branch in Manama, Bahrain
- HO + 2 İşbank Georgia Branches in Georgia Bank Subsidiary

Number of Branches



- Stocks are quoted at BIST and also traded at LSE in the form of GDRs.
- Largest stake owned by employees via pension fund.
- 1,110 domestic branches country-wide (largest among private banks), and 21 foreign branches.
- 6,169 ATM's (largest ATM network among private banks).
- 13.0 mil digital customers.

"Preparing to celebrate its 100th anniversary in 2024, İşbank has adopted the principle of providing continued support to the country's economy and generating solutions to social problems since the day it was founded."

Cities and segments

İşbank Kosovo's business area mainly extends to Prishtina and Prizren Cities, however the Branches' operations are spread over other major cities like Peja and Gjakova where a high proportion of the corporates are located.

In the 2022 fiscal year, the Bank focused also in digital banking by starting new investments both in a mobile banking application and a new debit card product under a new infrastructure.

İşbank Kosovo is eager to expand the branch locations, in addition, one of the its main objectives is to continue the digitalization and technical streamlining processes in order to optimize the services for all customer segments.

Organizational structure

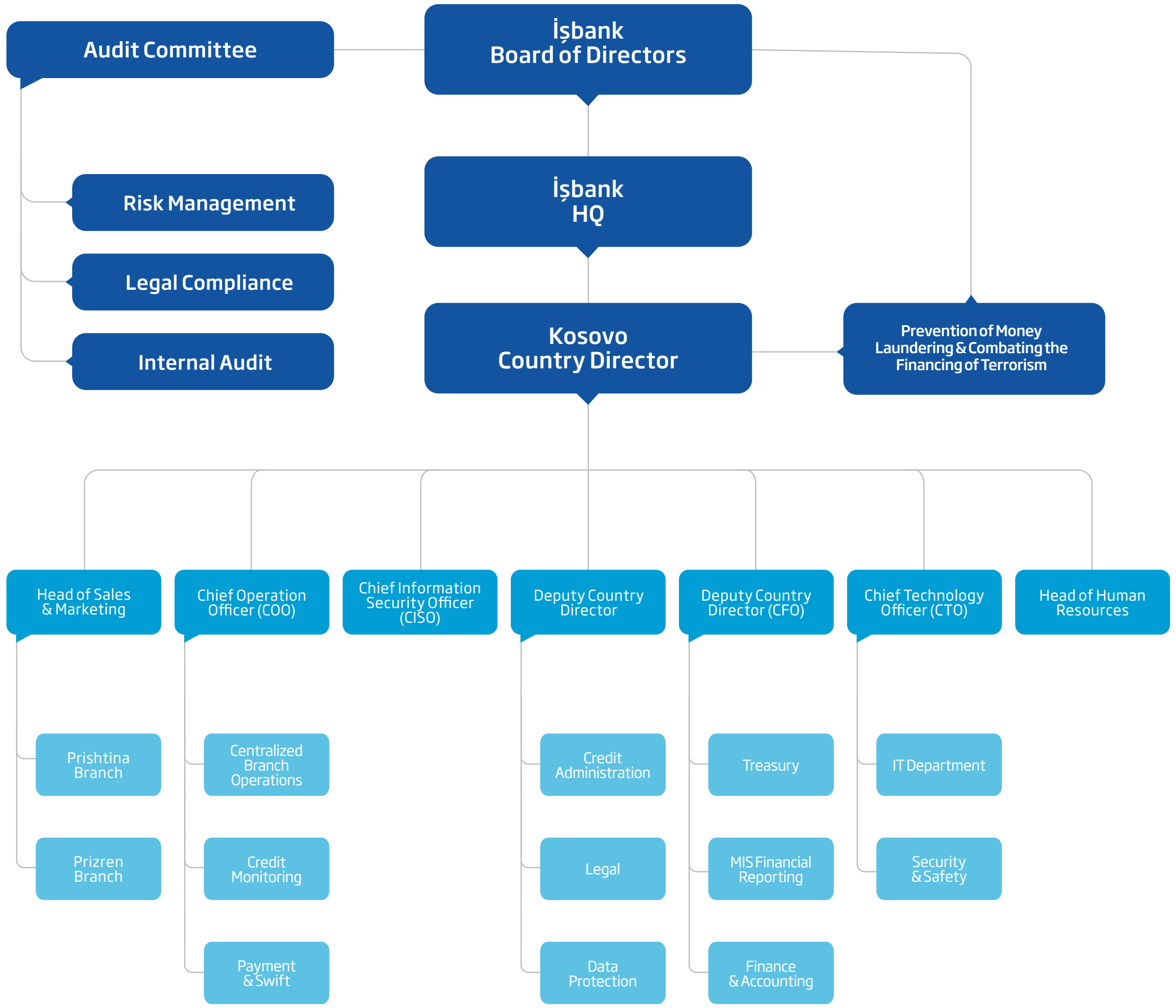
The Country Director of İşbank Kosovo, Mr. Onur Kütük reports to Türkiye İş Bankası A.Ş. Head Office. While one of the Deputy Country Directors, Mrs. Fatbardha Uruqi-Mustafa acting as Chief Financial Officer and responsible for finance and accounting, reporting and treasury; the other Deputy Country Director, Mr. Mehmet Halit Yazıcıoğlu is responsible for business areas such as credit administration, legal, data protection and procurement.

Mr. Sidar Vural as Chief Operations Officer is responsible for the areas of centralized branch operations, payments and credit monitoring. Ms. Deniz Ulupınar acts as Chief Technology Officer and responsible both information technology and corporate safety and security departments, and İşbank Kosovo has also a local information security and human resources department in place.

Internal AML Compliance function is independent of other functions within the bank and directly report to the Country Director, and at least on yearly basis directly to the Board of Directors in Turkiye İş Bankası A.Ş., in compliance with conditions and procedures established under the applicable legislation.

İşbank Kosovo follows both sector changes and business needs to expand and improve effectiveness of the current organization chart in upcoming periods.

Organizational Chart İşbank Kosovo



Management System

The overall bank management of İşbank Kosovo is geared toward maintaining a good balance between the financial performance indicators.

The bank's central control instruments are the balance sheet and/or profit and loss account, the liquidity and the risk-bearing capacity results. Another key element of the management system at İşbank Kosovo are the reports of the bank's internal committees, such as Local Pricing Committee, Credit Committee and Asset/Liability Committee, through which the management is regularly informed of key developments and forecasts, and necessary decisions are initiated.

İşbank Kosovo's main strategy is managing its balance sheet to ensure sustainable and value added growth while using internal and external resources in accordance with the priorities of the country's economy and preparing the organization for the future by continuously improving its business model in synergy with the group companies and all its business partners in the period of technological transformation.

Kosovo

After experiencing a stronger-than-expected recovery in 2021, Kosovo's economic growth moderated in early 2022. During the first months of 2022, economic growth lost momentum, as the spike in inflation and the energy shock weighed significantly on economic activity. The global impact of the war in Ukraine, was felt in Kosovo's economy significantly. As a net importer of food and energy, Kosovo was particularly vulnerable to imported inflation, which in the current context eroded consumer purchasing power and private sector competitiveness. The increase of energy and gas prices in global markets led to increase in prices of food and other goods and services in Kosovo, as well, resulting in an inflation rate of 11.6% in 2022. According to International Monetary Fund, the projected inflation rate is expected to decrease to 5% in 2023 and 2.4% in 2024.In terms of other macroeconomic indicators, according to World Bank, the projected GDP growth in 2023 is expected to be 3.7%, whereas in 2024 it is expected to be 4.2%.

The fiscal deficit is expected to increase to 1.1% of GDP in 2023 from 0.5% of GDP last year due to heightened public compensation and capital investment.

Remittances continue to remain one of the most important income by increasing the investments in private sector as well as the household consumption. In 2022, the remittances reached the highest historical level of 1.2 Billion EUR, a significant injection to the budget.

Unemployment continues to be one of the greatest challenges of Kosovo. According to the latest data of KSA (Kosovo Agency of Statistics), as of Q1 2022 the unemployment rate was 16.6%.

Turkey

Turkey, as a member of the OECD and the G20, has the 19th largest economy in the world according to the World Bank's data. Turkey's economy grew at 5.6% in an extension of the strong COVID-19 pandemic recovery in 2022, from 11.4 percent the previous year, as exports, investment, and manufacturing activity lost momentum. GDP, which contracted by 0.1% in the third quarter of the year compared to the previous quarter, expanded by 0.9% in the last quarter. GDP per capita was determined as 10,655 USD, while the budget deficit/GDP ratio was 0.9% and the current account deficit/GDP ratio was 5.4%.

While the average inflation rate in 2022 was 72.31%, the consumer price index increased to 64.27%, and it was seen that the demand that came forward in the high inflation environment supported the growth. The main reason for the increase in consumer prices is believed to be the recent loosening of the monetary policy in Turkey. In 2022, the Central Bank of Turkey lowered the interest rate to 9%.

The course of the domestic exchange rate and global commodity prices is considered to be important for the inflation. At this aspect, the direction of global economic activity, geopolitical developments and the impact of climate conditions on commodity prices will be closely monitored in terms of domestic inflation developments.

It is estimated that consumption expenditures will continue to contribute to GDP growth in 2023, although it will lose momentum. On the other hand, it is anticipated that the expected slowdown in export markets, especially in the Euro Zone, may put pressure on growth through net exports and it is considered that the impact of public expenditures on growth may increase in 2023 when the effects of two devastating earthquakes struck on economic growth will be closely monitored.

Banking sector in Kosovo

As of December 2022, currently eleven (11) banks operate in Kosovo, offering a wide range of products and services to customers. Nine banks with foreign ownership continue to dominate the banking sector, and they manage 84.9% of total assets. As regards to the country of origin, Austria, Germany and Slovenia are represented with a single bank each, while Albania is represented with two and Turkey is represented by three banks and three are with Kosovan capital. Their products and services include banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letter of credit, e-banking. Access to these services is enabled through 200 branches and sub-branches and there are 3,781 employees in commercial banks.

The cumulative profit of banking sector as of December 2022 was EUR 140.3 million, representing a YoY increase of 19.4%. This result is a testament of the sound management of the banks, despite the challenges posed by increasing of inflation rate and constant increase of prices. The capital adequacy ratio as of December 2022 was 14.8% (2021: 15.3%), indicating that Kosovo's banks are well capitalized. The ratio of loans to deposits was at 78.3% (2021: 76.5%), reflecting a balance between lending and deposits. The ratio of non-performing loans was 2.0% (2021: 2.3%) based on report from CBK, which is lower than the previous year and indicates that the banks are effectively managing their credit risk. The average interest rate on loans was 6.3% as of December 2022 (2021 were 5.8%). On the other hand, the average interest rate on deposits increased to 2.4%, (2021 were 1.3%). The interest rate spread was 3.9%, (2021 was 4.5%).

