Türkiye İş Bankası A.Ş. – Branch in Kosovo

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2023

CONTENTS

RSM KOSOVO SH.P.K.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management 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 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material 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 2023, 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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of 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 the Bank for the year ended 31 December 2022, were audited by another auditor who issued an unmodified opinion on those statements on 3 April 2023.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's annual report but does not include the financial statements and our auditor's report. The Bank's annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's 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 scepticism 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 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.

RSM Kosovo Sh.p.k.

RSM Kosovo Sh.p.k.	Sadik Berisha
Prishtina, Republic of Kosovo	Statutory Auditor
28 February 2024	

Statement of financial position as at 31 December 2023
(Amounts in EUR)

	Notes	31 December 2023	31 December 2022
Assets			
Cash on hand and at banks and balances with Central Bank	7	8,489,294	28,232,293
Investments in securities	8	7,037,802	99,770
Fixed term placements to banks	9	1,242,791	-
Loans and advances to costumers	10	101,970,836	93,045,345
Property and equipment	11	321,663	413,448
Intangible assets	12	173,128	227,045
Right of use of asset	13	980,376	1,240,900
Repossessed assets	14	2,985	303,872
Prepaid income tax	15	132,269	97,024
Other assets	16	55,295	40,084
Deferred tax asset	29	-	2,148
Total assets		**120,406,439**	**123,701,929**
Liabilities			
Due to customers	17	83,936,801	90,414,411
Due to Banks and Head Office	18	22,213,281	19,995,639
Corporate tax payable	29	-	167,071
Other liabilities	19	481,642	549,173
Lease liability	20	1,148,540	1,403,580
Deferred tax liability	29	26,875	-
Total liabilities		**107,807,139**	**112,529,874**
Shareholders' equity			
Share capital	21	10,000,000	10,000,000
Accumulated profit		2,599,300	1,172,055
Total shareholders' equity		**12,599,300**	**11,172,055**
Total liabilities and shareholders' equity		**120,406,439**	**123,701,929**

These Financial Statements were approved by the Management of the Bank on 27th of February 2024, and signed on its behalf by:

Onur Kütük
Country Director
Türkiye Is Bankasi A.S.
Branch in Kosovo

Fatbardha Uruqi Mustafa
Deputy Country Director and CFO
Türkiye Is Bankasi A.S.
Branch in Kosovo

The accompanying notes 1 to 32 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023
(Amounts in EUR)

	Notes	Year ended 31 December 2023	Year ended 31 December 2022
Interest income	22	6,154,674	5,546,586
Interest expense	22	(2,718,406)	(1,986,203)
Net interest income	22	**3,436,268**	**3,560,383**
Fee and commission income	23	301,762	224,613
Fee and commission expense	23	(23,732)	(58,894)
Net fee and commission income	23	**278,030**	**165,719**
Net foreign exchange (loss)/gain	24	(13,906)	81,864
Other income	25	87,079	130
Total operating income		**73,173**	**81,994**
Release/(Charge) on credit losses on loans and advances to customers	26	59,442	(275,478)
Release on credit losses on financial instruments and others	26	88,215	5,399
Reversal/(Allowance) for impairment on repossessed assets	14	134,780	(338,461)
Other operating expenses	27	(1,036,982)	(908,854)
Personnel expenses	28	(1,012,719)	(779,344)
Depreciation and Amortization	11,12 and 13	(477,372)	(421,365)
Total expenses		**(2,527,073)**	**(2,109,563)**
Profit before tax		**1,542,835**	**1,089,993**
Income Tax expenses	29	(115,590)	(222,869)
Profit for the year		**1,427,245**	**867,123**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,427,245**	**867,123**

The accompanying notes 1 to 32 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2023
(Amounts in EUR)

	Share capital	Accumulated profit	Total shareholders' equity
Balance at 1 January 2022	**10,000,000**	**2,457,442**	**12,457,442**
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**
Profit for the year	-	1,427,245	1,427,245
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**1,427,245**	**1,427,245**
Transactions with owners, recognized directly in equity			
Distributions to owners/dividend	-	-	-
Balance at 31 December 2023	**10,000,000**	**2,599,300**	**12,599,300**

The accompanying notes 1 to 32 form an integral part of these financial statement.

Statement of cash flows for the year ended 31 December 2023
(Amounts in EUR)

	Notes	Year ended 31 December 2023	Year ended 31 December 2022
I. Cash flows from operating activities			
Profit before tax		1,542,835	1,089,993
Adjustments for:			
Depreciation and amortization	**11,12 and 13**	477,372	421,365
Net impairment (gain)/loss	**26**	(147,657)	270,080
Net gain from sale of assets		(181,021)	-
Interest income	**22**	(6,154,674)	(5,546,586)
Interest expense	**22**	2,718,406	1,986,203
Impairment (reversal)/allowance for repossessed assets	**14**	(134,780)	338,461
Changes in operating assets and liabilities:			
Movement in mandatory reserve with CBK	**7**	6,489,506	(1,355,791)
Increase in placements with banks	**9**	(1,248,869)	-
(Increase)/Decrease in loans and advances to customers	**10**	(8,088,059)	3,416,276
(Decrease)/Increase in due to customers	**17**	(6,355,860)	4,212,256
Increase in tax payable and other liabilities	**19**	10,329	88,930
Increase in prepayments and other receivables	**16**	(15,239)	(13,651)
Income tax paid	**29**	(288,939)	(31,402)
Interest paid	**22**	(2,779,007)	(1,687,766)
Interest received	**22**	5,951,734	5,450,967
Net cash (used in)/ generated from operating activities (I)		**(8,203,923)**	**8,639,334**
II. Cash flows from investing activities			
Acquisition of property and equipment	**11**	(57,678)	(15,655)
Acquisition of intangible assets	**12**	(13,467)	(51,817)
(Increase)/ Decrease in investments in securities	**8**	(6,900,000)	1,250,000
Net cash (used in)/ generated from investing activities (II)		**(6,971,145)**	**1,182,528**
III. Cash flows from financing activities			
Proceeds/(Repayments) of Due to banks and HO	**18**	2,250,217	(3,982,500)
Dividends paid		-	(2,152,511)
Lease payments	**13**	(348,765)	(356,625)
Net cash from/ (used in) financing activities (III)		**1,901,452**	**(6,491,636)**
IV. Net (decrease)/ increase in cash and cash equivalents (I+II+III) during the year		**(13,273,616)**	**3,330,227**
V. Cash and cash equivalents at the beginning of the year		**14,363,482**	**11,033,255**
VI. Cash and cash equivalents at the end of the year (IV + V)	**7**	**1,089,866**	**14,363,482**

The accompanying notes 1 to 32 form an integral part of these financial statements.

1. REPORTING ENTITY

Türkiye İş Bankası A.Ş.– Branch in Kosovo ("the Bank" or "the Branch") is a branch of Türkiye İş Bankası A.Ş., a Turkish entity.

The Bank operates as a commercial and savings bank to all categories of customers within Kosovo.

The Bank operates under a banking 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 34 employees as at 31 December 2023 (31 employees as at 31 December 2022).

