Türkiye İş Bankası A.Ş. – DEGA NË KOSOVË

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
RULES AND REGULATIONS OF THE CENTRAL BANK OF KOSOVO
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018
WITH INDEPENDENT AUDITORS' REPORT THEREON

CONTENTS

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Türkiye İş Bankası A.Ş. - DEGA NË KOSOVË

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Türkiye İş Bankası A.Ş. - DEGA NË KOSOVË ("the Bank"), which comprise the statement of financial position, the statement of comprehensive income, statement of changes in equity and statement of cash flows as at and for the year ending on 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank as at 31 December 2018 are prepared, in all material respects, in accordance with the Rules and Regulation of the Central Bank of the Republic of Kosovo ("CBK").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis of accounting and restriction on use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Bank in complying with the financial reporting requirements of the "Rules and Regulations" referred to above. As a result, the financial statements may not be suitable for another purpose.

Our auditor's report is intended solely for the information and use of the Bank and Central Bank of the Republic of Kosovo and should not be used by parties other than the Central Bank of the Republic of Kosovo. Our opinion is not modified in respect of this matter.

Other matters

The Bank prepares a separate set of financial statements for the year ended 31 December 2018 in accordance with International Financial Reporting Standards, which are its general purpose financial statements, which will be issued after the date of this report.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Rules and Regulation of the Central Bank of the Republic of Kosovo, 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 skepticism throughout the audit. We also:

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

We communicate with those charged with governance of Türkiye İş Bankası A.Ş. - DEGA NË KOSOVË regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Certified Auditors Kosovo sh.p.k

Ernst & Young Certified Auditors Kosovo sh.p.k

March 5, 2019

Prishtina, Kosovo

Statement of financial position as at 31 December 2018
(Amounts in EUR)

Assets	Notes	31 December 2018	31 December 2017
Cash on hand and at banks and balances with Central Bank	7	23,200,928	19,006,820
Placements with banks		6,000,000	-
Investments in securities	8	2,118,926	620,199
Loans and advances to costumers	9	83,809,282	79,282,319
Property and equipment	10	923,537	688,453
Intangible assets	11	95,311	47,015
Deferred tax assets	26	-	64,782
Prepaid income tax	26	12,840	12,840
Repossessed collaterals	12	165,333	-
Other assets	13	242,125	5,769
Total assets		**116,568,282**	**99,728,197**
Liabilities			
Due to customers	14	58,022,291	42,808,947
Due to Banks	15	13,006,432	5,525,602
Due to Head Office and other affiliates	16	34,435,130	42,186,943
Other taxes and contribution payable	17	68,281	21,168
Deferred revenues	18	10,137	23,816
Other liabilities	19	92,717	88,595
Total liabilities		**105,634,988**	**90,655,072**
Shareholders' equity			
Share capital		10,000,000	10,000,000
Accumulated profit/losses		933,294	(926,875)
Total shareholders' equity		**10,933,294**	**9,073,125**
Total liabilities and shareholders' equity		**116,568,282**	**99,728,197**

These Financial Statements were prepared by Deloitte Kosova sh.p.k. and approved behalf of the Bank on 28 February 2019 by:

Alper Karakoç
Country Manager
Türkiye Is Bankasi A.S. – Branch in Kosovo

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

The accompanying notes on pages from 5 to 37 form an integral part of these Financial Statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018
(Amounts in EUR)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income		5,084,412	4,327,174
Interest expense		(2,077,528)	(1,246,969)
Net interest income	**21**	**3,006,884**	**3,080,205**
Fee and commission income		321,155	305,436
Fee and commission expense		(9,118)	(13,225)
Net fee and commission income	**22**	**312,037**	**292,211**
Net foreign exchange income/(loss)	**23**	(45,494)	152,258
Other income		26,150	25,522
Total operating income/(loss)		**(19,344)**	**177,780**
Expenses			
Loan loss provisions	**9**	909,720	(2,631,270)
Provisions for guarantees issued to customers		5,054	(4,489)
Provisioning for assets held for sale		(41,333)	-
Other operating expenses	**24**	(992,662)	(844,777)
Employee benefits	**25**	(788,650)	(882,747)
Depreciation and amortization	**10,11**	(307,286)	(178,569)
Total expenses		**(1,215,157)**	**(4,541,852)**
Profit\(Loss) before tax		**2,084,420**	**(991,656)**
Income tax benefit\ (expense)	**26**	(224,252)	64,782
Net profit\(loss) for the year		**1,860,168**	**(926,875)**
Other comprehensive income		-	-
Total comprehensive profit\(loss) for the year		**1,860,168**	**(926,875)**

The accompanying notes on pages from 5 to 37 form an integral part of these Financial Statement

Statement of changes in equity for the year ended 31 December 2018
(Amounts in EUR)