Overall, the banking sector in Kosovo remains strong and profitable, with well-capitalized banks and effective risk management practices. As the economy continues to grow, we expect to see continued growth and innovation in the banking sector, as banks adapt to changing customer needs and market

Banking sector in Turkey

In Turkey, during the 2022 financial year, a total of 57 banks with 11,034 branches and 206,253 employees had a balance sheet total of $768 billion (YE21: $698 billion). And the profit of the sector amounted to $23.1 billion (YE21: $7.1 billion).

Turkish banking sector overall achieved strong earnings growth in 2022. Such earnings growth has powered by strong Turkish lira loan growth momentum, higher net interest margins, and supplemented by healthy growth in fees and commissions. In effect, the Turkish banking sector has benefited from the more contained funding costs relative to the loan rates and securities income.

According to Banking Regulation and Supervision Agency (BDDK) data, the banks' total volume of deposits at the end of 2022 increased by 18% in comparison with the same period in the previous year, to $474 billion. By the end of 2022, the total credit volume had grown about 9% in comparison to the previous year, and reached to $406 billion.

The Turkish banking sector has maintained a modest level of non-performing loans of 2.1% as of end of 2022, according to the BDDK calculations. This represents a reduction relative to 3.15% at YE21 and 4.08% at YE20. Turkish banking sector is fairly well-provisioned relative to these NPL levels (at 86.7% according to BDDK as of end of 2022).

Despite the sharp devaluation of the Turkish lira in 2022, the strong growth in earnings allowed the Turkish banking sector to preserve its capital adequacy ratio (CAR) at a high level, well above the regulatory requirements. Specifically, the Turkish sector CAR was 19.43% according to the BDDK as of the end of 2022, up slightly from18.39% at YE21.

On balance, it is expected that top Turkish banks will have adequate capital buffers during 2023 and the banking system remains adequately capitalized and profitable.

Business performance

İşbank Kosovo primarily focused on financing of corporate customers and their projects, particularly those that contribute to the growth of Kosovo's economy and employment. At this regard and within a specific focus we provided corporate and commercial banking services to some of the strongest companies of Kosovo.

Our business lines in particular are intensely focused to get track economic and stakeholder activities. Our main motivations for these activities include taking responsibility for the environment and society, avoiding reputational risks, pursuing our corporate strategy and fulfilling regulatory requirements. As part of this effort, we have taken steps to analyze our credit portfolio and evaluate it according to our internal policies and procedures.

At the social level, by improving the work environment, the ongoing goal is to make the bank more attractive for the existing staff as well as for potential employees and to maintain a healthy corporate culture.

Financial Status

Assets and financial status

As part of the consistently targeted approach for planning and implementation of sales activities, the focus remained on business activities with companies from the corporate segment. The financial year 2022 therefore ended with a balance sheet total over EUR 123.7 million. In the reporting year, Loans decreased by 3.7%, to EUR 93.0 million. On the other hand, cash on hand, at banks, and balances with the Central Bank increased from EUR 23.5 million to EUR 28.2 million, reflecting a growth of 19.9%. Furthermore, financial investments at amortized costs amounted to EUR 100 thousand, significantly lower than the previous year's total of EUR 1.4 million.

On the liabilities side, there was an increase of 0.4%, to EUR 112.5 million, where a value of EUR 90.4 million was shown under the customer deposits after a rise of 5.1%. The amount due to banks and the head office was EUR 20 million (compared to EUR 24 thousand in the previous year). Additionally, other liabilities grew by 3.02% compared to the previous year, reaching EUR 2.1 million.

The financial year concluded with an equity of EUR 11.2 million. This represents a solid and sound capital base for future development in line with the strategy of the bank.

Annual Report 2022 İŞBANK 23

Income Status

Net interest income

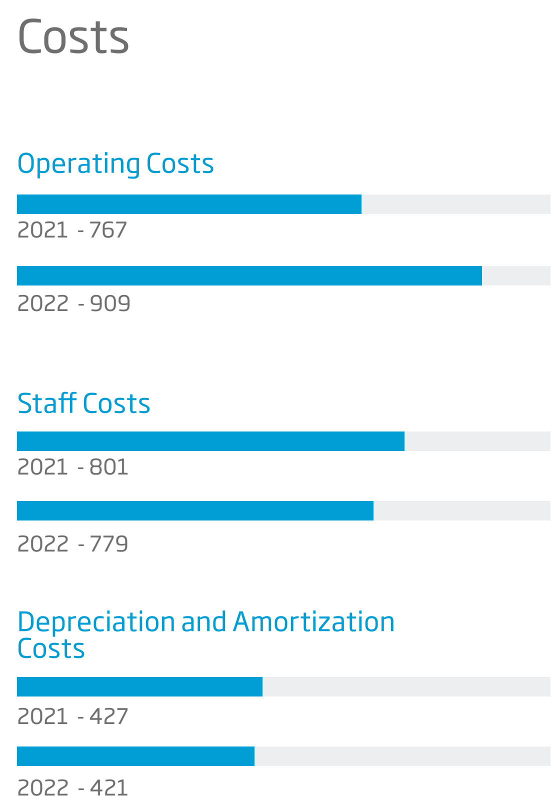
Similar to previous years, the bank primarily focused its credit business on serving corporate customers. Notably, there was a significant increase of 38.4% in net interest income, rising from EUR 2.6 million to EUR 3.6 million. Additionally, interest income experienced substantial growth, reaching EUR 5.5 million with a 28.9% increase. Meanwhile, interest expenditure moderately rose by 14.9% to EUR 2.0 million, primarily due to customer deposits and banks.

Costs

The total costs for the current fiscal year amounted to EUR 2.1 million, indicating a 6% or EUR 0.1 million increase compared to the previous year. This rise was primarily attributed to a notable 18.5% increase in operating expenses, rising from EUR 767.2 thousand to EUR 908.9 thousand. The driving factor behind this increase was higher inflation rate.

The banks cost structure comprised 43% in operating costs, 37% in staff costs, and 20% in depreciation and amortization costs.

The overall costs resulted in a significantly lower cost-to-income ratio (CIR) of 55%, compared to the previous year's 71%. Despite this decrease, the bank remains dedicated to providing exceptional value to its stakeholders while maintaining cost efficiency.



Provisions and Impairments

Provisions and Impairments for the year ended December 31, 2022 amounted to EUR 608.5 thousand, primarily comprising EUR 275.5 thousand in credit loss on loans and advances to customers and EUR 338.5 thousand in impairment charges for repossessed assets.

The bank maintained a healthy portfolio structure, with a non-performing loan (NPL) ratio of 1.8% (up from 1.5% last year). This ratio reflects sound structure of asset quality impacted by the positive performance of our client and the continuous review of our risk parameters to reflect the prevailing macroeconomic conditions.

Risk Management Department

Many risks might arise from financial business activities that might be identified and assessed by our branch together with the Board and others relevant departments. Therefore, İşbank Kosovo is exposed mainly to four type of risks:

- CREDIT RISK
- MARKET RISK
- LIQUIDITY RISK
- OPERATIONAL RISK

Which are identified and monitored in line with Parent Bank policies and practices as well as with local and international standards. İşbank Kosovo has a conservative approach toward all type of risks and measures its risks in prudent way.The Risk Management Department's purpose is to keep under control all above risks and as the second level of control as per legislation in place.

To reduce the complexity of risks, İşbank Kosovo branch use some essential steps of risk management process:

- IDENTIFY THE RISK
- TREAT AND MITIGATE THE RISK
- ASSESS AND MEASURE THE RISK
- MONITOR AND REPORT THE RISK

Through policies and procedures which are easy to understand, simple and practical at all branch levels, as well as through our Risk Management Committee in order to ensure that our branch works in accordance with Parent Banks' policies and in line with current legislation.

The Risk Management Department maintains its independence within İşbank Kosovo as it reports to the Board of Directors through Risk Management Division and Cross Border Banking Unit through Risk Management Committee (RMC).

Credit Risk

İşbank Kosovo is mainly exposed to credit risk due to Kosovo market volatilities and transition period into a consolidated state and the huge migration of population into European countries will be a quite challenge for our economy. İşbank Kosovo branch is exposed to credit risk through changes on treasury activities, lending activities mainly in corporate customers and trade finance. In addition, credit risk might arise from counterparties due to defaults on their repayments. Therefore, İşbank Kosovo has established monitoring and follow-up tools in order to identify all kinds of delays on a daily basis, due to risk management approach which is very sensitive to delays and defaults that might trigger other risks, in particular liquidity risk. As overall strategy our branch selects customers in prudential way in order to avoid any potential unexpected losses in the future. Risk Management Department conducts analysis through simulations and scenarios in order to identify the risks that might happen due to the defaults on credits.
On quarterly basis we review large credit exposure on the risk group basis and report them to the Risk Management Committee, also we identify all delayed customers through daily reporting and report them to the Board on the quarterly basis, in order to see if there is any credit deterioration. Despite this we have in place two other important local committees that help us to keep control on performing loan portfolio quality, changes on staging movements and new non-performing customers. Risk management monitors all legal and internal limits and reports them accordingly to BoD. We use the best banking practice in our policies, procedures, reports and monitoring in order to be understood by all level.
İşbank Kosovo report to the Risk Management Committee in regards to Kosovo's political and economic outlook, legal and internal limits, changes on performing and non-performing loans, sectorial distribution, large risk group exposure, biggest movements on exposure, non-performing ratio and credit quality in overall.
Moreover, İşbank Kosovo has established Local Provisioning and Impairment Committee to measure the expected credit losses (ECL) in accordance with IFRS 9 standards using a relevant ECL model. İşbank Kosovo is using also different stress tests to be more resilient due to the changes an the market and economic shocks that might happen nowadays.

Liquidity Risk

Liquidity risk is the second most important risk in the İşbank Kosovo, liquidity risk might happen when there is insufficient liquid asset or cash inflows to meet the customers demands in short and long term. Therefore, İşbank Kosovo has established LCR (liquidity coverage ratio) and NSFR (Net Stable Funding Ratio) as per local regulatory in order to control and monitor these ratios as per Central Bank requirement as well as for our internal purpose due to the needs for being in a good position at liquidity and financing positions.
İşbank Kosovo is using the most prudential way of funding through the sources below:

External Funding mainly from the Kosovo customers

External Funding from Kosovo Commercial banks

Internal Funding through the Parent Bank (TÜRKİYE İŞ BANKASI A.Ş.)

İşbank Kosovo is using the liquidity stress tests and other tools to measure and to monitor the branch liquidity position with the different assumptions and scenarios that might occur during changes on the banking market and in the economy.