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) Presentation of financial statements and notes

For the purpose of clarity, the financial statements and the notes to the financial statements are prepared using the concepts of materiality and relevance. This means that the line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the primary financial statements. Similarly, information not considered material is not presented in the notes. Bank has only one business segment and therefore separate segment report outlined in IFRS 8 is not presented.

(d) Going concern

In assessing the Bank's going concern position as at 31 December 2023, the Directors have considered a wide range of information relating to the present and future conditions, including the Bank's current financial position and future projections of profitability, cash flows and capital resources and requirements, which all form part of its business plan.

Base case forecast projections are based on detailed financial planning by management that takes account of the current and expected economic environment. The Directors also considered the impact of key existing risks and emerging risks on the Bank's business model and plan.

The Directors have assessed the outlook for the Bank for a longer period than the 12 months from the signing of these financial statements as required by the International Accounting Standards. The Directors have also reviewed the financial and capital impact of a range of severe but plausible capital and liquidity stresses on the base case business plan. These stresses are based on CBK Regulation on "Credit Risk Management", CBK Regulation on "Liquidity Risk Management", "Internal Procedure for Credit Stress Test" and "Internal Procedure for Liquidity Stress Test".

The impact of Management actions that might be taken to mitigate the impact of these stresses is also assessed. Post management actions, the projections under these stress scenarios show that the Bank will be able to operate at adequate levels of both capital and liquidity (in excess of CBK requirements) and will meet its future obligations for at least 12 months from the signing of these financial statements.

After reviewing projections and making extensive enquiries, the Directors are satisfied that the Bank has adequate capital, liquidity and other resources to continue for at least 12 months from the signing of these financial statements and has adequate capital to meet its regulatory requirements as prescribed by above regulations and internal procedures.

Consequently, the going concern basis of accounting has been adopted to prepare these financial statements.

2. BASIS OF PREPARATION (CONTINUED)

(e) Functional and presentation currency

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

(f) 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.

Judgements

Information about judgements made in applying accounting policies that have the most significant impact on the amounts recognised in the financial statements is included in the following notes:

- Note 3(f): Classification of financial instruments: assessment of the business model within which the assets are held and assessment whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

- Note 3(g): Establishing the criteria for determining whether credit risk on financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

Note 3(g):Impairment of financial instruments: determination of input into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
Note 3e: Estimating the incremental borrowing rate for a lease.
Note 5: Measurement of the fair value of financial instruments with significant unobservable inputs.

3. MATERIAL ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise. In addition, the Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material', rather than 'significant', accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information related to financial instruments disclosed in note 3 in certain instances (see note 4(i) for further information).

(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 arising from interest bearing financial instruments measured at amortized costs are recognized in profit or loss using the effective interest method.

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. 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 recognizes 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 and are generally recognized at a point in time as the transaction occurs and the Bank satisfies the performance obligations.
For contracts that cover multiple years the performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. Subsequently fees and commissions are recognised over time as and when the performance obligations have been met.
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.

3. MATERIAL 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.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

(e) Leases

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises 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. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liability

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 lessee 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.

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 remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(e) Leases (continued)

Lease liability (continued)

- 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.

Right of use assets

- 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, and adjusted for any remeasurement of lease liabilities..
- Right-of-use assets are depreciated over the shorter period of lease term and 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.

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

(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 or on the date on which they are originated.

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.

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.

Financial assets and liabilities are offset and the net amount reported in balance sheet only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Classification and measurement of financial assets and financial liabilities

Under IFRS 9, financial assets are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics into one of the following measurement categories:

• Amortised cost (AMC)
• Fair value through other comprehensive income (FVOCI)
• Fair value through profit or loss (FVPL)

Financial assets are measured at AMC if they are held within a business model for the purpose of collecting contractual cash flows (held to collect) and if cash flows are solely payments of principal and interest on the principal amount outstanding. In general, this is the case for the Bank’s financial asset portfolio.

The Bank does not have financial assets that are measured at FVOCI and/or FVPL.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Generally, financial liabilities are measured at amortised cost.

(i) Foreign exchange gains and losses

The carrying amount of financial assets and liabilities 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 and liabilities 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.

(ii) Derecognition of financial instruments

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. 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.

The SPPI test (solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being "held to collect" relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only consideration for the time value of money, credit risk, other basic lending risks and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVPL.
In general, the Bank's portfolios of financial assets that are ''held to collect'' have contractual cash flows that are generally consistent with the SPPI test.
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.

Credit risk grades
The Bank allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default.

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

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) 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.

Determining whether credit risk has increased significantly and default definiton

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.

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.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and financial liabilities (continued)

Determining whether credit risk has increased significantly and default definition (continued)

In order to classify a financial asset in the second stage, the following criteria is considered:
- Overdue more than 30 and less than or equal to 90 days
- Restructuring of the loan
- When a credit facility has shown a significant deterioration since origination, the Bank records an allowance based on Lifetime PD.
- Credit facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3 to Stage 2.

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

g) 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 2015 to 2022 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 2015 - 2022) this will affect the probability of default of the ISBANK Branch as well. The FLI (forward looking) are incorporated in PD on a new ECL model. Alternative external variables, such as anticipated Real GDP growth and inflation over the next five years, have been sourced from the International Monetary Fund (IMF) for incorporation into the model.

LGD calculation

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

- Business Loans
- Individual Loans

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

Exposure at Default:

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

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

g) 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.

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.

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;
and
− instruments measured at amortized cost: loss allowance is recognized in the statement of financial position.

(iii) 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) 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.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

i) Cash and cash equivalents

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

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

j) Deposits and borrowings

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

k) Repossessed assets

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

l) Investment securities

Investment securities include debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction cost, and subsequently at their amortised cost under the effective interest method.

m) 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.

n) Personel expenses

(i) Mandatory social security contributions

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

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

o) Property and equipment

(i) Recognition and measurement

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

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

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

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 and 10 years which is the shorter of the lease term and their useful lives.

p) 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.

q) Financial guarantees and loan commitments

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

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

- **IFRS 17 "Insurance Contracts"** issued by IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while applied. Amendments to IFRS 17 "Insurance Contracts" issued by IASB on 25 June 2020 defer the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. Additionally, the amendments issued on 25 June 2020 introduce simplifications and clarifications of some requirements in the Standard and provide additional reliefs when applying IFRS 17 for the first time.
  The adoption of this new standard has not led to any changes in the Bank's financial statements.

- **Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure of Accounting Policies** issued by IASB on 12 February 2021. Amendments require entities to disclose their material accounting policies rather than their significant accounting policies and provide guidance and examples to help preparers in deciding which accounting policies to disclose in their financial statements. Management reviewed the accounting policies and made updates to the information disclosed in note 3 Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates** issued by IASB on 12 February 2021. Amendments focus on accounting estimates and provide guidance how to distinguish between accounting policies and accounting estimates.
  The adoption of these amendments has not led to changes in the Bank's financial statements.

- **Amendments to IAS 12 "Income Taxes" - Deferred Tax related to Assets and Liabilities arising from a Single Transaction** issued by IASB on 6 May 2021. According to amendments, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. For leases, the Bank previously recognised deferred tax asset or liability on a net basis. Following the amendment, the bank has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right of use assets. However, there was no impact on the statement of financial position because the balance qualifies for offset under paragraph 74 of IAS 12. The key impact for the Bank relates to disclosure of deferred tax assets and liabilities recognised.