	Share capital	Retained earnings\ (Accumulated losses)	Total shareholders' equity
Balance at 1 January 2017	**10,000,000**	**205,549**	**10,205,549**
Total comprehensive income for the year			
Net loss for the year	-	(926,875)	(926,875)
Other comprehensive income	-	-	-
Total comprehensive income for the year	**10,000,000**	**(721,326)**	**9,278,674**
Contributions by and distributions to owners	**-**	**(205,549)**	**(205,549)**
Balance at 31 December 2017	**10,000,000**	**(926,875)**	**9,073,125**
Balance at 01 January 2018	**10,000,000**	**(926,875)**	**9,073,125**
Loss for the year	**-**	1,860,168	1,860,168
Other comprehensive income	**-**	**-**	**-**
Total comprehensive loss for the year	**10,000,000**	**933,294**	**10,933,294**
Transactions with owners, recognized directly in equity	**-**	**-**	**-**
Contributions by and distributions to owners/dividend	**-**	**-**	**-**
Paid in capital from Is Bankasi Turkiye A.S.	-	-	-
Balance at 31 December 2018	**10,000,000**	**933,294**	**10,933,294**

The accompanying notes on pages from 5 to 37 form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2018
(Amounts in EUR)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
I. Cash flows from operating activities			
Profit\ (Loss) before tax		2,084,420	(991,656)
Adjustments for non-cash items:			
Depreciation and Amortization		307,286	178,569
Loan loss reserve		(914,775)	2,635,759
Repossession of collaterals		(165,333)	-
Interest income		(5,084,412)	(4,327,174)
Interest expense		2,077,528	1,246,969
Changes in operating assets and liabilities:			
Movement in mandatory reserve with CBK	**7**	1,997,000	(3,000,000)
Increase in placements with banks		(6,000,000)	-
Loans and advances to customers	**9**	(3,419,102)	(27,389,621)
Due to customers	**14**	15,019,417	11,771,815
Tax payables and other liabilities	**16,18**	11,016	7,154
Deferred revenues		(13,679)	(14,559)
Other assets	**13**	(236,356)	(1,002)
Income tax paid		(121,500)	(19,830)
Interest paid		(1,706,192)	(1,118,966)
Interest received		4,885,171	4,318,448
Net cash used in operating activities (I)		**8,720,490**	**(16,704,095)**
II. Cash flows used in investing activities			
Investment in securities	**8**	(1,497,628)	4,008,737
Acquisition of property and equipment	**10**	(583,363)	(24,600)
Acquisition of intangible assets	**11**	-	-
Net cash used in investing activities (II)		**(2,080,991)**	**3,984,137**
III. Cash flows from financing activities			
Borrowings with the Head Office	**16**	(7,948,392)	17,055,421
Repayment of/Proceeds from borrowings	**15**	7,500,000	(2,400,000)
Dividends paid		-	(205,549)
Net cash from financing activities (III) (note 5)		**(448,392)**	**14,449,872**
IV. Net increase in cash and equivalents (I+II+III)		**6,191,108**	**1,729,915**
V. Cash and equivalents at the beginning of the year	**7**	**12,006,820**	**10,276,905**
VI. Cash and equivalents at the end of the year (IV + V)	**7**	**18,197,928**	**12,006,820**

The accompanying notes on pages from 5 to 37 form an integral part of these Financial Statements.

1. REPORTING ENTITY

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

The Bank operates under a banking licence numbered 011 issued by the Central Bank of the Republic of Kosovo, registered at the Ministry of Trade and Industry on 19 November 2012 with business number 70899345 and fiscal number 600886131. The Bank operates with two branches. One office is located at street Ukishin Hoti number 100, in Pristina and the other one at Zahir Pajaziti Street, in Prizren.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Bank maintains the accounting records and prepares the financial statements as foreseen by the law in accordance with the principle of historic cost and according to the guidelines and rules of Central Bank of Kosovo ("CBK Guidelines") which are applicable for the bank. CBK guidelines are based upon relevant legal decision that defines the mandatory application of International Financial Reporting Standards ("IFRS") in Kosovo, and other specific requirements, especially about the provisioning of loss from loans and financial assets. These specific requirements are not in accordance with those of IFRS in this aspect, and the financial statement should not be read as prepared in accordance with IFRS. In addition, CBK Guidelines have not adopted principles of the new and amended IFRS standards effective for the reporting periods beginning on January 1, 2018, most significantly IFRS 9: Financial Instruments, consequently the format of the presentation and classification of these financial statements in based on IFRSs effective as of December 31, 2017.

(b) Basis of measurement

The Financial Statements have been prepared on the historical cost basis. Presently the Bank does not have financial investment classified as Available for Sale or other items measured at fair value.