We have in place good tools to control and to monitor on a daily basis all liquidity position in order to have enough high quality liquid assets in order to cover liabilities as they fall due. Risk Management department report to the Board of Director on a quarterly basis, the Liquidity Gap and maintain a stable liquidity position on the timeline horizon. Furthermore, İşbank Kosovo maintains basic liquidity ratio, comparing liquid assets to total assets, illiquid assets to total assets, loan to deposit ratio etc.

Market Risk

Market risk may arise from changes of:

- >> Interest Rates
- >> Exchange Rates
- >> Commodity Prices

İşbank Kosovo reports the Weighted Average Interest Rate to the Board of Directors through Risk Management Committee; analyses and changes it on a quarterly basis. IRRBB Interest Rate Risk In the Banking Book results are represented to the Board as well as IRR Interest Rate Risk which are monitored closely through gap analyses, possible negative effects of interest rate fluctuations on financial position and cash flow are minimized by the decisions of the senior management.

As per local regulation on foreign exchange, the risk limit of ≤15% of net open foreign currency position in any foreign currency over Tier1 capital is maintained and reported accordingly and we are within the limits set by Central Bank.

Commodity prices have been increased dramatically during last years, therefore risk management is paying attention to this important issue since they effected the increase on funding rates as well as the lending prices.

Operational Risk and Business Continuity

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from certain external events. This definition includes legal risk but excludes strategic and reputational risk. Operational Risk Unit is responsible for monitoring and reporting these risks to the Board of Directors through the Risk Management Committee.
Operational Risk Unit uses KRI and RCSA to identify and measure the operational risk.

Key Risk Indicators (KRI) is a measure used in Risk Management to indicate how risky an activity is. KRI values are metrics used by İşbank Kosovo to provide an early signal of increasing risk exposures in various areas on banking activities.

Risk Control Self-Assessment (RCSA) is a process by which management of the Branch and staff of all levels collectively identify and evaluate risks and associated controls. The Operational Risk Coordinator is assigned to support the identification and measurement of operational risk, defining Key Risk Indicators and reporting on operational risk loss events.

Business Continuity Plan (BCP) is a process of preparation to ensure that critical work functions can be carried out and available to clients, parties and other relevant entities in case of termination of work, an emergency situation or an incident which damages or hinders the operational approach to objects. An effective BCP serves as a guide to maintaining a level of good service, consistency and renewal for the banking operational activities.

The operational risk function is constantly engaged in identifying, defining, measuring and reporting risk to the CRO (Chief Risk Officer). The results of operational risk activities are reviewed, assessed and reported on the quarterly basis to the Board of Directors.

Internal Audit

Internal Audit is the assurance function, whose mission is to provide independent and objective approach, as well as advisory services designed to add value and improve Bank's functions, activities and operations. It assists the Bank to implement internal policies, procedures and strategies in compliance with local legislation by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of control environment, including risk management, control and governance processes. It is part of the ongoing monitoring of the Bank's system of internal controls, which provides an independent assessment of the adequacy of, and compliance with, the institution's established policies and procedures. As such, the internal audit function assists senior management and the Board of Directors in the efficient and effective discharge of their responsibilities.

Internal Audit Unit's function is established by the Board of Directors of İşbank as one of the key factors of the governance structure. Internal Audit as an independent function reports to the Board of Directors via Audit Committee the through Board of Inspectors and on his/her own initiative.

The objective of Internal Audit Unit is to examine and evaluate the adequacy and effectiveness of the internal control systems. The scope of Internal Audit Unit extends to the whole bank, by also covering all administrative, accounting, financial, functional or operational processes.

Audit activities are carried out by the Internal Audit Department according to the Audit Plan, which is prepared on an annual basis using a risk-based approach consistent with the Bank's goals and objectives. Each audit plan is approved by the Bank's Audit Committee. If deemed necessary, the plan is updated regularly to reflect changes, to the internal control system, include new business lines and to reflect the possible relevant changes that address the key risks of the bank. The work of the Internal Audit Department is performed in compliance with the applicable local laws, regulations, group audit practices as well as in compliance with the International Standards for the Professional Practice of Internal Auditing.

Türkiye İş Bankası A.Ş. – Branch in Kosovo

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS

Grant Thornton

Independent Auditor's Report

Grant Thornton LLC
Rexhep Mala 18
10000 Pristina
Kosovo

T +383 (0)38 247 801
F +383 (0)38 247 802
E Contact@ks.gt.com
VAT No. 330086000

To the Shareholders of

Türkiye İş Bankası A.Ş. – Branch in Kosovo

Opinion

We have audited the financial statements of Türkiye İş Bankası A.Ş. – Branch in Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with 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.

Other matter

The financial statements of Türkiye İş Bankası A.Ş. – Branch in Kosovo as of and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion in their report on 06 April 2022.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

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

Grant Thornton

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance of Türkiye İş Bankası A.Ş. – Branch in Kosovo 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.

Grant Thornton LLC

Grant Thornton LLC
Prishtina,
3 prill 2023

GRANT THORNTON L.L.C. KOSOVO

Suzana Stavrikj
Statutory Auditor

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Statement of financial position as at 31 December 2022
(Amounts in EUR)

	Notes	31 December 2022	31 December 2021
Assets			
Cash on hand, at banks and balances with Central Bank	7	28,232,293	23,541,741
Financial investments at amortized cost	8	99,770	1,356,860
Loans and advances to costumers	9	93,045,345	96,632,410
Property and equipment	10	413,448	546,981
Intangible assets	11	227,045	197,245
Right of use of asset	12	1,240,900	1,463,861
Repossessed collaterals	13	303,872	642,334
Deferred tax asset	30	2,148	1,809
Prepaid income tax	14	97,024	97,024
Other assets	15	40,084	26,463
Total assets		**123,701,929**	**124,506,728**
Liabilities			
Due to customers	16	90,414,411	86,010,179
Due to banks	17	18,045,685	23,049,207
Due to Head Office	18	1,949,953	932,313
Corporate tax payable		167,071	-
Taxes and contribution payable	19	31,043	50,178
Other liabilities	20	518,130	403,096
Lease liability	21	1,403,580	1,604,313
Total liabilities		**112,529,874**	**112,049,286**
Shareholders' equity			
Share capital	22	10,000,000	10,000,000
Accumulated profit		1,172,055	2,457,442
Total shareholders' equity		**11,172,055**	**12,457,442**
Total liabilities and shareholders' equity		**123,701,929**	**124,506,728**

These Financial Statements were approved by the Management of the Bank on 03 April 2023, and signed on its behalf by:

Onur Kütük	**Fatbardha Uruqi Mustafa**	**Afrore Rudi,**
Country Manager	Chief Financial Officer	Partner, Certified Accountant
Türkiye Is Bankasi A.S.	Türkiye Is Bankasi A.S.	Deloitte Kosova sh.p.k
Branch in Kosovo	Branch in Kosovo	

The accompanying notes on pages from 8 to 65 form an integral part of these Financial Statements.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Statement of profit or loss and other comprehensive income for the year ended 31 December 2022
(Amounts in EUR)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
Interest income		5,546,586	4,301,551
Interest expense		(1,986,203)	(1,728,563)
Net interest income	23	**3,560,383**	**2,572,988**
Fee and commission income		224,613	242,091
Fee and commission expense		(58,894)	(29,473)
Net fee and commission income	24	**165,719**	**212,618**
Net foreign exchange gain	25	81,864	21,673
Other income	26	130	13,945
Total operating income		**81,994**	**35,618**
Credit loss release (expense) on loans and advances to customers	27	(275,478)	(620,880)
Release of expected losses for financial assets and others	27,8,15	5,161	46,654
Impairment charge for repossessed assets	13	(338,461)	-
Release of expected losses (expense) for Guarantees issued to customers and overdraft unused limits		238	(35,165)
Operating expenses	27	(908,854)	(767,203)
Employee benefits	28	(779,344)	(800,586)
Depreciation and amortization	10,11,12	(421,365)	(427,316)
Total expenses		**2,109,563**	**1,995,105**
Profit before tax		**1,089,993**	**216,728**
Income tax expense		(222,869)	(77,408)
Net profit for the year		**867,123**	**139,320**
Other comprehensive income		-	-
Total comprehensive income for the year		**867,123**	**139,320**

The accompanying notes on pages from 8 to 65 form an integral part of these Financial Statement.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Statement of changes in equity for the year ended 31 December 2022
(Amounts in EUR)

	Share capital	Retained earnings	Total equity
Balance at 1 January 2021	**10,000,000**	**2,318,122**	**12,318,122**
Changes in accounting policies		-	-
Net profit for the year	-	139,320	**139,320**
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**139,320**	**139,320**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners	**-**	**-**	**-**
Balance at 31 December 2021	**10,000,000**	**2,457,442**	**12,457,442**
Balance at 1 January 2022	**10,000,000**	**2,457,442**	**12,457,442**
Changes in accounting policies			
Net profit for the year	-	867,123	867,123
Other comprehensive income	**-**	-	**-**
Total comprehensive income for the year	**-**	**867,123**	**867,123**
Transactions with owners, recognized directly in equity			
Distributions to owners/dividend	**-**	(2,152,510)	(2,152,510)
Balance at 31 December 2022	**10,000,000**	**1,172,055**	**11,172,055**

The accompanying notes on pages from 8 to 65 form an integral part of these Financial Statements.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Statement of cash flows for the year ended 31 December 2022
(Amounts in EUR)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
I. Cash flows from (used in) operating activities			
Profit before tax		1,089,992	216,728
Adjustments for:			
Depreciation and amortization	**10,11,12**	421,365	427,317
Net impairment loss	**9, 21**	270,080	609,391
Interest income	**23**	(5,546,586)	(4,301,551)
Interest expense	**24**	1,986,203	1,728,563
Impairment losses for repossessed assets	**13**	338,461	-
Changes in operating assets and liabilities:			
Movement in mandatory reserve with CBK	**7**	(1,355,791)	(1,001,934)
Decrease / (Increase) in loans and advances to customers	**9**	3,416,276	(28,433,182)
Increase in due to customers	**16**	4,212,256	4,696,687
Increase in tax payable and other liabilities	**19,22**	88,930	(22,289)
Decrease (Increase) in prepayments and other receivables	**15**	(13,651)	(6,831)
Income tax paid	**30**	(31,402)	(226,992)
Interest paid		(1,687,766)	(1,184,597)
Interest paid right of use	**23**		
Interest received		5,450,967	4,355,165
Net cash generated from / (used in) operating activities (I)		**8,639,334**	**(23,143,525)**
II. Cash flows from/ (used in) investing activities			
Acquisition of property and equipment	**10**	(15,655)	(119,455)
Acquisition of intangible assets	**11**	(51,817)	(123,962)
Decrease (Increase) in financial assets at amortized cost	**8**	1,250,000	-
Net cash from/(used in) investing activities (II)		**1,182,528**	**(243,417)**
III. Cash flows from/ (used in) financing activities			
Proceeds from borrowings with the Head Office	**18**	1,017,500	(514,992)
Decrease (Increase) in repayment of borrowings	**17**	(5,000,000)	17,000,000
Dividends paid		(2,152,511)	-
Lease payments	**12**	(356,625)	(332,281)
Net cash from/ (used in) financing activities (III)		**(6,491,635)**	**16,152727**
IV. Net increase in cash and cash equivalents (I+II+III)		**3,330,227**	**(7,234,215)**
V. Cash and cash equivalents at the beginning of the year		**11,033,255**	**18,267,470**
VI. Cash and cash equivalents at the end of the year (IV + V)	**7**	**14,363,482**	**11,033,255**

The accompanying notes on pages from 8 to 65 to the form an integral part of these Financial Statements.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

1. REPORTING ENTITY

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

The Bank operates under a banking license 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 unique identification number 810821456. The Bank operates with two branches. One office is located at Str. Ukshin Hoti No 100, in Pristina and the other one at Zahir Pajaziti Street, in Prizren.

