Türkiye İş Bankası A.Ş. – DEGA NË KOSOVË

Financial Statements as at and for the year ended 31 December 2014

CONTENTS

Statement of financial position for the year ended 31 December 2014
(Amounts are expressed in EUR)

Assets	Notes	31 December 2014	31 December 2013
Cash and balances with Central Bank	6	9,204,396	7,249,851
Prepayments and other receivables	7	7,281	43,099
Investments in securities	8	5,631,055	1,446,296
Loans and advances to customers	9	20,574,792	3,230,219
Property, plant and equipment	10	844,245	292,242
Intangible assets	11	29,469	-
Deferred tax asset	24	120,804	57,117
Total assets		**36,412,042**	**12,318,824**
Liabilities			
Deposits from customers	12	11,070,537	318,784
Short-term borrowings	13	4,500,000	4,150,000
Due to the parent company	14	13,595,483	336,045
Current and other tax payables	15	9,872	4,305
Deferred revenues	16	48,840	-
Other liabilities	17	49,621	8,569
Total liabilities		**29,274,353**	**4,817,703**
Shareholders' equity			
Share capital		8,183,000	8,093,000
Accumulated losses		(1,045,311)	(591,879)
Total shareholders' equity		**7,137,689**	**7,501,121**
Total liabilities and shareholders' equity		**36,412,042**	**12,318,824**

These Financial Statements were prepared by Deloitte Kosova sh.p.k. and approved on 23 February 2015 by:

Işıl Dilmen Düzgünçınar
Sub Manager
Türkiye İş Bankası A.Ş. – Branch in Kosovo

The accompanying notes from 7 to 38 to the Financial Statements form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2014
(Amounts are expressed in EUR)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest income		803,389	19,527
Interest expense		(207,589)	(8,027)
Net interest income	18	**595,800**	**11,500**
Fee and commission income		122,956	21,273
Fee and commission expense		(10,296)	(8,808)
Net fee and commission income	19	**112,660**	**12,465**
Net foreign exchange gain/(loss)	20	(16,097)	4,157
Net financial income	21	161,276	1,366
Other Income		3,932	-
Total operating income		**857,571**	**29,488**
Expenses			
Loan loss provisions	9	(179,428)	(33,476)
Other operating expenses	22	(502,585)	(247,261)
Employee benefits	23	(623,144)	(254,865)
Depreciation and Amortization	10,11	(69,534)	(36,518)
Total expenses		**(1,374,691)**	**(572,120)**
Loss before tax		**(517,120)**	**(542,632)**
Income Tax	24	63,688	53,901
Net loss for the year		**(453,432)**	**(488,731)**

The accompanying notes from 7 to 38to the Financial Statements form an integral part of these Financial Statements.

(Amounts are expressed in EUR)

	Share capital	Accumulated losses	Total shareholder's equity
Balance at 1 January 2013	**7,000,000**	**(103,148)**	**6,896,852**
Total comprehensive loss for the year			
Net loss for the year	-	(488,731)	(488,731)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	**(488,731)**	**(488,731)**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners			
Paid in capital from Is Bankasi Turkiye A.S.	1,093,000	-	1,093,000
Balance at 31 December 2013	**8,093,000**	**(591,879)**	**7,501,121**
Balance at 1 January 2014	**8,093,000**	**(591,879)**	**7,501,121**
Total comprehensive loss for the year			
Net loss for the year	-	(453,432)	(453,432)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	**(453,432)**	**(453,432)**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners			
Paid in capital from Turkiye Is Bankasi A.S.	90,000	-	90,000
Balance at 31 December 2014	**8,183,000**	**(1,045,311)**	**7,137,689**