- **Amendments to IAS 12 "Income Taxes" - International Tax Reform — Pillar Two Model Rules** issued by IASB on 23 May 2023. The amendments introduced a temporary exception to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules and disclosure requirements about company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect. The adoption of these amendments has not led to changes in the Bank's financial statements.

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:

- **Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback** issued by IASB on 22 September 2022. Amendments to IFRS 16 require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease (Effective date is 1 January 2024).

- **Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current** issued by IASB on 23 January 2020 and **Amendments to IAS 1 "Presentation of Financial Statements" - Non-current Liabilities with Covenants** issued by IASB on 31 October 2022. Amendments issued on January 2020 provide more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. Amendments issued in October 2022 clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability and set the effective date for both amendments to annual periods beginning on or after 1 January 2024.

- **Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures" - Supplier Finance Arrangements** issued by IASB on 25 May 2023. Amendments add disclosure requirements, and 'signposts' within existing disclosure requirements to provide qualitative and quantitative information about supplier finance arrangements (Effective date is 1 January 2024).

- **Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" - Lack of Exchangeability** issued by IASB on 15 August 2023. Amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not (Effective date is 1 January 2025).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business available for optional adoption/effective date deferred indefinitely)

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.

5. FAIR VALUE INFORMATION

a) 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 below. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

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

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

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

The estimation of the fair value is disclosed below.

5. FAIR VALUE INFORMATION (CONTINUED)

b) Disclosure and estimation of fair value

Financial instruments – fair value hierarchy

The following table sets out the fair values of financial instruments and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. During the year ended 31 December 2023, there were no transfers into and out of Level 2 and Level 3.

	2023			2022		
		Fair value			Fair value	
	Carrying value	**Level 2**	**Level 3**	**Carrying value**	**Level 2**	**Level 3**
Financial assets not measured at fair value						
Fixed term placements to banks	1,242,791	1,242,791	-	-	-	-
Investments in securities	7,037,802	7,037,802	-	99,770	99,770	-
Cash on hand and at banks and balances with Central Bank	8,489,294	486,617	8,002,623	28,232,293	5,836,887	22,395,405
Loans and advances to customers	101,970,836	-	101,064,589	93,045,345	-	92,306,031
Other financial assets	165,021	-	165,021	419,616	-	419,617
Financial liabilities not measured at fair value						
Due to customers	69,944,889	-	70,275,868	68,873,870	-	69,328,214
Due to Banks and Head Office	22,213,281	22,339,404	-	18,045,856	18,076,769	-
Other financial liabilities	417,193	-	417,194	573,934	-	573,935

5. FAIR VALUE INFORMATION (CONTINUED)

b) Disclosure and estimation of fair value (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.

Fixed term 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.

Investments securities
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 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.
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, due to banks and HO
The fair value of due to customers and short term borrowing is estimated using valuation techniques by using observable market inputs. The fair value of deposits payable on demand is the amount payable at the reporting date.

Other financial instruments

For other financial instruments, the fair value equates the carrying value.

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. This is regulated by the internal procedure of "Power Delegation Authority".

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 2023 and 31 December 2022 are as follows:

	31 December 2023	31 December 2022
Balances with Central Bank of Kosovo	8,002,623	22,395,405
Cash at banks	166,241	5,554,128
Fixed term placements to banks	1,242,791	-
Loans and advances to costumers, net	101,970,836	93,045,345
Investments in securities at amortized cost	7,037,802	99,770
Guarantees in favor of customers and credit commitments	12,079,524	21,002,041
Other receivables	29,766	18,720
Maximum exposure to credit risk	**130,529,583**	**142,115,409**

Credit quality by class of financial assets:

31 December 2023	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo	8,002,623	-	-	8,002,623
Cash at banks	166,241	-	-	166,241
Fixed term placements to banks	1,242,791	-	-	1,242,791
Loans and advances to costumers, net	99,303,281	355,051	2,312,504	101,970,836
Investments in securities at amortized cost	7,037,802	-	-	7,037,802
Guarantees in favor of customers and credit commitments	12,079,524	-	-	12,079,524
Other receivables	29,766	-	-	29,766
Maximum exposure to credit risk	**127,862,028**	**355,051**	**2,312,504**	**130,529,583**

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	89,075,736	132,304	3,837,304	93,045,344
Investments in securities at amortized cost	99,770	-	-	99,770
Guarantees in favor of customers and credit commitments	20,997,704	-	4,337	21,002,041
Other receivables	18,720	-	-	18,720
Maximum exposure to credit risk	**138,141,463**	**132,304**	**3,841,641**	**142,115,409**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Loans and advances to customer bear 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 2023	31 December 2022
Neither past due nor impaired	99,303,281	89,075,736
Past due but not impaired	355,051	132,304
Past due and impaired	2,312,504	3,837,304
Total	**101,970,836**	**93,045,344**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	31 December 2023	31 December 2022
Standard (0 days)	99,380,170	89,841,146
Standard (1-30 days)	2,343,320	3,855,937
Watch (31-60 days)	-	19,725
Substandard (61-90 days)	10,203	45,663
Doubtful (91-180 days)	192,150	-
Loss (more than 180 days)	1,245,440	1,405,897
Accrued interest	704,128	540,530
Less: Deferred disbursement fee	(51,129)	(136,273)
Total Loans at amortized cost, gross	**103,824,282**	**95,572,625**
Less: Allowance for impairment	(1,853,446)	(2,527,280)
Loans and advances to customers, net	**101,970,837**	**93,045,345**

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	Total collateral	Surplus collateral
31 December 2022	95,572,625	687,420,004	591,847,379
31 December 2023	103,824,282	295,151,830	191,327,548

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

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

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 at 31 December 2023, and 2022, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2023	**31 December 2022**
Wholesale and retail trade	43,948,012	45,575,134
Construction	12,049,428	10,106,912
Manufacturing	30,531,655	30,490,341
Real Estate Activities	3,261,962	5,082,551
Health and social work activities	587,871	54,922
Accommodation and food service activities	548,498	2,019,585
Water, supply, sewerage and waste management and services	-	99,744
Individual	191,402	383,983
Mining and quarrying	10,564,068	561,874
Other services	859,835	93,365
Transportation and storage	450,280	475,246
Administrative and support service activities	-	3,572
Professional, scientific and technical activities	103,078	152,397
Information and communication	5,830	5,892
Financial and Insurance Activities	-	18,684
Agriculture, forestry, and fishing	69,364	44,166
Accrued interest	704,128	540,530
Deferred revenue on disbursement fee	(51,129)	(136,273)
Total Loans at amortized cost, gross	**103,824,282**	**95,572,625**
Less: Allowance for impairment	(1,853,446)	(2,527,280)
Loans and advances to customers, net	**101,970,837**	**93,045,344**

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 2023 and 2022, the Bank's financial assets and liabilities have remaining contractual maturities, while expected maturities differ from contractual ones as follows:

31 December 2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash on hand and at banks and balances with central bank	1,089,868	-	-	-	-	7,401,363	8,491,231
Investments in securities	-	-	39,386	7,000,000	-	-	7,039,386
Fixed term placements to banks	1,249,425	-	-	-	-	-	1,249,425
Loans to customers	5,804,650	1,742,145	48,923,437	38,490,712	8,914,467	-	103,875,411
Total assets	**8,143,943**	**1,742,145**	**48,962,823**	**45,490,712**	**8,914,467**	**7,401,363**	**120,655,453**
Liabilities							
Deposits from costumers	17,876,528	6,469,716	30,386,383	29,204,174	-	-	83,936,801
Due to Banks and Head Office	17,006,021	1,205,927	4,001,333	-	-	-	22,213,281
Lease liabilities	22,187	44,617	171,617	910,119			1,148,540
Other liabilities	455,191	-	-	-	-	-	455,191
Total	**35,359,927**	**7,720,260**	**34,559,333**	**30,114,293**	**-**	**-**	**107,753,813**
Net Position	**(27,215,984)**	**(5,978,115)**	**14,403,490**	**15,376,419**	**8,914,467**	**7,401,363**	**12,901,640**
Cumulative net position	**(27,215,984)**	**(33,194,099)**	**(18,790,609)**	**(3,414,190)**	**5,500,277**	**12,901,640**	**-**

The gap between assets and liabilities is continuously being monitored by Treasury and Risk Management department of the bank. We have internal policies and procedures with define ratios to monitor similar gaps. Furthermore, since we are a branch of Isbank in Turkey (Head Office), which is one of the largest banks in Turkey, and this enables them to financially support the Branch in Kosovo any time needed and consequently, this eliminates the risk of gap between assets and liabilities.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash on hand and at banks and balances with central bank	14,363,482	-	-	-	-	13,890,870	28,254,352
Investments in securities	-	-	99,770	-	-	-	99,770
Loans to customers	1,753,110	6,575,752	28,566,571	32,486,024	26,327,441	-	95,708,898
Total assets	**16,116,592**	**6,575,752**	**28,666,341**	**32,486,024**	**26,327,441**	**13,890,870**	**124,063,020**
Liabilities							
Deposits from costumers	21,540,528	5,033,903	29,159,680	34,680,300	-	-	90,414,411
Due to Banks and Head Office	8,959,192	11,036,446	-	-	-	-	19,995,638
Lease liabilities	20,643	41,995	192,602	1,148,340			1,403,580
Other liabilities	613,474	-	-	-	-	-	613,474
Total liabilities and equity	**31,133,837**	**16,112,344**	**29,352,282**	**35,828,640**	**-**	**-**	**112,427,103**
Net Position	**(15,017,245)**	**(9,536,592)**	**(685,941)**	**(3,342,616)**	**26,327,441**	**13,890,870**	**11,635,917**
Cumulative net position	**(15,017,245)**	**(24,553,837)**	**(25,239,778)**	**(28,582,394)**	**(2,254,953)**	**11,635,917**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk

i. Foreign currency risk

This risk arises from fluctuations in currency prices against the functional currency, for the balances that the Bank holds in other currencies. The Department of Risk Management monitors these limits reported by the Treasury Department on a regular basis and reports any significant fluctuations to the Board of Directors. The Bank does not anticipate any significant risk from foreign currency fluctuations, since the Bank's exposure towards this risk, is insignificant.

As per Regulation on Foreign Exchange Risk of the Central Bank of the Republic of Kosovo, the limit of ≤15% of net open foreign currency position in any foreign currency over Tier 1 capital of Türkiye İş Bankası A.S. Dega në Kosovë is maintained and as of end December 2023 it was 0.24%.

In addition, the limit of ≤ 30% of the aggregate net open foreign currency position over Tier 1 Capital of Türkiye İş Bankası A.S. Dega në Kosovë is maintained and as of end December 2023, it was 0.35%.

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2023 and 2022 as translated into EUR:

2023	**EUR**	**USD**	**Other**	**Total**
Assets				
Cash on hand and at banks and balances with central bank	8,421,761	55,735	11,798	8,489,294
Fixed term placements to banks	-	1,242,791	-	1,242,791
Investments in securities	7,037,802	-	-	7,037,802
Loans and advances to customers	101,970,836	-	-	101,970,836
Total assets	**117,430,399**	**1,298,526**	**11,798**	**118,740,723**
Liabilities				
Due to customers	82,606,996	1,329,795	10	83,936,801
Due to Banks and Head Office	22,213,281	-	-	22,213,281
Other liabilities	1,603,447	284	-	1,603,731
Total liability and equity	**106,423,724**	**1,330,079**	**10**	**107,753,813**
Net position	**11,006,675**	**-31,553**	**11,788**	**10,986,910**
Cumulative net position	**11,006,675**	**10,975,122**	**10,986,910**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. Foreign currency risk (continued)

2022	EUR	USD	OTHER	Total
Assets				
Cash on hand and at banks and balances with central bank	25,368,759	2,846,566	16,968	28,232,293
Investments in securities	99,770	-	-	99,770
Loans and advances to customers	93,045,345	-	-	93,045,345
Total assets	**118,513,874**	**2,846,566**	**16,968**	**121,377,408**
Liabilities				
Deposits from costumers	89,062,143	1,352,256	12	90,414,411
Due to Banks and Head Office	19,312,789	682,849	-	19,995,638
Other liabilities	2,016,762	292	-	2,017,054
Total liability and equity	**110,391,694**	**2,035,397**	**12**	**112,427,103**
Net position	**8,122,180**	**811,169**	**16,956**	**8,950,305**
Cumulative net position	**8,122,180**	**8,933,349**	**8,950,305**	**-**

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 Branch's aim is to manage interest rate risk in a prudent manner to protect the Branch's earnings and shareholder equity from the vulnerabilities arising from interest rate fluctuations. The Branch's aim is to manage interest rate risk in a prudent manner to protect the Branch's earnings and shareholder equity from the vulnerabilities arising from interest rate fluctuations. The Department of Treasury Department monitors and manages daily activities and reports current positions to the Department of Risk Management and to the Senior Management of the Branch.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

iii. Interest rate risk

The Department of Risk Management (DRM) will monitor interest rate risk reports and advise the Senior Management of the Branch on interest rate risk management. Due to a low complex nature of the Branch, the measurement is made through an unassuming methodology by applying 200bps to a stress scenario both in assets and liabilities positions. These results are reported by DRM on a quarterly basis to the Head Office through the reporting lines.

The accumulated interest rate risk that articulates the acceptable level of interest rate risk for the Branch is approved by the Board of Directors and reviewed at least once a year. Such limits are adapted to the size, complexity and adequacy of the Branch's capital as well as its ability to measure and manage its risks.

The tables below summarize the contractual maturity on net interest rate position for financial assets and financial liabilities.