The bank had 31 employees as at December 31, 2022 (32 employees as at December 31, 2021).

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.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

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

(b) Interest income and expense

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

– the gross carrying amount of the financial asset; or

– the amortized cost of the financial liability.

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

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

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

Interest income is calculated by applying the effective interest rate to the gross basis of the financial asset.

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

(c) Fees and commissions

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

Under IFRS 15 the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations,
Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income tax expense

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

Current tax

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

Deferred tax

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

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

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

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

(e) Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture, vehicles and telephones). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Leases (continued)

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.
The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.
The Bank has chosen to use the Modified Retrospective Approach in applying IFRS 16. Under the modified retrospective approach, a lessee will not have to recast comparative financial information. Therefore, the date of initial application is the first day of the annual reporting period in which a lessee first applies the requirements of the new lease standard. At the date of the initial application of the new lease standard, lessees will recognize the cumulative effect of the initial application as an adjustment to the opening balance of retained earnings as of 1st January 2019. Prior periods are left as is under the recognition requirements of IAS 17.
The initial recognition involves calculating the present value of all remaining lease payments using the lessee's incremental borrowing rate at the date of initial application and stating the lease liability at the calculated amount on the balance sheet.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Leases (continued)

In order to calculate the present values of the remaining lease payments the Bank used an interest rate assigned from the Treasury Department of the Head Office. The interest rate used represents the borrowing rate that the Group usually charges in the interbank borrowings. The Bank has used an interest rate of 7.57% to discount lease payments for the branch of Prishtina and Head Office, and has used an interest rate of 6.71% to discount lease payments for the branch of Prizren.

f) Financial instruments

Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

g) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

The Bank recognized in its financial statements only financial assets that are held at amortized cost.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).
Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:

a) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see below); and

b) the Bank may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see below).

(i) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the 'finance income – interest income' line item (note 23).

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

(ii) Debt instruments classified as at FVTOCI

The corporate bonds held by the Bank are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are de-recognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see above) are measured at FVTPL. Specifically:

a) Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
b) Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.
c) Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

(iv) Foreign exchange gains and losses

a) The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically, for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item;
b) b) for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
c) c) for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item; and
d) d) for equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investme20nts revaluation reserve.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

(v) Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.
On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

(vi) Write of policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may write-off financial assets that are still subject to enforcement activity.

h) Financial liabilities

(i) Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

(ii) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if:

a) it has been acquired principally for the purpose of repurchasing it in the near term; or
b) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
c) it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
c) it forms part of a contract containing one or more embedded derivatives.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial liabilities (continued)

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon de-recognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Bank that are designated by the Bank as at FVTPL are recognized in profit or loss.

(iii) Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

(iv) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.
Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:
- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

(v) Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.
The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) De-recognition of financial liabilities

h) Financial liabilities (continued)

The Bank de-recognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

(1) the carrying amount of the liability before the modification; and
(2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

(i) Identification and measurement of impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
– financial assets that are debt instruments; and
– loan commitments and financial guarantee contracts issued.
The Bank will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:
– debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
– loans and debt investment securities for which credit risk has not increased significantly since initial recognition.

Measurement of ECLs

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

Probability of default

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

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

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities

Significant increase in credit risk

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

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

Determining whether credit risk has increased significantly

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

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

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

Methodology on calculation of ECL

PD calculation

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

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

- Business Loans
- Individual Loans

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

Lifetime PD is calculated by adding external factors (benchmarking) over the 12-month PD. In this regard the change of NPL ratio from 2014 to 2020 is used as external factor. So, it is taken into consideration that if the NPL ratio in the market will reach the statistical mean (through 2014 - 2020) this will affect the probability of default of the ISBANK Branch as well.

LGD calculation

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

- Business Loans
- Individual Loans

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

Exposure at Default:

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

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

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

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

Stage 3:
Financial assets with sufficient and fair information for impairment at the reporting date, are classified in the third stage. Expected credit loss of these financial assets is measured at an amount equal to the lifetime expected credit loss.
. Transition to Stage 3 is realized when the financial asset is defaulted. A default is considered to have occurred with regard to a particular obligor or to financial asset when either or both of the two following events have taken place:- The bank considers that the obligor is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realizing security (if held).
- The financial asset is past due more than 90 days.

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

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

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

Modified financial assets

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

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

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

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

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

Inputs into measurement of ECLs

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

Presentation of allowance for ECL in the statement of financial position

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

j) 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.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) 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.

l) 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.

m) Repossessed assets

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

n) 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.

o) 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. TheBank's contributions to the pension plan are charged to profit or loss as incurred.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Property and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Leasehold improvements are depreciated over 3 and10 years which is the shorter of the lease term and their useful lives.

q) 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.

r) 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.

s) Financial guarantees and loan commitments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Income tax

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. The tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 06/L-105 "On Corporate Income Tax", published on June 27, 2019.

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.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

i) Initial application of new amendments to the existing standards effective for the current reporting period

• **Amendments to IFRS 3 "Business Combinations" -** reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after January 1, 2022),

• **Amendments to IAS 16 "Property, plant and equipment"** - Income before intended use (effective for annual periods beginning on or after January 1, 2022),

• **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" -** Onerous Contracts - The Cost of Fulfilling a Contract (effective for annual periods beginning on or after January 1, 2022),

• **Changes to various standards due to "IFRS Improvements (2018-2020 cycle)"** resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) mainly with the aim of to remove inconsistencies and to clarify wording (Amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 relates only to an illustrative example, so it does not no effective date is stated).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

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

ii) Standards and amendments to the existing standards issued but not yet effective

At the date of authorization of these financial statements, the following amendments to the existing standards were issued by IASB which are not yet effective:

• **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 published on 25 June 2020 and amendments to IFRS 17 "Initial Application of IFRS 17 and IFRS 9" published on 9 December 2021 (effective for annual periods beginning on or after 1 January 2023),

• **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Participations and Joint Ventures"** – Sale or contribution of assets between an investor and its associate or joint venture and further amendments (effective date deferred indefinitely until the research project on the equity method is completed),

• **Changes in IAS 1 "Presentation of Financial Statements"** - Classification of liabilities as Current and Non-Current (effective for annual periods beginning on or after January 1, 2023),

• **Changes in IAS 1 "Presentation of Financial Statements"** - Disclosure of accounting policies (effective for annual periods beginning on or after January 1, 2023),

• **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Accounting Estimates (effective for annual periods beginning on or after January 1, 2023),

• **Amendments to IAS 12 "Income Taxes"** - Deferred tax related to assets and liabilities arising from a single transaction (effective for annual periods beginning on or after January 1, 2023).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

5. USE OF ESTIMATES AND JUDGMENTS

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

a) Expected Credit Losses

Financial assets measured at amortized cost are assessed for impairment on a basis described in Note 4. The Bank reviews its assumptions and judgments on a regular basis.

The Bank measures the expected credit losses of a financial instrument in a way that reflects:
(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

b) Determining fair values

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

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

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

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

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

The estimation of the fair value is disclosed below.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Disclosure and estimation of fair value

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

Financial instruments – fair value hierarchy

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

	2022			**2021**		
	Carrying value	**Fair value**		**Carrying value**	**Fair value**	
		Level 2	**Level 3**		**Level 2**	**Level 3**
Financial assets not measured at fair value						
Financial investments at amortized cost	99,770	99,770	-	1,356,860	1,356,860	-
Cash on hand and at banks	28,232,293	-	28,232,293	23,541,741	-	23,541,741
Loans and advances to customers	93,045,345	-	92,306,031	96,632,410	-	96,160,588
Other financial assets	419,617	-	419,617	755,243	-	755,243
Financial liabilities not measured at fair value						
Due to customers	68,873,870	-	69,328,214	67,388,952	-	67,622,608
Borrowings	18,045,685	-	18,076,769	23,049,207	-	23,049,207
Other financial liabilities	573,935	-	573,935	318,164	-	318,164

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Financial instruments – fair value hierarchy

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

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

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

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

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

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

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. 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.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. 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 2022 and 31 December 2021 are as follows:

	31 December 2022	31 December 2021
Balances with Central Bank of Kosovo	22,395,405	20,359,835
Cash at banks	5,554,128	3,013,010
Loans and advances to costumers, net	93,045,345	96,632,410
Financial investments at amortized cost	99,770	1,356,860
Guarantees in favor of customers and credit commitments	21,002,041	30,744,439
Maximum exposure to credit risk	**142,096,689**	**152,106,554**

Credit quality by class of financial assets:

31 December 2022	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo	22,395,405	-	-	22,395,405
Cash at banks	5,554,128	-	-	5,554,128
Loans and advances to costumers, net	92,913,041		132,304	93,045,344
Financial investments at amortized cost	99,770	-	-	99,770
Guarantees in favor of customers and credit commitments	20,997,704	-	4,337	21,002,041
Maximum exposure to credit risk	**141,960,048**	**-**	**136,641**	**142,096,688**

31 December 2021	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo	20,359,835	-	-	20,359,835
Cash at banks	3,013,010	-	-	3,013,010
Loans and advances to costumers, net	95,068,536	881,226	682,648	96,632,410
Financial investments at amortized cost	1,356,860	-	-	1,356,860
Guarantees in favor of customers and credit commitments	30,729,403	568	14,468	30,744,439
Maximum exposure to credit risk	**150,527,644**	**881,794**	**697,116**	**152,106,554**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