The accompanying notes from 7 to 38 to the Financial Statements form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2014
(Amounts are expressed in EUR)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
I. Cash flows from (used in) operating activities			
Loss before tax		(517,120)	(542,632)
Adjustments for:			
Depreciation	10	69,534	36,518
Loan loss reserve	9	179,428	33,476
Interest income	18,21	(964,665)	(20,894)
Interest expense	18	207,589	8,027
Increase/Decrease in operating assets and liabilities			
(Increase)/decrease in balances with CBK	6	(1,411,022)	354,045
Decrease/(increase) in prepayments and other receivables	7	35,818	(42,617)
(Increase) in loans and advances to customers	9	(17,459,393)	(3,247,586)
Increase/(decrease) in due to the parent company	14	13,259,438	(32,528)
Increase in deposits from customers	12	10,751,753	313,329
Increase/(decrease) in tax payables and other liabilities	15,17	27,219	(46,547)
Increase in deferred revenues	16	48,840	
Interest paid		(188,190)	(6,950)
Interest received		856,589	3,417
Cash generated from operations		**4,895,818**	**(3,190,942)**
Net cash from/(used in) operating activities (I)		**4,895,818**	**(3,190,942)**
II. Cash flows from (used in) investing activities			
Investment in securities held to maturity	8	(4,141,289)	(1,444,930)
Purchase of property and equipment	10	(621,537)	(7,988)
Purchase of intangible assets	11	(29,469)	-
Net cash used in investing activities (II)		**(4,792,295)**	**(1,452,918)**
III. Cash flows from (used in) financing activities			
Short-term borrowing	13	350,000	4,150,000
Paid in capital		90,000	1,093,000
Net cash from financing activities (III)		**440,000**	**5,243,000**
IV. Net increase in cash and cash equivalents (I + II + III)		543,523	599,140
V. Cash and cash equivalents at the beginning of the year	6	604,596	5,455
VI. Cash and cash equivalents at the end of the year (IV + V)	6	**1,148,119**	**604,596**

The accompanying notes from 7 to 38to the Financial Statements form an integral part of these Financial Statements.

1. REPORTING ENTITY

Turkiye Is Bankasi A.S. – Dega në Kosovë ("the Bank" or "the Branch") is a branch of Turkiye Is Bankasi A.S., a Turkish entity. The Bank operates as a commercial and savings bank to all categories of customers within Kosovo. The Bank operates under a banking licence numbered 011 issued by the Central Bank of the Republic of Kosovo, registered at the Ministry of Trade and Industry on 19 November 2012 with business number 70899345 and fiscal number 600886131.
During 2014 the Bank operates with two branches. One office located at UÇK 43 in Pristina and the other one in Prizren, located at Zahir Pajaziti street.

As at 31 December 2014 the Baank has 18 employees (2013:8).

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The Financial Statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency transactions

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

(b) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.
The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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

(c) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate of a financial asset or financial liability are included in the measurement of the effective interest rate.
Other fees and commission income – including account servicing fees, sales commission, placement fees– are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.
Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Income tax expense

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income tax (continued)

Deferred tax
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.
A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realized. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

(e) Operating leases

Payments made under operating leases are charged to expenses on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lesser by way of penalty is recognized as an expense in the period in which termination takes place.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits, and other liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets
The Bank classifies its financial assets into one of the following categories:
- loans and receivables;
- held to maturity;

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

(iii) Derecognition

Financial assets
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.
The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or when they expire.

(iv) Offsetting

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

(v) Amortized cost measurement

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

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.
When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.
If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.
The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

Impairment of loans and advances

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

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

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

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

(g) Loans and advances

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

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

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

(h) Investments held-to-maturity

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

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

(i) Cash and cash equivalents

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Mandatory liquidity reserves

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the EUR deposits 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. As the respective liquid assets are not available to finance the Bank's day to day operations, they have been excluded from cash and cash equivalents for the purposes of the cash flow statement.

(k) Deposits and borrowings

Deposits and borrowings are the Bank's main source of debt funding.
When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending") the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's financial statements.
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.