31 December 2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash on hand and at banks and balances with central bank	8,002,623	-	-	-	-	486,671	**8,489,294**
Investments in securities	-	-	39,386	6,998,416	-	-	**7,037,802**
Fixed term placements to banks	1,242,791	-	-	-	-	-	**1,242,791**
Loans to customers – fixed	4,400,311	1,734,380	48,672,063	38,287,689	8,876,393	-	**101,970,836**
Total	**13,645,725**	**1,734,380**	**48,711,449**	**45,286,105**	**8,876,393**	**486,671**	**118,740,723**
Liabilities							
Deposits from customers- fixed	3,884,616	6,469,716	30,386,383	29,204,174	-	13,991,912	**83,936,801**
Due to Banks and Head Office- fixed	17,006,021	1,205,927	4,001,333	-	-	-	**22,213,281**
Other Liabilities	477,379	44,617	171,617	910,118	-	-	**1,603,731**
Total	**21,368,016**	**7,720,260**	**34,559,333**	**30,114,292**	**-**	**13,991,912**	**107,753,813**
Net Position	**(7,722,291)**	**(5,985,880)**	**14,152,116**	**15,171,813**	**8,876,393**	**(13,505,241)**	**10,986,910**
Cumulative net position	**(7,722,291)**	**(13,708,171)**	**443,945**	**15,615,758**	**24,492,151**	**10,986,910**	

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

iii. Interest rate risk (continued)

31 December 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	22,395,406	-	-	-	-	5,836,887	**28,232,293**
Investments in securities	-	-	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	**24,148,516**	**6,575,752**	**28,666,341**	**32,486,024**	**26,327,442**	**5,836,887**	**124,040,962**
Liabilities							
Deposits from customers – fixed	21,540,528	5,033,903	29,159,680	34,680,300	-	-	**90,414,411**
Due to banks and HO	8,959,192	11,036,446	-	-	-	-	**19,995,638**
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	**(6,985,322)**	**(9,536,592)**	**(685,941)**	**(3,342,616)**	**26,327,442**	**5,836,887**	**11,613,858**
Cumulative net position	**(6,985,322)**	**(16,521,914)**	**(17,207,855)**	**(20,550,471)**	**5,776,971**	**11,613,858**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

iii. *Interest rate risk (continued)*

The average effective yields of material categories of financial assets and liabilities of the Bank as at 31 December 2023 and 2022 are as follows:

	2023		2022	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	-	0.20%	-	-0.7%
Loans and advances to customers	-	5.88%	-	5.67%
Financial investments at amortized cost	-	3.91%	-	1.70%
Fixed term placements to banks	5.35%	-	-	-
Liabilities				
Customer deposits	0.12%	2.08%	-	1.96%
Short term borrowings	-	2.88%	-	1.56%
Dues to parent company	-	4.77%	-	4.62%

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:

	2023		2022	
	Increase 1%	**Decrease 1%**	**Increase 1%**	**Decrease 1%**
Estimated Profit (loss) effect	109,888	(109,888)	116,359	(116,359)

(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.

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 2023 and 2022.

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

	31 December 2023	**31 December 2022**
Cash on hand and at banks:		
Cash on hand	320,430	282,759
Current account with banks	25,536	5,559,896
Nostro account with parent company	140,840	11,251
Cash and cash equivalents	**486,806**	**5,853,906**
Allowance for ECL/Impairment losses	(136)	(17,019)
Cash on hand and at banks after provisions	**486,670**	**5,836,887**
Current and Restricted balances with Central Bank:		
Unrestricted balances with Central Bank of Kosova	603,060	8,509,576
Liquidity reserves (restricted)	7,401,363	6,981,025
Capital equivalent deposit (restricted)	-	6,909,845
Current and Restricted balances with Central Bank	**8,004,425**	**22,400,446**
Allowance for ECL/Impairment losses	(1,801)	(5,040)
Current and Restricted balances with Central Bank after provisions	**8,002,624**	**22,395,406**
Total	**8,489,294**	**28,232,293**

Cash on hand and at banks that reconcile to Statement of Cash flows are presented as below:

	31 December 2023	**31 December 2022**
Cash on hand	320,430	282,759
Current accounts in banks	25,536	5,559,896
Nostro account with parent company	140,840	11,251
Unrestricted balances with Central Bank of Kosova	603,060	8,509,576
Total	**1,089,866**	**14,363,482**

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

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 7,401 thousand (31 December 2022: EUR 6,981 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 2023 and 2022 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.

The credit quality of cash and balances with central banks is provided below. Kosovo Central Bank and Kosovo Government are not provided with a rating by recognised rating agencies. The table below presents the Bank's current accounts, investments in note 8 and fixed term placements in note 9; by credit ratings of Fitch:

	31 December 2023	31 December 2022
AAA to A-	-	-
BBB+ to B-	-	-
B+ to B-	1,389,709	2,469,474
CCC+ to CCC	-	-
Unrated	15,069,347	28,060,134
Total	**16,459,056**	**30,529,608**

8. INVESTMENTS IN SECURITIES

	31 December 2023	31 December 2022
Nominal Value – Bonds	7,000,000	100,000
Bonds	7,000,000	99,517
Interest Receivables Bonds	39,386	139
Amortization of discount	-	136
Carrying amount	**7,039,386**	**99,792**
Allowance for ECL on securities	(1,584)	(22)
Net book value of securities	**7,037,802**	**99,770**

Investments in securities represent investments in Government Treasury Bills and Bonds issued by the Government of the Republic of Kosovo, which will mature in 2026 (2022: mature in 2023) with interest rates of 4.01% (2022: 1.70%).

9. FIXED TERM PLACEMENTS TO BANKS

	31 December 2023	31 December 2022
Placements	1,248,869	-
Accrued interest for placements	556	-
Total	**1,249,425**	**-**
Allowance for ECL on placements	(6,634)	
Fixed Term Placements to Banks	**1,242,791**	**-**

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2023	31 December 2022
Corporate Loans	65,753,015	60,065,510
Individual Loans	218,974	372,903
Staff Loans	44,906	11,080
Overdrafts	37,154,388	34,718,875
Accrued interest	704,128	540,530
Total gross loans and advances to costumers	**103,875,411**	**95,708,898**
Deferred revenue on disbursement fee	(51,129)	(136,273)
Excepted credit losses	(1,853,446)	(2,527,280)
Net Loans	**101,970,836**	**93,045,345**
Analyzed as:		
Non-current	**47,405,179**	**58,813,466**
Current	**56,470,232**	**36,895,432**

Movements in the allowance for ECL in 2023 and 2022 are composed as follows:

	31 December 2023	31 December 2022
Allowance as at 1 January	**2,527,280**	**2,251,802**
Charge/(Release) for the year	(59,442)	275,478
Write off	(614,392)	-
Allowance as at 31 December	**1,853,446**	**2,527,280**

In the year 2023, the branch successfully introduced a groundbreaking initiative by implementing its inaugural asset write-off, a function that was previously unattainable owing to limitations within the core banking system. This significant development marked a pivotal moment as it allowed for the completion of all write-offs for the entirety of the year 2023, showcasing the branch's commitment to overcoming challenges and enhancing its operational capabilities.