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

Impaired loans and securities

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

Past due but not impaired loans

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

Allowances for impairment

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

Loans and advances to customers, net	**31 December 2022**	**31 December 2021**
Neither past due nor impaired	89,075,736	95,068,536
Past due and impaired	3,837,304	881,226
Past due but not impaired	132,304	682,648
Total	**93,045,344**	**96,632,410**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	**31 December 2022**	**31 December 2021**
Standard (0 days)	89,841,146	95,859,250
Standard (1-30 days)	3,855,937	886,173
Watch (31-60 days)	19,725	8,752
Substandard (61-90 days)	45,663	538,289
Doubtful (91-180 days)	-	-
Loss (more than 180 days)	1,405,897	1,260,724
Accrued interest	540,530	435,842
Less: Deferred disbursement fee	(136,273)	(104,818)
Total Loans at amortized cost, gross	**95,572,625**	**98,884,212**
Less: Allowance for impairment	(2,527,280)	(2,251,802)
Loans and advances to customers, net	**93,045,345**	**96,632,410**

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

Loans and advances to customers	**Maximum exposure to credit risk**	**Real Estate**	**Total collateral**	**Surplus collateral**	**Net Exposure**
31 December 2021	98,884,213	530,347,084	358,017,767	431,462,871	-
31 December 2022	95,572,625	687,420,004	423,963,767	591,847,379	-

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

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

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. 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, 2022 and 2021, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2022	**31 December 2021**
Wholesale and retail trade	45,575,134	49,601,273
Construction	10,106,912	13,690,999
Manufacturing	30,490,341	28,868,407
Accommodation and food service activities	2,019,585	2,190,939
Water, supply, sewerage and waste management and services	99,744	255,952
Individual	383,983	829,150
Mining and quarrying	561,874	387,133
Other services	93,365	117,547
Transportation and storage	475,246	486,971
Administrative and support service activities	3,572	3,839
Professional, scientific and technical activities	152,397	677,818
Information and communication	5,892	3,027
Real estate activities	5,082,551	1,390,825
Financial and insurance activities	18,684	49,308
Agriculture, forestry, and fishing	44,165	-
Health and social work activities	54,922	-
Accrued interest	540,530	435,842
Deferred revenue on disbursement fee	(136,273)	(104,818)
Total Loans at amortized cost, gross	**95,572,624**	**98,884,212**
Less: Allowance for impairment	(2,527,280)	(2,251,802)
Loans and advances to customers, net	**93,045,344**	**96,632,410**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

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

The purpose of Liquidity Risk Management is to ensure, as far as possible, that the Bank will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Liquidity Risk Management is handled in collaboration and close supervision of Treasury Group Department in Head Office. As at 31 December 2022 and 2021, the Bank's financial assets and liabilities have remaining contractual maturities, while expected maturities differ from contractual ones as follows:

31 December 2022	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	14,363,482	-	-	-	-	13,890,870	28,254,352
Financial investments at amortized cost	-	-	-	99,770	-	-	99,770
Loans to customers	1,753,110	6,575,752	28,566,571	32,486,024	26,327,442	-	95,708,898
Total assets	**16,116,592**	**6,575,752**	**28,566,571**	**32,585,795**	**26,327,442**	**13,890,870**	**124,063,021**
Liabilities							
Deposits from costumers	21,540,528	5,033,903	29,159,680	34,680,300	-	-	90,414,411
Short term borrowings	7,009,239	11,036,446	-	-	-	-	18,045,685
Due to Head Office	1,949,953		-	-	-	-	1,949,953
Other liabilities	634,118	41,995	192,602	1,148,340	-	-	2,017,056
Total liabilities and equity	**31,133,839**	**16,112,344**	**29,352,282**	**35,828,640**	**-**	**-**	**112,427,105**
Net Position	**(15,017,247)**	**(9,536,593)**	**(785,711)**	**(3,242,846)**	**26,327,442**	**13,890,870**	**11,635,916**
Cumulative net position	**(15,017,247)**	**(24,553,840)**	**(25,339,550)**	**(28,582,396)**	**(2,254,954)**	**11,635,916**	**-**

The gap between assets and liabilities it is continuously being monitored by Treasury and Risk Management department of the bank. We have internal policies and procedures with defined ratios to monitor similar gaps.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

31 December 2021	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	11,033,255	-	-	-	-	12,535,079	23,568,334
Financial investments at amortized cost	9,207	1,248,728	-	98,925	-	-	1,356,860
Loans to customers	6,180,238	2,475,725	23,050,327	38,983,631	28,299,110	-	98,989,031
Total assets	**17,222,700**	**3,724,453**	**23,050,327**	**39,082,556**	**28,299,110**	**12,535,079**	**123,914,225**
Liabilities							
Deposits from costumers	25,264,722	6,493,572	29,413,411	24,838,474	-	-	86,010,179
Short term borrowings	10,025,606	6,000,567	7,023,035	-	-	-	23,049,208
Dues to Head Office	909,513	4,729	-	18,072	-	-	932,314
Other liabilities	369,108	36,430	169,010	955,397	424,634	-	1,954,579
Total liabilities and equity	**36,568,949**	**12,535,298**	**36,605,456**	**25,811,943**	**424,634**	**-**	**111,946,280**
Net Position	**(19,346,249)**	**(8,810,845)**	**(13,555,129)**	**13,270,613**	**27,874,476**	**12,535,079**	**11,967,945**
Cumulative net position	**(19,346,249)**	**(28,157,094)**	**(41,712,223)**	**(28,441,610)**	**(567,134)**	**11,967,945**	**-**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. Foreign currency risk (continued)

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2022 and 2021 as translated into EUR:

2022	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	25,368,759	7,641	2,846,566	232	9,094	28,232,292
Financial investments at amortized cost	99,770	-	-	-	-	99,770
Loans and advances to customers	93,045,345	-	-	-	-	93,045,345
Total assets	**118,513,874**	**7,641**	**2,846,566**	**232**	**9,094**	**121,377,407**
Liabilities						
Deposits from costumers	89,062,143	-	1,352,256	10	2	90,414,411
Short term borrowings	18,045,685	-	-	-	-	18,045,685
Dues to parent company	1,267,104	-	682,850	-	-	1,949,954
Other liabilities	2,010,502	-	294	-	-	2,010,796
Total liability and equity	**110,385,434**	**-**	**2,035,400**	**10**	**2**	**112,420,846**
Net position	**8,128,440**	**7,641**	**811,166**	**222**	**9,092**	**8,956,561**
Cumulative net position	**8,128,440**	**8,136,081**	**8,947,247**	**8,947,469**	**8,956,561**	**-**

2021	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	23,463,338	29,766	33,832	252	14,553	23,541,741
Financial investments at amortized cost	1,356,860	-	-	-	-	1,356,860
Loans and advances to customers	96,632,410	-	-	-	-	96,632,410
Total assets	**121,452,608**	**29,766**	**33,832**	**252**	**14,553**	**121,531,011**
Liabilities						
Deposits from costumers	85,723,095	-	287,071	10	2	86,010,178
Short term borrowings	23,049,207	-	-	-	-	23,049,207
Dues to parent company	716,547	-	215,767	-	-	932,314
Other liabilities	1,935,997	-	-	-	-	1,935,997
Total liability and equity	**111,424,846**	**-**	**502,838**	**10**	**2**	**111,927,696**
Net position	**10,027,762**	**29,766**	**(469,006)**	**242**	**14,551**	**9,603,315**
Cumulative net position	**10,027,762**	**10,057,528**	**9,588,522**	**9,588,764**	**9,603,315**	**-**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk

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

2022	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	-	-	-	-	-	28,254,352	**28,254,352**
Financial investments at amortized cost	-	-	-	99,770	-	-	**99,770**
Loans to customers - fixed	1,753,110	6,575,752	28,566,571	32,486,024	26,327,442	-	**95,708,899**
Total assets	**1,753,110**	**6,575,752**	**28,566,571**	**32,585,794**	**26,327,442**	**28,254,352**	**124,063,021**
Liabilities							
Deposits from customers - fixed	21,540,528	5,033,903	29,159,680	34,680,300	-	-	**90,414,411**
Due to banks	7,009,239	11,036,446	-	-	-	-	**18,045,685**
Due to Head Office - Fixed	1,949,953		-	-	-	-	**1,949,953**
Other Liabilities	634,118	41,995	192,602	1,148,340	-	-	**2,017,055**
Total liabilities	**31,133,838**	**16,112,344**	**29,352,282**	**35,828,640**	**-**	**-**	**112,427,104**
Net Position	**(29,380,728)**	**(9,536,592)**	**(785,711)**	**(3,242,846)**	**26,327,442**	**28,254,352**	**11,635,917**
Cumulative net position	**(29,380,728)**	**(38,917,320)**	**(39,703,031)**	**(42,945,877)**	**(16,618,435)**	**11,635,917**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)
(d) Market Risk (continued)

iii. Interest rate risk

2021	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	-	-	-	-	-	23,568,334	23,568,334
Financial investments at amortized cost	9,207	1,248,728	-	98,925	-	-	1,356,860
Loans to customers - fixed	6,806,258	4,247,318	33,563,616	44,114,861	7,863,833	-	**96,595,886**
Loans to customers - variable	9,719	4,588	13,403	8,815	-	-	**36,525**
Total assets	**6,825,184**	**5,500,634**	**33,577,019**	**44,222,601**	**7,863,833**	**23,568,334**	**121,557,605**
Liabilities							
Deposits from customers	6,643,184	6,493,572	29,413,411	24,838,474	-	18,621,538	86,010,179
Short Term Borrowings	10,025,606	6,000,567	7,023,036	-	-	-	23,049,209
Due to Head Office - Fixed	-	4,729	-	18,065	-	909,520	932,314
Due to Head Office - Variable	-	-	-	-	-	-	-
Other Liabilities	369,108	36,430	169,010	955,397	424,634	-	**1,954,579**
Total liabilities	**17,037,898**	**12,535,298**	**36,605,457**	**25,811,936**	**424,634**	**19,531,058**	**111,946,281**
Net Position	**(10,212,714)**	**(7,034,664)**	**(3,028,438)**	**18,410,665**	**7,439,199**	**4,037,276**	**9,611,324**
Cumulative net position	**(10,212,714)**	**(17,247,378)**	**(20,275,816)**	**(1,865,151)**	**5,574,048**	**9,611,324**	**-**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. ***Interest rate risk (continued)***

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2022 and 2021 are as follows:

	2022		2021	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank		-0.7%	-	-0.6%
Loans and advances to customers		5.67%	-	5.45%
Financial investments at amortized cost		1.70%	-	1.70%
Liabilities				
Customer deposits	0.00%	1.96%	2.20%	2.29%
Short term borrowings		1.56%	-	1.23%
Dues to parent company		4.62%	-	3.54%

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:

	2022		2021	
	Increase 1%	**Decrease 1%**	**Increase 1%**	**Decrease 1%**
Estimated Profit (loss) effect	116,359	(116,359)	96,113	(96,113)

(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.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

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

Regulatory Capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity. The Bank's overall strategy remains unchanged from previous year. In accordance with the regulations of the Central Bank of Republic of Kosovo, the Bank should maintain a capital equivalency deposit of not less than EUR 7,000,000. The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank has met the regulatory requirements as at 31 December 2022 and 2021.