(l) Provisions

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

(m) Employee benefits

(i) Mandatory social security contributions

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

(ii) Paid annual leave

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

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.
Cost includes expenditures that are directly attributable to the acquisition of the asset.
When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.
An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Property and equipment (continued)

(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 periods were as follows:

• Furniture, fixtures and equipment	20%
• Other fixed assets	20%
• Vehicles	20%

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

(o) Intangible assets

Intangible assets with finite useful lives 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 lives of the software are three years.
Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(p) Grants

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

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

(Amounts are expressed in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) New standards and interpretations not yet adopted (continued)

New or amended standards	Summary of the requirement	Possible impact on financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's Financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15

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

- *Defined Benefit Plans: Employee Contribution (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010-2012 Cycle.*
- *Annual Improvements to IFRSs 2011-2013 Cycle.*
- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisition of Interest in Joint Operations (Amendments to IAS 16 and IAS 38).*
- *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012-2014 Cycle-various standards.*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Critical accounting judgments in applying the Bank's accounting policies

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

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

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

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.
Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

4. FINANCIAL RISK MANAGEMENT

Risk management process and the functions involved in the process is one 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 investment. 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 review the Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Key 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 Key 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 minimizes 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 in exception cases. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Key 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 by internal systems. Credit decision support systems include the Risk Committee assessment and approval of Board of Directors.

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Maximum Credit exposure
Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Loans and advances to customers, net	20,574,792	3,230,219
Current account with Banks	330,558	243,209
Investments in securities	5,631,055	1,446,296
Letters of credit	-	500,000
Guarantees in favor of customers	2,920,084	1,947,650
Maximum exposure to credit risk	**29,456,489**	**7,367,374**

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.

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

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

Loans and advances to customers, net	31 December 2014	31 December 2013
Neither past due nor specifically impaired	20,574,792	3,230,219
Past due but not specifically impaired	-	-
Total	**20,574,792**	**3,230,219**

The aging analysis of credit risk exposure is as follows:

Category (Ageing)	31 December 2014	31 December 2013
Standard (0 - 30 days past due)	20,787,696	3,263,695
Special Mention (31 - 60 days past due)	-	-
Substandard (61 - 90 days past due)	-	-
Doubtful (91 - 180 days past due)	-	-
Loss (over 181 days past due)	-	-
Total Loans	**20,787,696**	**3,263,695**
Less: Provision for loan losses	(212,904)	(33,476)
Loans and advances to customers, net	**20,574,792**	**3,230,219**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

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

	31 December 2014	31 December 2013
Property, plant and equipment	67,853,800	10,904,500
Financial assets	-	-
Other	-	-
Total	**67,853,800**	**10,904,500**

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.
Liquidity risk may occur 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 it's reputation. Liquidity Risk Management is handled in collaboration and close supervision of Treasury Group Department in Head Office.

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at 31 December 2014, the Bank's financial assets and liabilities have remaining maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specific	Total
Assets							
Cash and balances with Central Bank	1,148,119	-	-	-	-	8,056,277	9,204,396
Investment in securities	870,131	-	395,807	4,365,117	-	-	5,631,055
Loans and advances to customers	287,224	426,127	4,200,677	13,511,854	2,148,910	-	20,574,792
Total assets	**2,305,474**	**426,127**	**4,596,484**	**17,876,971**	**2,148,910**	**8,056,277**	**35,410,243**
Liabilities							
Deposits from customers	6,135,124	225,517	4,709,896	-	-	-	11,070,537
Short term borrowings	4,500,000	-	-	-	-	-	4,500,000
Due to the parent company	13,595,483	-	-	-	-	-	13,595,483
Total liabilities and equity	**24,230,607**	**225,517**	**4,709,896**	**-**	**-**	**-**	**29,166,020**
Net Position	**(21,925,133)**	**200,610**	**(113,412)**	**17,876,971**	**2,148,910**	**8,056,277**	**6,244,223**
Cumulative net position	**(21,925,133)**	**(21,724,523)**	**(21,837,935)**	**(3,960,964)**	**(1,812,054)**	**6,244,223**	**12,488,446**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at 31 December 2013, the Bank's financial assets and liabilities have remaining maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specific	Total
Assets							
Cash and balances with Central Bank	604,596	-	-	-	-	6,645,255	7,249,851
Investment in securities	-	-	1,446,296	-	-	-	1,446,296
Loans and advances to customers	41,125	52,188	977,874	1,749,695	409,337	-	3,230,219
Total assets	**645,721**	**52,188**	**2,424,170**	**1,749,695**	**409,337**	**6,645,255**	**11,926,366**
Liabilities							
Deposits from customers	318,784	-	-	-	-	-	318,784
Short term borrowings	-	4,150,000	-	-	-	-	4,150,000
Due to the parent company	336,045	-	-	-	-	-	336,045
Total liabilities and equity	**654,829**	**4,150,000**	-	-	-	-	**4,804,829**
Net Position	**(9,108)**	**(4,097,812)**	**2,424,170**	**1,749,695**	**409,337**	**6,645,255**	**7,121,537**
Cumulative net position	**(9,108)**	**(4,106,920)**	**(1,682,750)**	**66,945**	**476,282**	**7,121,537**	**14,243,074**