Gross carrying amount for total loans are, as follows:

Internal Rating as at 31 December 2023	Stage 1	Stage 2	Stage 3	POCI	Total
Standard (0-30 days)	101,723,491	-	-	-	**101,723,491**
Watch (31-60 days)			-	-	**-**
Substandard (61-90 days)		10,201	-	-	**10,201**
Doubtful (91-180 days)	-	-	-	-	**-**
Loss (more than 180 days)	-	-	1,437,590	-	**1,437,590**
Accrued interest	373,131	181	330,816	-	**704,128**
Less: Deferred disbursement fee	**(50,967)**	**(17)**	**(144)**		**(51,128)**
Total Loans at amortized cost, gross	**102,045,655**	**10,365**	**1,768,262**	**-**	**103,824,282**
Less: Allowance for impairment	(429,869)	(1,916)	(1,421,661)	-	**(1,853,446)**
Loans and advances to customers, net	**101,615,786**	**8,449**	**346,601**	**-**	**101,970,836**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Internal Rating as at 31 December 2022	Stage 1	Stage 2	Stage 3	POCI	Total
Standard (0-30 days)	93,597,337	99,744	-	-	**93,697,081**
Watch (31-60 days)	-	19,725	-	-	**19,725**
Substandard (61-90 days)	-	45,665	-	-	**45,665**
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	(135,679)	(199)	(395)	**-**	**(136,273)**
Total Loans at amortized cost, gross	**93,692,512**	**165,418**	**1,714,695**	**-**	**95,572,625**
Less: Allowance for impairment	(878,071)	(1,925)	(1,647,284)	-	**(2,527,280)**
Loans and advances to customers, net	**92,814,441**	**163,493**	**67,411**	**-**	**93,045,345**

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 2023	**93,828,439**	**165,619**	**1,714,840**	**-**	**95,708,898**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	**-**	**-**	**-**
Transfer from Stage 1 to Stage 3	(581,948)		581,948	**-**	**-**
Transfer from Stage 2 to Stage 3	-	-	-	**-**	**-**
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	(22,529,179)	(165,622)	14,747	-	**(22,680,054)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(562,147)	-	53,935	-	**(508,212)**
New loans originated or purchased	31,941,457	10,385	12,211	-	**31,964,053**
Write-offs	**-**	**-**	(609,274)	-	**(609,274)**
FX and other movements	-	-	-	-	**-**
Gross carrying amount as at 31 December 2023	**102,096,622**	**10,382**	**1,768,407**	**-**	**103,875,411**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	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	**96,936,443**	**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)	(74,507)	64,594	-	(8,919,298)
New loans originated or purchased	7,516,245	-	-	-	7,516,244
Write-offs	-	-	-	-	-
FX and other movements				-	-
Gross carrying amount as at 31 December 2022	**93,828,439**	**165,619**	**1,714,840**	**-**	**95,708,898**

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 2023	**878,321**	**1,925**	**1,647,035**	**-**	**2,527,280**
Transfers:					-
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	(4,607)	-	4,607	-	-
Transfer from Stage 2 to Stage 1	-			-	-
Transfer from Stage 2 to Stage 3	-			-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	(211,360)	-	330,024	-	118,664
Derecognitions other than write-offs	(378,428)	(1,924)	(138)	-	(380,490)
Changes to contractual cash flows due to modifications not resulting in derecognition	1,498	-	48,160	-	49,658
New loans originated or purchased	144,695	1,915	6,116	-	152,726
Write-offs	-	-	(614,392)	-	(614,392)
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**(448,202)**	**(9)**	**388,769**	**-**	**(59,442)**
ECL amount as at 31 December 2023	**429,869**	**1,916**	**1,421,661**	**-**	**1,853,446**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Total Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
ECL amount as at 1 January 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	(60,419)	(83,265)	365,360	-	221,676
New loans originated or purchased	69,094	-	-	-	69,094
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**(4,878)**	**(3,900)**	**284,256**	**-**	**275,478**
ECL amount as at 31 December 2022	**878,071**	**1,925**	**1,647,284**	**-**	**2,527,280**

11. PROPERTY AND EQUIPMENT

Description	Leasehold improvements	IT Equipment	Furniture, fixtures and equipment	Other Assets	Total
Cost					
Balance at 31 December 2021	**871,282**	**319,022**	**272,229**	**88,218**	**1,550,752**
Additions	-	1,420	7,081	7,153	**15,654**
Balance at 31 December 2022	**871,282**	**320,442**	**279,310**	**95,371**	**1,566,405**
Additions	1,947	7,397	48,334	-	**57,678**
Balance at 31 December 2023	**873,229**	**327,839**	**327,644**	**95,371**	**1,624,083**
Accumulated depreciation					
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**
Balance at 31 December 2022	**577,170**	**244,767**	**249,650**	**81,370**	**1,152,957**
Charge for the year	91,821	26,218	23,128	8,296	**149,463**
Balance at 31 December 2023	**668,991**	**270,985**	**272,778**	**89,666**	**1,302,420**
Net Balance at 31 December 2022	**294,112**	**75,675**	**29,660**	**14,001**	**413,448**
Net Balance at 31 December 2023	**204,238**	**56,854**	**54,866**	**5,705**	**321,663**

As at 31 December 2023 and 2022 there are no property and equipment encumbered or pledged to secure Bank's liabilities.

12. INTANGIBLE ASSETS

Description	**Software and licenses**	**Total**
Cost		
Balance at 31 December 2021	**283,025**	**283,025**
Additions	51,817	51,817
Balance at 31 December 2022	**334,842**	**334,842**
Additions	13,467	13,467
Balance at 31 December 2023	**348,309**	**348,309**
Accumulated Amortization		
Balance at 31 December 2021	**85,780**	**85,780**
Charge for the year	22,017	22,017
Disposals		-
Balance at 31 December 2022	**107,797**	**107,797**
Charge for the year	67,384	67,384
Disposals		-
Balance at 31 December 2023	**175,181**	**175,181**
Net Balance at 31 December 2022	**227,045**	**227,045**
Net Balance at 31 December 2023	**173,128**	**173,128**

13. RIGHT OF USE ASSET

	Buildings	**Total**
Cost		
At 31 December 2021	**2,210,986**	**2,210,986**
Lease modifications	27,200	27,200
At 31 December 2022	**2,238,186**	**2,238,186**
Lease modifications	-	-
At 31 December 2023	**2,238,186**	**2,238,186**
Accumulated depreciation		
At 31 December 2021	**(747,125)**	**(747,125)**
Charge for the year	(250,161)	(250,161)
At 31 December 2022	**(997,286)**	**(997,286)**
Charge for the year	(260,524)	(260,524)
At 31 December 2023	**(1,257,810)**	**(1,257,810)**
Carrying amount		
At 31 December 2022	**1,240,900**	**1,240,900**
At 31 December 2023	**980,376**	**980,376**

13. RIGHT OF USE ASSET (CONTINUED)

	31 December 2023	31 December 2022
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	260,523	250,162
Interest expense on lease liabilities	93,724	109,843
Expense relating to leases of low value assets	7,989	7,990

	31 December 2023	31 December 2022
Fixed payments	348,765	356,625
Total payments	**348,765**	**356,625**

14. REPOSSESSED ASSETS

	31 December 2023	31 December 2022
Repossessed assets	206,666	642,333
Provisioning for repossessed asset	(203,681)	(338,461)
Total	**2,985**	**303,872**

Movements in the asset cost value are as following:

	31 December 2023	31 December 2022
At 1 January 2023	642,333	642,333
Sale of repossessed asset	(435,667)	-
At 31 December 2023	**206,666**	**642,333**

The repossessed assets consist of residential buildings, originally repossessed during 2018 and 2020. During 2023, a repossessed asset was sold. The sale transaction was executed in accordance with established company protocols and legal requirements. A thorough valuation process was undertaken to determine the fair market value of the asset prior to its sale. The transaction was conducted transparently and in compliance with all relevant regulatory standards.