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

	31 December 2022	31 December 2021
Cash on hand and at banks:		
Cash on hand	282,759	168,896
Current account with banks	5,559,896	2,990,326
Nostro account with parent company	11,251	39,092
Cash and cash equivalents	**5,853,906**	**3,198,314**
Allowance for ECL/Impairment losses	(17,019)	(16,408)
Cash on hand and at banks after provisions	**5,836,887**	**3,181,906**
Current and Restricted balances with Central Bank:		
Unrestricted balances with Central Bank of Kosova	8,509,576	7,834,941
Liquidity reserves (restricted)	6,981,025	6,884,975
Capital equivalent deposit (restricted)	6,909,845	5,650,104
Current and Restricted balances with Central Bank	**22,400,446**	**20,370,020**
Allowance for ECL/Impairment losses	(5,040)	(10,185)
Current and Restricted balances with Central Bank after provisions	**22,395,406**	**20,359,835**
Total	**28,232,293**	**23,541,741**

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. Balances with Central Bank of Kosovo include a mandatory liquidity reserve balance with CBK of EUR 6,981 thousand (31 December 2021: EUR 6,884 thousand). The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy the liquidity requirements are the deposits in EUR with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base. Balances with CBK at 31 December 2022 and 2021 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit, Investments in securities are also used as capital equivalency deposits required for a branch of a foreign bank.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

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

Cash at bank

	2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	5,571,147	-	-	5,571,147
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**5,571,147**	**-**	**-**	**5,571,147**

	2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	3,029,418	-	-	3,029,418
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**3,029,418**	**-**	**-**	**3,029,418**

	Gross Carrying amount		**ECL**		**Total**
	Stage 1 12-month ECL	**Stage 2, 3 and POCI Lifetime ECL**	**Stage 1 12-month ECL**	**Stage 2, 3 and POCI Lifetime ECL**	
As at 1 January 2022	**3,029,418**	-	**(16,408)**	-	**3,013,010**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(462,575)		-		(462,575)
Increase in new financial assets originated or purchased	3,004,304	-	**(611)**	-	**3,003,693**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	**(611)**	-	**(611)**
As at 31 December 2022	**5,571,147**	-	**(17,019)**	-	**5,554,128**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

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

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2021	9,967,366	-	(10,464)	-	9,956,902
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(7,050,834)	-	(5,944)	-	(7,056,778)
New financial assets originated or purchased	112,887	-	-	-	112,887
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	(5,944)	-	(5,944)
As at 31 December 2021	3,029,419		(16,408)		3,013,011

<u>Current and restricted balances with central bank</u>

	2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	22,400,446	-	-	**22,400,446**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**22,400,446**	-	-	**22,400,446**

	2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	20,370,020	-	-	**20,370,020**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**20,370,020**	-	-	**20,370,020**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

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

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2022	**20,370,020**	-	**(10,185)**	-	**20,359,835**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	2,030,426	-	**5,145**	-	**2,035,571**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	**5,145**	-	**5,145**
,As at 31 December 2022	**22,400,446**	-	**(5,040)**	-	**22,395,406**

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2021	**19,498,242**	-	**(52,742)**	-	**19,445,500**
All transfers					
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	871,778	-	42,557	-	914,335
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	**42,557**	-	**42,557**
As at 31 December 2021	**20,370,020**	-	**(10,185)**	-	**20,359,835**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

8. FINANCIAL INVESTMENTS AT AMORTIZED COST

	31 December 2022	31 December 2021
Nominal Value – Bonds	100,000	1,350,000
Bonds	99,516	1,344,215
Interest Receivables	139	9,207
Amortization of discount	137	4,117
Net value of Bonds	**99,792**	**1,357,539**
Allowance for ECL/Impairment losses	(22)	(679)
Net book value of securities	**99,770**	**1,356,860**
Analyzed as:		
Non-current	**-**	**-**
Current	**99,770**	**1,356,860**

Investments in securities represent investments in Government Treasury Bills and Bonds issued by the Government of the Republic of Kosovo with 1 year maturity _(2021: with 1 year maturity) and interest rates 1.70% (2021: 1.70%).

		2022		
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	99,793	-	-	99,793
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**99,793**	**-**	**-**	**99,793**

		2021		
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	1,357,539	-	-	**1,357,539**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**1,357,539**	**-**	**-**	**1,357,539**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

8. FINANCIAL INVESTMENTS AT AMORTIZED COST (CONTINUED)

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2022	**1,357,539**	**-**	**(679)**	**-**	**1,356,860**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(1,257,747	-	657	-	(1,257,090)
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**657**	**-**	**657**
As at 31 December 2022	**99,792**	**-**	**(22)**	**-**	**99,770**

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2021	**1,355,597**	**-**	**(10,693)**	**-**	**1,344,904**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	1,942	-	10,014	-	11,956
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**10,014**	**-**	**10,014**
As at 31 December 2021	**1,357,539**	**-**	**(679)**	**-**	**1,356,860**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2022	31 December 2021
Corporate Loans	60,065,510	68,913,674
Individual Loans	372,903	813,516
Staff Loans	11,080	15,634
Overdrafts	34,718,875	28,810,365
Accrued interest	540,530	435,842
Total gross loans and advances to costumers	**95,708,898**	**98,989,031**
Deferred revenue on disbursement fee	(136,273)	(104,819)
Allowance for ECL	(2,527,280)	(2,251,802)
Net Loans and advances to costumers	**93,045,345**	**96,632,410**
Analyzed as:		
Non-current	**58,813,466**	**51,987,508**
Current	**36,895,432**	**44,644,902**

Movements in the allowance for ECL in 2022 and 2021 are composed as follows:

	31 December 2022	31 December 2021
Allowance as at 1 January	2,251,802	**1,630,922**
Charge/(Release) for the year	275,478	620,880
Allowance as at 31 December	**2,527,280**	**2,251,802**

Gross carrying amount for total loans are, as follows:

	2022				
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	93,597,089	99,744	-	-	93,696,833
Watch (31-60 days)	-	19,725	-	-	19,725
Substandard (61-90 days)	-	45,663	-	-	45,663
Doubtful (91-180 days)	-	-	-	-	-
Loss (more than 180 days)	-	-	1,405,897	-	1,405,897
Accrued interest	231,102	485	308,943	-	540,530
Less: Deferred disbursement fee	(135,678)	(199)	(395)	-	(136,272)
Total Loans at amortized cost, gross	**93,692,513**	**165,418**	**1,714,445**	-	**95,572,376**
Less: Allowance for impairment	(878,071)	(1,925)	(1,647,035)	-	(2,527,031)
Loans and advances to customers, net	**92,814,442**	**163,493**	**67,410**	**-**	**93,045,345**

	2021				
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	96,745,528	-	-	-	96,745,528
Watch (31-60 days)	-	8,752	-	-	8,752
Substandard (61-90 days)	-	538,289	-	-	538,289
Doubtful (91-180 days)	-	-	-	-	-
Loss (more than 180 days)	-	-	1,260,725	-	1,260,725
Accrued interest	190,917	5,337	239,483	-	435,737
Less: Deferred disbursement fee	(103,734)	(856)	(228)		(104,818)
Total Loans at amortized cost, gross	**96,832,711**	**551,522**	**1,499,980**	-	**98,884,213**
Less: Allowance for impairment	(882,949)	(5,825)	(1,363,028)	-	(2,251,802)
Loans and advances to customers, net	**95,949,762**	**545,697**	**136,952**	**-**	**96,632,411**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2022	**96,936,444**	**552,379**	**1,500,208**	**-**	**98,989,030**
Transfers:				-	
Transfer from Stage 1 to Stage 2	(19,802)	19,802	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(150,038)	150,038	-	-
Transfer from Stage 2 to Stage 1	5,036	(5,036)	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Payments and assets derecognized other than write-offs	(1,700,097)	(176,981)	-	-	**(1,877,078)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(8,909,386)	(74,506)	64,594	-	**(8,919,298)**
New loans originated	7,515,995	-	-	-	**7,515,995**
Gross carrying amount as at 31 December 2022	**93,828,190**	**165,620**	**1,714,840**	**-**	**95,708,650**

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2021	**68,183,947**	**810,051**	**1,577,944**	**-**	**70,571,942**
Transfers:					
Transfer from Stage 1 to Stage 2	(55,125)	55,125		-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3		(4,066)	4,066	-	-
Transfer from Stage 2 to Stage 1		-		-	-
Transfer from Stage 3 to Stage 2		-		-	-
Transfer from Stage 3 to Stage 1		-		-	-
Payments and assets derecognized other than write-offs	(6,034,111)	(81,330)	(102,390)	-	**(6,217,831)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(5,764,962)	(307,024)	20,588	-	**(6,051,398)**
New loans originated	40,606,694	79,623	-	-	**40,686,317**
Gross carrying amount as at 31 December 2021	**96,936,443**	**552,379**	**1,500,208**	**-**	**98,989,030**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis in the expected credit losses is presented below:

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
ECL amount as at 1 January 2022	**882,949**	**5,825**	**1,363,028**	**-**	**2,251,802**
Transfers:					
Transfer from Stage 1 to Stage 2	(60)	60	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	47	(47)	-	-	-
Transfer from Stage 2 to Stage 3	-	81,104	(81,104)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Derecognitions other than write-offs	(13,540)	(1,752)	-	-	**(15,292)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(60,669)	78,942	202,904	-	**221,177**
New loans originated or purchased	69,343	-	-	-	**69,343**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**(4,878)**	**(3,901)**	**284,007**	**-**	**275,228**
ECL amount as at 31 December 2022	**878,070**	**164,132**	**1,484,828**	**-**	**2,527,030**

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
ECL amount as at 1 January 2021	**574,948**	**8,205**	**1,047,769**	**-**	**1,630,922**
Transfers:					
Transfer from Stage 1 to Stage 2	(474)	474	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3		(43)	43	-	-
Transfer from Stage 3 to Stage 2				-	-
Transfer from Stage 3 to Stage 1				-	-
Changes in PDs/LGDs/EADs				-	-
Derecognitions other than write-offs	(32,519)	(764)	(62,451)	-	**(95,734)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(16,238)	(2,904)	377,667	-	**358,525**
New loans originated or purchased	357,232	857	-	-	**358,089**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**308,001**	**(2,380)**	**315,259**	**-**	**620,880**
ECL amount as at 31 December 2021	**882,949**	**5,825**	**1,363,028**	**-**	**2,251,802**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