(Amounts are expressed in EUR, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)
(c) Market Risk

i. Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosovo guidelines and the Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Head Office manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The foreign currencies the Bank deals with are predominantly United States Dollars (USD), Turkish Lira (TRY), Swiss Franc (CHF) and Great Britain Pound (GBP). The exchange rates used for conversion of foreign currency values at 31 December 2014 and 2013 are as follows:

Compared to EUR	**31 December 2014**	**31 December 2013**
1 USD	0.8236	0.7251
1 TRY	0.3531	0.3377
1 GBP	1.2838	1.1994
1 CHF	0.8316	0.8145

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

	EUR	**TRY**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	9,068,790	14,429	86,406	22,557	12,214	-	9,204,396
Investment in securities	5,631,055	-	-	-	-	-	5,631,055
Loans and advances to customers	20,498,134	-	76,658	-	-	-	20,574,792
Total assets	**35,197,979**	**14,429**	**163,064**	**22,557**	**12,214**	**-**	**35,410,243**
Liabilities							
Customer deposits	11,038,323	-	31,858	-	356	-	11,070,537
Short term borrowings	4,500,000	-	-	-	-	-	4,500,000
Due to the parent company	13,184,002	-	411,470	11	-	-	13,595,483
Total liability and equity	**28,722,325**	**-**	**443,328**	**11**	**356**	**-**	**29,166,020**
Net position	**6,475,654**	**14,429**	**(280,264)**	**22,546**	**11,858**	**-**	**6,244,223**
Cumulative net position	**6,475,654**	**6,490,083**	**6,209,819**	**6,232,365**	**6,244,223**	**6,244,223**	**12,488,446**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

i. Foreign currency risk (continued)

The following table presents the equivalent amount of financial assets and liabilities by currency as at 31 December 2013 as translated into EUR:

	EUR	TRY	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	7,022,979	3,736	199,046	19,707	4,383	-	7,249,851
Investment in securities	1,446,296	-	-	-	-	-	1,446,296
Loans and advances to customers	3,230,219	-	-	-	-	-	3,230,219
Total assets	**11,699,494**	**3,736**	**199,046**	**19,707**	**4,383**	-	**11,926,366**
Liabilities							
Customer deposits	301,955	-	16,829	-	-	-	318,784
Short term borrowings	4,150,000	-	-	-	-	-	4,150,000
Due to the parent company	82,698	-	253,337	10	-	-	336,045
Total liability and equity	**4,534,653**	-	**270,166**	**10**	-	-	**4,804,829**
Net position	**7,164,841**	**3,736**	**(71,120)**	**19,697**	**4,383**	-	**7,121,537**
Cumulative net position	**7,164,841**	**7,164,841**	**7,093,721**	**7,113,418**	**7,117,801**	**7,117,801**	**14,239,338**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

ii. Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. The tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities.

2014	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	-	-	-	-	-	9,204,396	9,204,396
Investments in securities	870,131	-	395,807	4,365,117	-	-	5,631,055
Loans and advances to customers	287,224	426,127	4,200,677	13,511,854	2,148,910	-	20,574,792
Total assets	**1,157,355**	**426,127**	**4,596,484**	**17,876,971**	**2,148,910**	**9,204,396**	**35,410,243**
Liabilities							
Deposits from customers	5,200,000	225,517	4,709,896	-	-	935,124	11,070,537
Short term borrowings	4,500,000	-	-	-	-	-	4,500,000
Due to the parent company	12,499,999	-	-	-	-	1,095,484	13,595,483
Total liabilities and equity	**22,199,999**	**225,517**	**4,709,896**	-	-	**2,030,608**	**29,166,020**
Net Position as at 31 December 2014	(21,042,644)	200,610	(113,412)	17,876,971	2,148,910	7,173,788	6,244,223
Cumulative net position	(21,042,644)	(20,842,034)	(20,955,446)	(3,078,475)	(929,565)	6,244,223	**12,488,446**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

ii. Interest rate risk (continued)