	31 December 2023	31 December 2022
At 1 January	(338,461)	-
Allowance for impairment during the year	(115,487)	(338,461)
Reversal of impairment on disposal	250,267	-
At 31 December	**(203,681)**	**(338,461)**

15. PREPAID INCOME TAX

	31 December 2023	31 December 2022
Corporate income tax prepayment	132,269	97,024
Total	**132,269**	**97,024**

Prepaid income tax amounting to 132,269 EUR is comprised from balance of tax on income overpayments carried forward from previous years and tax overpayments as a result of sponsorship activities performed in 2023.

16. OTHER ASSETS

	31 December 2023	31 December 2022
Prepayments	25,528	21,364
Other receivables	29,881	18,806
Total	**55,409**	**40,170**
Adjustment for ECL other assets	(114)	(86)
Total	**55,295**	**40,084**

17. DUE TO CUSTOMERS

	31 December 2023	31 December 2022
Current Accounts		
Individuals	5,322,158	6,111,148
Corporations	8,347,566	9,284,194
State owed entities	292,295	2,946,751
Correspondent banks	21,813	1,597,590
Non-profit organizations	8,080	1,600,858
Total current accounts	**13,991,912**	**21,540,541**
Term Deposits		
Individuals	35,366,781	29,726,012
Corporations	33,098,084	37,546,084
Interest payable	1,480,024	1,601,774
Total term deposits	**69,944,889**	**68,873,870**
Total deposits	**83,936,801**	**90,414,411**
Analyzed as:		
Non-current	**29,204,174**	**34,680,300**
Current	**54,732,627**	**55,734,111**

Term deposits bear fixed interest rates ranging from 0.5% - 4% as of 31 December 2023 (2022: 0.5% - 3.5%). Term deposits have a range maturity between 1 month and 8 years.

18. DUE TO BANKS AND HEAD OFFICE

	31 December 2023	31 December 2022
Fixed term deposits due to HO	17,000,000	10,000,000
Fixed term deposits due to local banks	5,200,000	8,000,000
Current account with HO	-	1,940,751
Long term borrowing	-	9,031
Interest payable - HQ	-	171
Interest Payable - Local Banks	13,281	45,685
Total	**22,213,281**	**19,995,638**
Analyzed as:		
Non-current	**-**	**-**
Current	**22,213,281**	**19,995,638**

Due to banks and Head Office bear interest rates from 3.4% p.a to 4.25% p.a (2022: from 0.40% p.a to 5.35%). Fixed term deposit with HO will mature on January 3rd, 2024. While fixed term deposits with local banks will mature in March 2024 and December 2024. (2022: Fixed term deposits with HO mature within the first quarter of the year 2023. While fixed term deposit with local bank will mature in May and October 2023.

19. OTHER LIABILITIES

	31 December 2023	31 December 2022
Royalty fee, system usage fee and Mobile banking	157,170	170,000
Electricity Liability	83,755	64,507
WHT tax on rent and interest	63,700	15,251
Other accruals	42,764	69,967
Other liabilities	37,998	39,540
Allowance for impairment for off-balance sheet items	26,453	102,770
CBK Licenses	23,044	24,042
Municipality tax	17,974	23,704
Liability for Consultancy	13,760	23,600
WHT tax on salary	6,878	5,126
Pension contributions payable	5,030	4,371
Tax payable TTD	3,118	6,295
Total	**481,644**	**549,173**

19. OTHER LIABILITIES (CONTINUED)

2023 - letters of guarantees, letter of credit and unused overdraft limit

Internal Rating 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0-30 days)	10,779,524	-	-	10,779,524
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-		-	-
Loss (more than 180 days)	-	-	-	-
Total	**10,779,524**	**-**	**-**	**10,779,524**

2022 - letters of guarantees, letter of credit and unused overdraft limit

Internal Rating 2022	**Stage 1**	**Stage 2**	**Stage 3**	**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**

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**	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2023	**16,397,448**	**4,593**	**-**	**16,402,041**
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	(5,656,188)	(4,593)	-	(5,660,781)
Repayments and change in cash flow	-	-	-	-
New loans originated or purchased	38,264	-	-	38,264
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2023	**10,779,524**	**-**	**-**	**10,779,524**

19. OTHER LIABILITIES (CONTINUED)

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 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	(984,596)	(9,874)	-	**(994,470)**
Repayments and change in cash flow	-	-	-	**-**
New loans originated or purchased	452,072	-	-	**452,072**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**16,397,448**	**4,593**	**-**	**16,402,041**

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
ECL amount as at 1 January 2023	**102,770**	**-**	**-**	**102,770**
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	-	-	-	-
Derecognitions other than write-offs	(76,444)	-	-	(76,444)
New loans originated or purchased	127	-	-	127
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Net change in Profit and Loss	**(76,317)**	**-**	**-**	**(76,317)**
ECL amount as at 31 December 2023	**26,453**	**-**	**-**	**26,453**

19. OTHER LIABILITIES (CONTINUED)

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	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			-	**-**
Derecognitions other than write-offs	(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**

20. LEASE LIABILITIES

	31 December 2023	31 December 2022
Maturity analysis:		
Year 1	237,821	255,240
Year 2	230,540	238,386
Year 3	247,991	230,498
Year 4	266,764	247,947
Year 5	165,424	266,716
Onwards	-	164,793
Total	**1,148,540**	**1,403,580**
Analysed as:		
Non-current	**910,119**	**1,148,340**
Current	**237,821**	**255,240**

21. SHARE CAPITAL

As at 31 December 2023, the share capital amounted to EUR 10,000 thousand (2022: EUR 10,000 thousand).

As per Central Bank restrictions imposed during the pandemic crises, banks were prohibited from disbursing dividends to owners. The dividend payment made in August 2022 reflects the cumulative profits from the years 2019, 2020, and 2021.

22. NET INTEREST INCOME

	Year ended 31 December 2023	Year ended 31 December 2022
Interest income		
Interest income from loans	3,998,497	3,819,372
Interest income from overdrafts	2,090,461	1,722,636
Interest income from government Bonds and T-Bills	40,443	4,578
Interest income from placements in parent company	25,273	-
Total interest income	**6,154,674**	**5,546,586**
Interest expenses		
Interest expenses from deposits	1,714,354	1,363,541
Interest expenses from borrowings	910,328	512,818
Interest expense lease liability	93,724	109,844
Total interest expenses	**2,718,406**	**1,986,203**
Net interest income	**3,436,268**	**3,560,383**

23. NET FEE AND COMMISION INCOME

	Year ended 31 December 2023	Year ended 31 December 2022
Fees for early termination of the contracts	59	4,164
Fees for letter of guarantees	107,161	146,908
Other fee and commission income	194,542	73,541
Total fee and commission income	**301,762**	**224,613**
Fee and commission expense	(23,732)	(58,894)
Net fee and commission income	**278,030**	**165,719**

24. NET FOREIGN EXCHANGE

	Year ended 31 December 2023	Year ended 31 December 2022
Foreign exchange gain	1,424,194	1,953,433
Foreign exchange loss	(1,438,100)	(1,871,569)
Net foreign exchange gain/loss	**(13,906)**	**81,864**

25. OTHER INCOME

	Year ended 31 December 2023	Year ended 31 December 2022
Early termination of contract	76,712	-
Income from sale of assets	4,333	-
Other income	6,034	130
Total	**87,079**	**130**

The majority balance of other income for year 2023 consist of income from early termination of one single contract, closing accounts and sale of re-possessed asset.