10. PROPERTY AND EQUIPMENT

	Leasehold improvements	IT Equipment	Furniture, fixtures and equipment	Other Assets	Vehicles	Total
Cost						
Balance at 1 January 2021	**869,405**	**216,613**	**257,060**	**94,493**	**22,500**	**1,460,071**
Additions	1,877	102,409	15,169	-		119,455
Disposals	-	-	-	-	(22,500)	(22,500)
Correction of previous years errors	-	-	-	(6,275)	-	(6,275)
Balance at December 31, 2021	**871,282**	**319,022**	**272,229**	**88,218**	**-**	**1,550,751**
Additions	-	1,420	7,081	7,153	-	**15,654**
Disposals	-	-	-	-	-	-
Balance at December 31, 2022	**871,282**	**320,442**	**279,310**	**95,371**	**-**	**1,566,405**
Accumulated depreciation						
Balance at 1 January 2021	**394,791**	**178,460**	**197,967**	**69,367**	**22,500**	**863,085**
Charge for the year	91,129	37,794	30,513	3,749	-	163,185
Eliminated on disposals	-	-	-	-	(22,500)	**(22,500)**
Balance at 31 December 2021	**485,920**	**216,254**	**228,480**	**73,116**	**-**	**1,003,770**
Charge for the year	91,250	28,513	21,170	8,254	-	149,187
Eliminated on disposals	-	-	-	-	-	-
Balance at 31 December 2022	**577,170**	**244,767**	**249,650**	**81,370**	**-**	**1,152,957**
Net Balance at 31 December 2021	**385,362**	**102,768**	**43,749**	**15,102**	**-**	**546,981**
Net Balance at 31 December 2022	**294,112**	**75,675**	**29,660**	**14,001**	**-**	**413,448**

As at 31 December 2022 and 2021 there are no property and equipment encumbered or pledged to secure Bank's liabilities.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

11. INTANGIBLE ASSETS

	Software	Total
Cost		
Balance at 1 January 2021	**159,063**	**159,063**
Additions	123,962	**123,962**
Disposals	-	**-**
Balance at December 31, 2021	**283,025**	**283,025**
Additions	51,817	51,817
Disposals	-	-
Balance at December 31, 2022	**334,842**	**334,842**
Accumulated Amortization		
Balance at 1 January 2021	**66,629**	**66,629**
Charge for the year	19,151	**19,151**
Eliminated on disposals		**-**
Balance at 31 December 2021	**85,780**	**85,780**
Charge for the year	22,017	22,017
Eliminated on disposals		
Balance at 31 December 2022	**107,797**	**107,797**
Net Balance at 31 December 2021	**197,245**	**197,245**
Net Balance at 31 December 2022	**227,045**	**227,045**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

12. RIGHT OF USE ASSET

	Buildings	Total
Cost		
At 1 January 2021	**2,210,986**	**2,210,986**
Charge for the year (lease modifications)	-	-
At 31 December 2021	**2,210,986**	**2,210,986**
Charge for the year (lease modifications)	**27,200**	**27,200**
At 31 December 2022	**2,238,186**	**2,238,186**
Accumulated depreciation	-	-
At 1 January 2021	**(502,143)**	**(502,143)**
Charge for the year	(244,982)	(244,982)
At 31 December 2021	**(747,125)**	**(747,125)**
Charge for the year	(250,161)	(250,161)
At 31 December 2022	**(997,286)**	**(997,286)**
Carrying amount		
At 31 December 2021	**1,463,861**	**1,463,861**
At 31 December 2022	**1,240,900**	**1,240,900**

Amounts recognized in profit and loss	**31 December 2022**	**31 December 2021**
Depreciation expense on right-of-use assets	250,162	244,981
Interest expense on lease liabilities	109,843	124,712
Expense relating to short-term leases	-	-
Expense relating to leases of low value assets	7,990	16,392
Expense relating to variable lease payments not included in the measurement of the lease liability	-	-

	31 December 2022	**31 December 2021**
Fixed payments (including amortization of prepayment)	356,625	332,281
Total payments	**356,625**	**332,281**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

13. REPOSSESSED ASSETS

	31 December 2022	31 December 2021
Repossessed assets	642,333	642,334
Impairment for repossessed assets	(338,461)	-
Total	**303,872**	**642,334**

Repossessed assets consist of a residential building repossessed during 2018 and 2020.

Movements in the impairment provision are as follows:

	2022	2021
At 1 January	--	-
Allowance for impairment during the year	(338,461)	-
Reversal on disposal	-	-
At 31 December	**(338,461)-**	**--**

14. PREPAID INCOME TAX

Prepaid income tax amounting 97,024 EUR is comprised from balance of prepayment carried forward from previous years and overpaid of advance prepayments during the fiscal year 2021. Based on tax laws in Kosovo, prepaid income tax cannot be netted off against income tax payable, until this is allowed by tax authorities.

15. OTHER ASSETS

	31 December 2022	31 December 2021
Prepayments	21,364	10,577
Other receivables	18,806	15,942
Total	**40,170**	**26,519**
Allowance for ECL	(86)	(56)
Total	**40,084**	**26,463**

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

Internal rating grade 2022	**Stage 1**	**Stage 2**	**Stage 2**	**Total**
Standard (0 days)	40,170	-	-	40,170
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**40,170**	-	-	**40,170**

Internal rating grade 2021	**Stage 1**	**Stage 2**	**Stage 2**	**Total**
Standard (0 days)	26,519	-		**26,519**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**26,519**	**-**	**-**	**26,519**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

15. OTHER ASSETS (CONTINUED)

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

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2022	**26,519**	-	**(56)**	-	**26,463**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
Increase in new financial assets originated or purchased	13,651	-	(30)	-	**13,621**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	**(30)**	-	**(30)**
As at 31 December 2022	**40,170**	**-**	**(86)**	**-**	**40,084**

	Gross Carrying amount			**ECL**	**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2021	**19,686**		**(83)**		**19,603**
All transfers	-				-
Derecognitions other than write-offs	-		-		-
Repayments and change in cash flow	6,833		27		**6,860**
New financial assets originated or purchased					-
Write-offs	-		-		-
Foreign currency effect and other movements	-		-		-
Net change in Profit and Loss	-		**27**		**27**
As at 31 December 2021	**26,519**	**-**	**(56)**	**-**	**26,463**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

16. DUE TO CUSTOMERS

	31 December 2022	31 December 2021
Current Accounts		
Individuals- CA	6,111,148	7,394,390
Corporations	9,284,194	7,064,037
State owned entities	2,946,751	2,247,910
Correspondent banks	1,597,590	1,597,536
Non-profit organizations	1,600,858	317,353
Total current accounts	**21,540,541**	**18,621,226**
Term Deposits		
Individuals – TDA	29,726,012	35,470,363
Corporations	37,546,084	26,008,792
State owned entities	-	3,000,000
Non-profit organizations	-	1,500,000
Interest payable – deposit	1,601,774	1,409,798
Total term deposits	**68,873,870**	**67,388,953**
Total deposits	**90,414,411**	**86,010,179**
Analyzed as:		
Non-current	**54,136,534**	**59,577,360**
Current	**34,680,300**	**24,838,474**

Term deposits bear fixed interest rates ranging from 0.5% - 3.5% as of 31 December 2022 (2021: 0.5% - 3.5%).

17. DUE TO BANKS

Due to Banks:	31 December 2022	31 December 2021
IS Bank HO	10,000,000	13,000,000
TEB Bank	8,000,000	10,000,000
Interest Payable	45,685	49,207
Total	**18,045,685**	**23,049,207**
Analyzed as:		
Non-current	**-**	**-**
Current	**18,045,685**	**23,049,207**

The due to banks deposits with commercial banks bear interest rates from 0.40% p.a to 5.35% p.a (2021: from 0.38% p.a).

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

18. DUE TO HEAD OFFICE AND OTHER AFFILIATES

	31 December 2022	31 December 2021
Current account with Head Office	1,940,751	909,520
Long term borrowing	9,031	22,762
Interest payable – HQ	171	31
Total	**1,949,953**	**932,313**
Analyzed as:		
Non-current	**-**	**22,762**
Current	**1,949,782**	**909,520**

Depending on needs for additional disbursements, the Branch has the right at its discretion, to renew or obtain additional funds at short notice from Head Office, as well as return to Head Office any extra liquidity. Interest rates were ranging from 0.01% p.a. to 3.85% p.a. (2021: from 0.01% p.a. to 1.85% p.a.).

19. TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2022	31 December 2021
Withholding tax on rent and interest	15,251	20,862
Tax payable TTD	6,295	18,268
Withholding tax on salary	5,126	6,011
Pension contributions payable	4,371	5,037
Total	**31,043**	**50,178**

20. OTHER LIABILITIES

	31 December 2022	31 December 2021
Royalty fee, system usage fee and Mobile banking	170,000	140,269
Allowance for impairment for off-balance sheet items	102,770	103,008
Electricity Liability	64,507	46,366
Other liabilities	39,540	32,103
CBK Licenses	24,042	29,630
Liability for Consultancy	23,600	-
Municipality tax	23,704	14,580
Other accruals	69,967	37,140
Total	**518,130**	**403,096**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

20. OTHER LIABILITIES (CONTINUED)

	2022 - letters of guarantees, letter of credit and unused overdraft limit				
Internal Rating 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	16,397,448	256	-	-	16,397,704
Watch (31-60 days)	-	-	-	-	-
Substandard (61-90 days)	-	4,337	-	-	4,337
Doubtful (91-180 days)	-	-	-	-	-
Loss (more than 180 days)	-	-	-	-	-
Total	**16,397,448**	**4,593**	**-**	**-**	**16,402,041**

	2021 - letters of guarantees, letter of credit and unused overdraft limit				
Internal Rating 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	16,929,972	-	-	-	16,929,972
Watch (31-60 days)	-	-	-	-	-
Substandard (61-90 days)	-	14,467	-	-	14,467
Doubtful (91-180 days)	-	-	-	-	-
Loss (more than 180 days)	-	-	-	-	-
Total	**16,929,972**	**14,467**	**-**	**-**	**16,944,439**

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

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at January 1, 2022	**16,929,972**	**14,467**	**-**	**-**	**16,944,439**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(984,596)	(9,874)	-	-	**(994,470)**
New loans originated or purchased	452,072	-	-	-	**452,072**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at December 31, 2022	**16,397,448**	**4,593**	**-**	**-**	**16,402,041**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