2013	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	-	-	-	-	-	7,249,851	7,249,851
Investments in securities	-	-	1,446,296	-	-	-	1,446,296
Loans and advances to customers	41,125	52,188	977,874	1,749,695	409,337	-	3,230,219
Total assets	**41,125**	**52,188**	**2,424,170**	**1,749,695**	**409,337**	**7,249,851**	**11,926,366**
Liabilities							
Deposits from customers	-	-	-	-	-	318,784	318,784
Short term borrowings	-	4,150,000	-	-	-	-	4,150,000
Due to the parent company	-	-	-	-	-	336,045	336,045
Total liabilities and equity	-	**4,150,000**	-	-	-	**654,829**	**4,804,829**
Net Position as at 31 December 2013	**41,125**	**(4,097,812)**	**2,424,170**	**1,749,695**	**409,337**	**6,595,022**	**7,121,537**
Cumulative net position	**41,125**	**(4,056,687)**	**(1,632,517)**	**117,178**	**526,515**	**7,121,537**	**14,243,074**

The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

ii. Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2014 and 31 December 2013 are as follows:

	2014		2013	
	USD	EUR	USD	EUR
Assets				
Cash and balances with Central Bank	N/a	-	N/a	-
Loans and advances to customers	N/a	7.73%	N/a	8.20%
Investment securities (HTM)	N/a	2.23%	N/a	-
Liabilities				
Customer deposits	N/a	1.23%	N/a	-
Short term borrowings	N/a	1.24%	N/a	0.90%

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:

	2014		2013	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	62,442	(62,442)	71,215	(71,215)

iii. 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

iii. Operational risks (continued)

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.

(d) 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.

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

Regulatory Capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity. The Bank's overall strategy remains unchanged from previous year.

	31 December 2014
Tier I Capital	
Share Capital	8,183,000
Accumulated Losses	(1,045,311)
less: Intangible assets	(29,469)
less: Deferred Tax assets	(120,804)
less: Loans to Bank related individuals	(31,791)
Total qualifying Tier I Capital	**6,955,625**
Tier II Capital	
Provision for loan losses	212,904
Total Tier II Capital	**212,904**
Total Capital	**7,168,529**
Risk Weighted Assets	19,554,626
Tier I Capital Adequacy Ratio	**35.57%**
Total Capital Adequacy Ratio	**36.66%**

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, off balance-sheet items and other risks, expressed as a percentage. The minimum required Capital Adequacy Ratio is 8% for Tier 1 capital and 12% for total own funds. The Bank has met these regulatory requirements during the year

(Amounts are expressed in EUR, unless otherwise stated)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents and mandatory reserve
Cash and cash equivalents include inter-bank placements and items in the course of collection. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

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

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

Had all the declines in fair value below carrying value been considered significant or prolonged, the Bank would suffer an additional EUR 1,516 thousand loss in its 2014 financial statements (2013: EUR 126 thousand).

	2014		2013	
	Carrying value	**Fair value Level 2**	**Carrying value**	**Fair value Level 2**
Loans and advances to customers	20,574,792	19,042,238	3,230,219	3,103,762
Deposits from customers	11,070,537	11,086,264	318,784	318,784

(Amounts are expressed in EUR, unless otherwise stated)

6. CASH AND BANK BALANCES WITH CENTRAL BANK OF KOSOVO

Cash and cash equivalents consist of cash on hand and at banks and balances with the Central Bank of Kosovo. As at 31 December 2014 and 2013 cash and cash equivalents were as follows:

	31 December 2014	31 December 2013
Cash on hand and at banks:		
Cash on hand	817,561	361,387
Current account in Raiffeisen Bank Kosovo	190,443	239,473
Current account in IS Bank AG	125,686	-
Nostro account with parent company	14,429	3,736
Cash and cash equivalents	**1,148,119**	**604,596**
Restricted balances with Central Bank:		
Balances with Central Bank of Kosovo	8,056,277	6,645,255
Total	**9,204,396**	**7,249,851**

Balances with Central Bank of Kosovo include the minimum required statutory reserve of 10% of customer deposits in Kosovo and the minimum cash deposit pledged as capital equivalency deposit.

7. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables as at 31 December 2014 and 31 December 2013 consisted of the following:

	31 December 2014	31 December 2013
Prepayments	1,031	39,349
Corporate income tax prepayment	6,250	3,750
Total	**7,281**	**43,099**

8. INVESTMENTS IN SECURITIES

Investments in securities as at 31 December 2014 and 31 December 2013 are composed of the following:

	31 December 2014	31 December 2013
Nominal Value T-Bills	**1,270,000**	**1,470,000**
T-Bills	1,255,859	1,444,930
Amortization of discount	11,097	1,366
Net Value T-Bills	**1,266,956**	**1,446,296**
Nominal Value - Bonds	4,350,000	-
Bonds	4,330,361	-
Interest Receivables	26,100	-
Amortization of discount	8,458	-
Amortization of premium	(820)	-
Net value of Bonds	**4,364,099**	-
Net book value of securities	**5,631,055**	**1,446,296**

(Amounts are expressed in EUR, unless otherwise stated)

8. INVESTMENTS IN SECURITIES (CONTINUED)

Investments in securities represent investments in Government Treasury Bills and Bonds recognized as held to maturity and issued from the Government of the Republic of Kosovo. Treasury Bills have shorter maturity terms with the last maturing by 22 April 2015 while the Treasury Bonds mature on 31 March 2016.

9. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2014 and 31 December 2013 are composed as follows:

	31 December 2014	31 December 2013
Commercial Loans	18,595,716	2,500,000
Individual Loans	147,673	-
Staff Loans	78,296	-
Overdrafts	1,885,294	747,586
Accrued interest	80,717	16,109
Gross loans and advances to customers	**20,787,696**	**3,263,695**
Loan loss provisions	(212,904)	(33,476)
Net loans and advances to customers	**20,574,792**	**3,230,219**

(Amounts are expressed in EUR, unless otherwise stated)

10. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2014 and 2013 are composed as follows:

Description	Leasehold improvements	Furniture, fixtures and equipment	Other Assets	Vehicles	Total
Cost					
Balance at 1 January 2013	294,538	9,951	19,036	-	323,525
Additions	-	3,220	4,768	-	7,988
Disposals	-	-	-	-	-
Balance at 31 December 2013	**294,538**	**13,171**	**23,804**	-	**331,513**
Accumulated depreciation					
Balance at 1 January 2013	(2,269)	(166)	(318)	-	(2,753)
Charge for the year	(29,454)	(2,503)	(4,561)	-	(36,518)
Disposals	-	-	-	-	-
Balance at 31 December 2013	**(31,723)**	**(2,669)**	**(4,879)**	-	**(39,271)**
Net Balance at 31 December 2013	**262,815**	**10,502**	**18,925**	-	**292,242**
Cost					
Balance at 1 January 2014	294,538	13,171	23,804	-	331,513
Additions	452,990	119,252	22,345	26,950	621,537
Disposals	-	-	-	-	-
Balance at 31 December 2014	**747,528**	**132,423**	**46,149**	**26,950**	**953,050**
Accumulated depreciation					
Balance at 1 January 2014	(31,723)	(2,669)	(4,879)	-	(39,271)
Charge for the year	(47,171)	(11,420)	(6,705)	(4,238)	(69,534)
Disposals	-	-	-	-	-
Balance at 31 December 2014	**(78,894)**	**(14,089)**	**(11,584)**	**(4,238)**	**(108,805)**
Net Balance at 31 December 2014	**668,634**	**118,334**	**34,565**	**22,712**	**844,245**

During the year 2014 the Bank received assets in amount of EUR 52,016 as a donation from the parent company.