26. IMPAIREMENT LOSSES ON FINANCIAL ASSETS

The impairment losses for the year ended 31 December 2023 and 31 December 2022 is as follow:

	Year ended 31 December 2023	Year ended 31 December 2022
Release of Expected losses for guarantees issued to customers and unused commitments	76,317	238
Loans and advances to clients (Note 10)	59,442	(275,478)
Cash and balances with the Central Bank (Note 7)	3,239	5,145
Cash and cash equivalents (Note 7)	16,883	(611)
Investment securities (Note 8)	(1,562)	657
Other assets (Note 16)	(28)	(30)
Fixed term placements to banks	(6,634)	-
Total impairment losses on financial assets	**147,657**	**(270,079)**

27. OTHER OPERATING EXPENSES

	Year ended 31 December 2023	Year ended 31 December 2022
Royalty fee	152,862	131,206
Payment's system expenses	141,471	96,937
Consultancy and auditing	125,079	110,493
CBK and other local fees	120,990	152,933
Other expenses	60,833	49,054
Utilities and Fuel	57,689	55,894
Marketing and representation expenses	49,329	6,432
Communication expenses	48,196	56,441
Deposit insurance expenses	30,279	28,422
Memberships	25,047	29,759
Security expenses	12,906	12,588
Operating lease expenses for vehicle	7,989	7,990
Maintenance and repair	7,872	20,367
Other tax and fee expenses	196,440	150,338
Total	**1,036,982**	**908,854**

28. PERSONNEL EXPENSES

	Year ended 31 December 2023	Year ended 31 December 2022
Salaries	916,713	704,410
Welfare and pension contribution expenses	62,202	54,413
Health insurance	11,944	9,906
Other employee compensations	21,860	10,615
Total	**1,012,719**	**779,344**

29. INCOME TAX EXPENSE

The income tax expense for the years ended 31 December 2023 and 31 December 2022 is composed of the following:

	Year ended 31 December 2023	Year ended 31 December 2022
Current tax expense	86,567	223,207
Deferred tax expense/(income)	29,023	(338)
Corporate income tax expense	**115,590**	**222,869**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2023	Year ended 31 December 2022
Current tax expense	(86,567)	(223,207)
Advance payments during the year	121,867	56,136
Tax receivable/(payable)	**35,300**	**(167,071)**

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 is presented below:

Movement in deferred tax	Year ended 31 December 2023	Year ended 31 December 2022
Opening balance	2,148	1,810
Deferred tax charge for the period	(29,023)	338
Deferred tax (liability)/asset	**(26,875)**	**2,148**

Deferred tax for the year ended December 31, 2023 and 2022 arises from temporary differences as a result of application of IFRS 16, accrued interest for deposits from customers and difference in depreciation expense for tax purposes compared to Bank's accounting policies.

29. INCOME TAX EXPENSE (CONTINUED)

The table below represents the calculation of corporate income tax for the year ended 31 December 2023 and 31 December 2022:

		Year ended 31 December 2023		Year ended 31 December 2022
	Effective Tax rate		Effective Tax rate	
Profit before tax		**1,542,835**		**1,089,992**
Tax calculated at 10% before sponsorship	10%	154,284	10%	108,999
Tax effect of interest earned from investments in Kosovo Governments securities	10%	(4,044)	10%	(458)
Tax effect of non-deductible expenses	10%	13,928	10%	8,004
Tax effect of exchange loss	10%	3,452	10%	15,716
Tax effect of the accrued interest on term deposits	10%	(27,172)	10%	42,146
Tax effect on the impairment of repossessed assets	10%	(13,478)	10%	33,846
Tax effect on the differences in accrued interest for CBK and IFRS purposes	10%	1,456	10%	7,479
Adjustment for depreciation of right of use asset	10%	26,052	10%	26,648
Rent payments	10%	(36,787)	10%	(35,662)
Adjustment for interest expenses lease liability	10%	9,372	10%	10,984
Other income	10%	47	10%	103
Nontaxable expected credit losses	10%	(2,953)	10%	5,402
Additional depreciation for tax purposes	10%	(488)	10%	-
Sponsorship		37,101		-
Total corporate income tax expense		**86,567**		**223,207**
Deferred tax expense/(income)		**29,023**		**(338)**
Corporate income tax expense		**115,590**		**222,869**

30. 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 2023 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).

30. RELATED PARTY TRANSACTIONS (CONTINUED)

Related party balances and transactions as at 31 December 2023 and 31 December 2022 are composed as follows:

Below transactions are conducted at arm's length basis, where the Branch has engaged an external independent provider to conduct a Transfer Pricing analysis, which has confirmed that the below transactions are valued at market rates.

	31 December 2023	31 December 2022
Due from Head Office		
Current accounts with Head Office	140,840	2,469,474
Due from other related parties		
Purchases of intangible assets	-	5,764
Placements		
ISBANK TREASURY	1,249,426	-
Fixed assets		
Purchases of tangible assets	31,595	-
Purchases of intangible assets	1,077	-
Loans given		
Loans to employees	42,700	11,080
Due to Head Office		
Due to Head Office	17,000,000	131,473
Interest payable related to short and long-term borrowing	6,021	191
Current accounts with Head Office	-	1,940,751
Short term borrowing	-	10,009,031
Customer deposits		
Deposits from employees	418,396	233,838
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	16,815	1,563,948

	Year ended 31 December 2023	Year ended 31 December 2022
Income incurred with related parties		
Interest income	34,219	-
Expense incurred with related parties		
Management remuneration	400,871	228,430
Interest expense for short-term borrowings	802,238	455,773
Interest expense from term deposits	6,962	1,919
Other expenses	205,297	185,383

In accordance with commitment to transparency and integrity, related party transactions within the company were conducted on equal terms in arm's length transactions.

31. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	**31 December 2023**	**31 December 2022**
Guarantees in favor of customers	8,239,880	12,026,870
Loans approved but not yet disbursed	1,300,000	4,600,000
Undrawn credit commitments	2,539,644	4,375,171
Total	**12,079,524**	**21,002,041**

Non-cancelable lease commitments	**31 December 2023**	**31 December 2022**
Less than one year	87,191	87,191
Total	**87,191**	**87,191**

Legal

As at 31 December 2023, the Bank has recognized provisions in the amount of EUR 26,200 (31 December 2022: EUR 26,200 thousand), regarding legal proceedings. The management believes that the provision recognized is a reasonable estimate against the outcome of the ongoing lawsuit against the Bank as at 31 December 2023.

32. SUBSEQUENT EVENTS

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