20. OTHER LIABILITIES (CONTINUED)

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at January 1, 2021	**13,251,724**	**1,153**	**-**	**-**	**13,252,877**
Transfers:					
Transfer from Stage 1 to Stage 2	(2,831)	2,831	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Derecognitions other than write-offs		-	-	-	-
Repayments and change in cash flow	(2,572,861)	10,483	-	-	**(2,562,378)**
New loans originated or purchased	6,253,940	-	-	-	**6,253,940**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at December 31, 2021	**16,929,972**	**14,467**	**-**	**-**	**16,944,439**

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
ECL amount as at 1 January 2022	**103,008**	**-**	**-**	**-**	**103,008**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Repayments and change in cash flow	(12,227)	-	-	-	**(12,227)**
New loans originated or purchased	11,989	-	-	-	**11,989**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**(238)**	**-**	**-**	**-**	**(238)**
ECL amount as at 31 December 2022	**102,770**		**-**	**-**	**102,770**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

20. OTHER LIABILITIES (CONTINUED)

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased credit-impaired	Total
ECL amount as at 1 January 2021	**67,833**	**10**	**-**	**-**	**67,843**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs					
Repayments and change in cash flow	27,705	(10)	-	-	**27,695**
New loans originated or purchased	7,470	-	-	-	**7,470**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**35,175**	**(10)**	**-**	**-**	**35,165**
ECL amount as at 31 December 2021	**103,008**	**-**	**-**	**-**	**103,008**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

21. LEASE LIABILITIES

	31 December 2022	31 December 2021
Maturity analysis:		
Year 1	255,240	224,281
Year 2	238,386	240,933
Year 3	230,498	233,045
Year 4	247,947	231,931
Year 5	266,716	249,488
Onwards	164,794	424,635
Total	**1,403,581**	**1,604,313**
Analyzed as:		
Non-current	1,148,340	1,380,032
Current	255,240	224,281

22. SHARE CAPITAL

As at December 31, 2022, the share capital amounted to EUR 10,000 thousand (2021: EUR 10,000 thousand).

23. NET INTEREST INCOME

	Year ended 31 December 2022	Year ended 31 December 2021
Interest income from loans and advances to customers	5,542,007	4,276,659
Interest income from securities	4,579	24,892
Total interest income	**5,546,586**	**4,301,551**
Interest expenses		
Interest expenses for deposits	(1,363,541)	(1,537,210)
Interest expenses for borrowings	(512,818)	(66,641)
Interest expenses for lease liability	(109,844)	(124,712)
Total interest expenses	**(1,986,203)**	**(1,728,563)**
Net interest income	**3,560,383**	**2,572,988**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

24. NET FEE AND COMMISION INCOME

	Year ended 31 December 2022	Year ended 31 December 2021
Fees for letter of guarantees	146,908	158,551
Fees for early termination of loan contracts	4,164	2,503
Other fee and commission income	73,541	81,037
Total fee and commission income	**224,613**	**242,091**
Fee and commission expense	(58,894)	(29,473)
Net fee and commission income	**165,719**	**212,618**

25. NET FOREIGN EXCHANGE

	Year ended 31 December 2022	Year ended 31 December 2021
Foreign exchange gain	1,953,433	2,297,589
Foreign exchange loss	(1,871,569)	(2,275,916)
Net foreign exchange gain	**81,864**	**21,673**

26. OTHER INCOME

	Year ended 31 December 2022	Year ended 31 December 2021
Other income from previous years corrections	-	580
Income from sale of assets	-	10,000
Other income	130	3,365
Total fee and commission income	**130**	**13,945**

27. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Year ended December 31, 2022	Year ended December 31,2021
Loans and advances to clients (Note 9)	**(275,478)**	**(620,880)**
Cash and balances with the Central Bank (Note 7)	5,145	42,557
Cash and cash equivalents (Note 7)	(611)	_(5,944)
Financial assets at amortized cost (Note 8)	657	10,014
Other assets (Note 15)	(30)	27
Total impairment losses on financial assets	**(270,317)**	**(574,226)**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS
Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

28. OTHER OPERATING EXPENSES

	Year ended 31 December 2022	Year ended 31 December 2021
Fees paid to CBK	152,933	151,114
Other tax and fee expenses	150,338	63,829
Royalty fee	131,206	96,287
Consultancy and auditing	110,493	95,073
Payments’ system expenses	96,937	95,170
Communication expenses	56,441	69,719
Utilities and Fuel	55,894	55,577
Other expenses	49,054	26,052
Memberships	29,759	22,315
Deposit insurance expenses	28,422	28,915
Maintenance and repair	20,367	12,321
Security expenses	12,588	13,858
Operating lease expenses for vehicle	7,990	16,392
Representation expenses	6,432	20,237
Expenses for legal cases	-	344
Total	**908,854**	**767,203**

29. EMPLOYEE BENEFITS

	Year ended 31 December 2022	Year ended 31 December 2021
Salaries	704,410	706,722
Welfare and pension contribution expenses	54,413	61,991
Health insurance	9,905	10,953
Other employee compensations	10,616	20,920
Total employee benefits	**779,344**	**800,586**

The Bank had 31 employees as at December 31, 2022 (32 employees as at December 31, 2021). Other compensations for international employees include health insurance, transportation and other related costs of transfer to Kosovo.

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

30. INCOME TAX EXPENSE

The income tax expense for the years ended 31 December 2022 and 31 December 2021 is composed of the following:

	Year ended 31 December 2022	Year ended 31 December 2021
Current tax expense	223,207	68,111
Deferred tax	(338)	9,297
Total income tax	**222,869**	**77,408**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2022	Year ended 31 December 2021
Current tax expense	(223,207)	(68,111)
Advance payments during the year	56,136	155,649
Tax receivable (payable)	**(167,071)**	**87,538**

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 and the tax authorities have the right to examine tax returns six years after their submission. Consequentially, the Bank's tax liabilities may not be considered finalized. Additional taxes that may arise in the event of tax audit cannot be determined with any reasonable accuracy. However, the Management believes that no additional material tax liabilities are likely to result.

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 four years.

Movement in deferred tax asset is presented below:

	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	1,810	11,106
Change in accounting policy	-	-
Movement of deferred tax	338	(9,297)
Deferred tax asset as at year end	**2,148**	**1,809**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

30. INCOME TAX EXPENSE (CONTINUED)

The table below represents the calculation of corporate income tax for the year ended 31 December 2022 and 31 December 2021:

	Effective Tax rate	Year ended 31 December 2022	Effective Tax rate	Year ended 31 December 2021
Profit before tax		**1,089,992**		**216,728**
Tax calculated at 10%	10%	108,999	10%	21,673
Tax effect of interest earned from investments in Kosovo Governments securities	10%	(458)	10%	(2,489)
Tax effect of non-deductible expenses	10%	8,004	10%	5,410
Tax effect of exchange loss	10%	15,716	10%	5,803
Tax effect of the accrued interest on term deposits	10%	42,146	10%	34,271
Tax effect on the impairment of repossessed assets	10%	33,846	10%	-
Tax effect on the differences in accrued interest for CBK and IFRS purposes	10%	7,479	10%	319
Adjustment for depreciation of right of use asset	10%	26,648	10%	24,498
Rent payments	10%	(35,662)	10%	(33,228)
Adjustment for legal provisions	10%	-	10%	(10,582)
Adjustment for interest expenses lease liability	10%	10,984	10%	12,471
Other income	10%	103	10%	234
Adjustment for Foreign Exchange Gain	10%	-	10%	(2,456)
Nontaxable expected credit losses	10%	5,402	10%	12,188
Total corporate income tax expenses		**223,207**	10%	**68,112**
Deferred tax asset from temporary differences recognized		**(338)**		**9,297**
Total tax charge		**222,869**		**77,408**

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

31. RELATED PARTY TRANSACTIONS

Türkiye İş Bankası A.Ş.– Branch in Kosovo is a branch of Türkiye İş Bankası A.Ş. The major shareholders of Türkiye İş Bankası A.Ş and their participations in share capital as at 31 December 2022 are as follows:

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

Related party balances and transactions as at 31 December 2022 and 31 December 2021 are composed as follows:

	31 December 2022	31 December 2021
Due from Head Office		
Current accounts with Head Office	2,469,474	39,092
Purchases of intangible assets	-	94,672
Due from other related parties		
Purchases of intangible assets	5,764	-
Due to Head Office		
Current accounts with Head Office	1,940,751	909,520
Short term borrowings	10,009,031	13,000,000
Long term borrowings		22,763
Interest payable related to short and long-term borrowing	191	31
Due to Head Office	131,473	-
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	1,563,948	1,395,198
Due to other related parties		

	Year ended 31 December 2022	Year ended 31 December 2021
Income generated from Head Office		
Other income from donated assets	-	-
Expense incurred with related parties		
Management remuneration	228,430	380,344
Interest expense for short-term borrowings	455,773	4,216
Other expenses	185,383	157,275

Türkiye İş Bankası A.Ş.- BRANCH IN KOSOVO
FINANCIAL STATEMENTS

Notes to the financial statements as at and for the year ended 31 December 2022
(Amounts in EUR, unless otherwise stated)

32. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	31 December 2022	31 December 2021
Guarantees in favor of customers	12,026,870	13,067,979
Loans approved but not yet disbursed	4,600,000	13,800,000
Undrawn credit commitments	4,375,171	3,876,459
Total	**21,002,041**	**30,744,438**

Non-cancelable lease commitments	31 December 2022	31 December 2021
Less than one year	87,191	87,191
Total	**87,191**	**87,191**

Legal

For the year end 31 December 2022 and 31 December 2021, the Bank had a legal claim related to a former employee, who has filed a lawsuit against the Bank related to the non-extension of the employment contract. The request if to return her to the workplace, as well as to compensate the amount of EUR 26,164 on behalf of salaries that she did not gain during the period after non-extension of her employment contract. The first instance court has rejected the claim. The former employee appealed the decision of the first instance court, therefore the case is at appellate court for final decision.

33. SUBSEQUENT EVENTS

On 27.01.2023, and based on a decision of Board of Directors with number 46033, a new Country Manager/ General Director is appointed for Kosovo Branch. On 27.03.2023 was received the approval from CBK.

There are no other events subsequent to the reporting date that require adjustment or disclosure in the financial statements of the Bank.

İŞBANK

Annual Report 2022

Türkiye İş Bankası A.Ş. - Branch in Kosovo

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

Contact

Prishtina Branch
Str. Ukshin Hoti, No.100,
Lakrishte
10000 Prishtina, Kosovo

(00 383) 38 245 245
info@isbank-kos.com
08:30 - 16:15

Prizren Branch
Zahir Pajaziti Street, Nr:KK
Lakuriqi 2-blok A-1
20000 Prizren Kosovo

(00 383) 29 245 255
info@isbank-kos.com
08:30 - 16:15