(Amounts are expressed in EUR, unless otherwise stated)

11. INTANGIBLE ASSETS

Description	Software
Cost	
Balance at 1 January 2013	-
Additions	-
Disposals	-
Balance at 31 December 2013	-
Accumulated Amortization	
Balance at 1 January 2013	-
Charge for the year	-
Disposals	-
Balance at 31 December 2013	-
Net Balance at 31 December 2013	-
Cost	
Balance at 1 January 2014	-
Additions	29,469
Disposals	-
Balance at 31 December 2014	**29,469**
Accumulated Amortization	
Balance at 1 January 2014	-
Charge for the year	-
Disposals	-
Balance at 31 December 2014	-
Net Balance at 31 December 2014	**29,469**

The software is ready for use but as of 31 December 2014 has not yet been put to use.

12. DEPOSITS FROM CUSTOMERS

Deposits from customers as at 31 December 2014 and 2013 are composed as follows

	31 December 2014	31 December 2013
Current Accounts		
Individuals	395,787	189,591
Corporations	459,204	129,193
State owed entities	80,133	-
Total current accounts	**935,124**	**318,784**
Term Deposits		
Individuals	1,885,413	-
Corporations	3,250,000	-
State owed entities	5,000,000	-
Total term deposits	**10,135,413**	-
Total deposits	**11,070,537**	**318,784**

(Amounts are expressed in EUR, unless otherwise stated)

13. SHORT-TERM BORROWINGS

Short term borrowings as at 31 December 2014 and 31 December 2013 are composed as follows:

	31 December 2014	31 December 2013
IS Bank AG	4,500,000	4,150,000
Total	**4,500,000**	**4,150,000**

The short-term borrowing represents a fixed term deposit from Is Bank AG of EUR 4,500,000 as at 31 December 2014 with annual interest rate of 0.95%, maturing on 5 January 2015.

14. DUE TO THE PARENT COMPANY

Due to the parent company as at 31 December 2014 and 31 December 2013 are composed as follows:

Due to parent company:

	31 December 2014	31 December 2013
Short term borrowing	12,500,000	-
Vostro account of parent company	1,066,261	336,045
Turkyie Is Bankasi A.S.	29,222	-
Total	**13,595,483**	**336,045**

15. CURRENT AND OTHER TAXES PAYABLE

Current and other taxes payable as at 31 December 2014 and 31 December 2013 are composed as follows:

Current tax payable :

	31 December 2014	31 December 2013
Withholding tax on salary	4,469	3,160
Pension contributions payable	1,912	820
Withholding tax on rent and interest	3,491	325
Total	**9,872**	**4,305**

16. DEFERRED REVENUE

Deferred revenue for the year ended 31 December 2014 and 31 December 2013 is composed as follows:

	31 December 2014	31 December 2013
Deferred revenue	48,840	-
Total	**48,840**	**-**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank. Other income presented in profit and loss statement amounting to EUR 3,932 represents the value of deferred revenue recognized as income from asset donation.

(Amounts are expressed in EUR, unless otherwise stated)

17. OTHER LIABILITIES

Other liabilities for the year ended 31 December 2014 and 31 December 2013 are composed as follows:

	31 December 2014	31 December 2013
Other accruals		
Interest payable	29,145	7,492
Office rent payable	20,476	1,077
Total	**49,621**	**8,569**

18. NET INTEREST INCOME

Net interest income for the year ended 31 December 2014 and 31 December 2013 is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income		
Interest income from loans	698,539	15,424
Interest income from overdrafts	104,850	4,104
Total interest income	**803,389**	**19,527**
Interest expenses		
Interest expenses from deposits	95,178	-
Interest expenses from borrowings	112,411	8,027
Total interest expenses	**207,589**	**8,027**
Net interest income	**595,800**	**11,500**

19. NET FEE AND COMMISION INCOME

Net fee and commission income for the year ended 31 December 2014 and 31 December 2013 is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Fee and commission income	122,956	21,273
Fee and commission expense	10,296	8,808
Net fee and commission income	**112,660**	**12,465**

(Amounts are expressed in EUR, unless otherwise stated)

20. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain for the year ended 31 December 2014 and 31 December 2013 is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Foreign exchange gain	838	4,555
Foreign exchange loss	(16,935)	(398)
Net foreign exchange (loss)/gain	**(16,097)**	**4,157**

21. NET FINANCIAL INCOME

Net financial income for the year ended 31 December 2014 and 31 December 2013 is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income from government T-bills	129,881	1,366
Interest income from placements with parent company	31,395	-
Total	**161,276**	**1,366**

22. OTHER OPERATING EXPENSES

Other operating expenses for the period ended 31 December 2014 and 31 December 2013 are composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
CBK and other local fees	184,783	6,390
Rent	97,912	65,363
Consultancy and auditing	51,746	65,874
Other expenses	40,731	28,817
Payments system expenses	39,742	16,005
Utilities and Fuel	27,833	13,895
Maintenance and repair	19,577	1,011
Representation expenses	14,141	5,420
Memberships	13,634	12,050
Operating lease expenses for vehicle	12,100	11,400
Deposit insurance expenses	386	21,036
Total	**502,585**	**247,261**

(Amounts are expressed in EUR, unless otherwise stated)

23. EMPLOYEE BENEFITS

The Bank paid mandatory contribution benefits of 5% on top of the gross salaries to its local employees. The pension contributions are recognized as employee benefit expenses once they become due. Other mandatory compensations for international employees include health insurance, moving and other related costs transferring to Kosovo. Employee benefits consist of the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries	490,174	213,445
Welfare and pension contribution expenses	77,210	39,516
Health insurance	5,791	1,010
Other employee compensations	49,969	894
Total	**623,144**	**254,865**

24. INCOME TAX

The income tax is composed of the corporate income tax for the year ended 31 December 2014 and 31 December 2013. Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until such time as 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.
The income tax expense for the year ended 31 December 2014 and 31 December 2013 is calculated as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax expense	-	-
Deferred tax income	63,688	53,901
Total	**63,688**	**53,901**

Effective tax rate

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosovo is seven years.
The Bank has recognized a deferred tax asset arising from tax losses as it is confident that future taxable income will be sufficient to allow the benefit of the loss to be realized.

	Year ended 31 December 2014	Year ended 31 December 2013
Loss before tax	(517,121)	(542,633)
Tax calculated at tax rate 10%	(51,712)	(54,263)
Tax effect of interest earned from investments in Kosovo Governments securities	(12,989)	-
Tax effect of non-deductible expenses	1,013	362
Total taxable loss for tax purposes	**(63,688)**	**(53,901)**
Deferred tax asset recognized	**63,688**	**53,901**
Total tax charge	-	-

(Amounts are expressed in EUR, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS

Related party balances as at 31 December 2014 and 31 December 2013 is composed as follows:

	31 December 2014	31 December 2013
Due from parent company		
Nostro account with parent company	14,429	3,736
Due to parent company		
Vostro account of parent company	1,066,262	336,045
Short term borrowing	12,500,000	-
Other payables to parent company	29,222	-
Deferred Revenue from donated assets	48,840	-
Interest payable related to short term borrowing	6,940	-
Due to other related parties		
Current account with Is Bank AG - Germany	125,686	-
Due to Is Bank AG - Germany	4,500,000	4,150,000
Income generated with related parties		
Interest income from placements with parent company	31,395	-
Other income from donated assets	3,932	-
Expense incurred with related parties		
Management remuneration	198,307	161,824
Interest expense from short-term borrowings	39,533	-
Interest expense from balances duet to IS Bank AG- Germany	76,809	8,027
Total	**18,641,355**	**4,659,632**

26. CONTINGENCIES AND COMMITMENTS

Guarantees and letters of credit	**31 December 2014**	**31 December 2013**
Guarantees in favor of customers	2,920,084	1,947,650
Letters of credit issued to customers	-	500,000
Total	**2,920,084**	**2,447,650**

Other	**31 December 2014**	**31 December 2013**
Loans approved but not disbursed	849,250	-
Unused balance of overdraft	364,707	2,414
Total	**1,213,957**	**2,414**

Lease commitments	**31 December 2014**	**31 December 2013**
Less than one year	30,659	15,824
Total	**30,659**	**15,824**

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Legal

During the year ended 31 December 2014 the Bank has no outstanding legal claims and litigation and consequently the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2014 (2013:Nil).

27. SUBSEQUENT EVENT

There are no events subsequent to the reporting date that require adjustments or disclosure in the Financial Statements.