(c) Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

The preparation of financial statements in accordance with CBK guidelines and principles of IFRS requires from the management to make appraisals and assumptions that affect the reported figures of assets and liabilities, disclosures of assets and liabilities in-group on the date of financial statements, and the figures of reported income and expenses during the reporting period. Although these appraisals are based on the best knowledge of events and actual actions, the results may be different from those appraisals. Actual comparable figures presented in these financial statements are in EURO.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

d) Income tax expense (continued)

Deferred tax (continued)

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

(e) Operating leases

Payments made under operating leases are charged to expenses on a straight-line basis over the term of the lease.

(f) Financial assets and financial liabilities

(i) Recognition

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

(ii) Classification

Financial assets

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

- loans and receivables
- held to maturity.

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the principles of IFRS.

f) Financial assets and financial liabilities (continued)

(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.

(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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

f) Financial assets and financial liabilities (continued)

Impairment of loans and advances (continued)

The basic method used for collective impairment calculation of loans is modelling of clients' previous behavior (in aggregated volumes). This model is based on so called roll-rate coefficients from which historical average coefficients are calculated.

The Branch calculates actual annual default rates for current loans over the past 12 months and applies those default rates against the net risk (by deducting eligible cash collateral) of current loans on monthly basis. The Bank conducts roll-rate analysis separately for Cash Loans and Non-Cash Loans.

The historical average method is a simplified approach that is used to supplement the Roll Rate model. The historical average method provides an estimate of annual averages based on past performance. The time period chosen is twelve months which is long enough to smooth out any impact from significant growth factors, changes in underwriting or lending practices, deteriorating trends in the volume of past due credits, and changes in current local and national economic conditions.

The final historical average coefficient for Standard and Watch classifications is limited up to the ratio of substandard classification.

Provisions created for possible losses on loans and advances classified as standard and watch are classified as general provisions. Off-Balance sheet exposures like guarantees and letters of credit are classified in the same manner. For each risk category, the following minimum rates of specific provision are applied:

Risk Strategy	Loss provision (CBK regulation)	Loss provision applied by the Bank
Standard	No minimum	Roll rate model
Watch	No minimum	Roll rate model
Sub-Standard	Minimum 20%	20%
Doubtful	Minimum 50%	50%
Loss	100%	100%

Collective impairment rates of loans and advances for Standard and Watch classifications are presented in the table below:

Class.	Category	Delay Buckets (X=Days Past Due)	2017 Provisioning %	2018 Provisioning %
A	Standard - Cash Covered Loans	$X \geq 0$	0.00%	0.00%
A0	Standard - On Balance	X=0	0.13%	0.09%
A1	Standard - On Balance	$0 < X \leq 30$	10.55%	10.23%
A0	Standard - Off Balance	X=0	0.01%	0.00%
A1	Standard - Off Balance	$0 < X \leq 30$	2.98%	0.04%
Standard	Weighted average rate	$0 < X \leq 30$	0.63%	0.61%
B	Watch - On Balance	$30 \leq X \leq 60$	12.00%	20.00%
B	Watch - Off Balance	$30 \leq X \leq 60$	2.30%	0.16%
Watch	Weighted average rate	$30 \leq X \leq 60$	10.21%	18.21%
-	Unused Commitments (Overdrafts) - Off Balance	$X \geq 0$	0.20%	0.20%

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. Those found not to be specifically impaired are collectively assessed for any impairment that has been incurred but not yet identified.

f) Financial assets and financial liabilities (continued)

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

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

(g) Loans and advances

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

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

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

(h) Investments held-to-maturity

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

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

(i) Cash and cash equivalents

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

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

(j) Deposits and borrowings

Deposits and borrowings are the Bank's main sources of debt funding.

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(k) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits

(i) Mandatory social security contributions

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

(ii) Paid annual leave

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

(m) Property and equipment

(i) Recognition and measurement

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognized in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(n) Intangible assets

Intangible assets with finite useful life that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful life of the software is five years.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Repossessed Collaterals

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

(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) Financial guarantees and loan commitments

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

(q) Taxation

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. Effective from September 1, 2015, the tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 05/L-029 “On Corporate Income Tax”.
The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date.

Taxable profit differs from profit as reported in the profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accounted for using the balance sheet liability method for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) New standards, amendments and interpretations of IFRS that may impact the CBK's framework of preparation of financial statements

A number of new IFRS standards, amendments to IFRS standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements. The CBK has not issued any formal guideline whether these amendments to IFRS will be adopted in its reporting requirements. The Bank does not plan to adopt these standards and amendments in advance of their effective dates.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17, however the Bank is not a lessor.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. However it is not yet clear whether this standard, which significantly impact the way leases are accounted for, will be adopted in the framework of CBK. Lease liabilities under IFRS 16 maybe be significant depending on the value of the lease and on expected duration of lease contracts, consequently it may impact the way how capital adequacy and other regulatory limits are calculated. Consequently a formal adoption of the standard by CBK may be required before the Bank adopts the standard in these financial statements.

The Bank lease its office spaces with the total gross amount per month of EUR 29,064. Bank is assessing impact of IFRS 16.

Amendments to IFRS 3 "Business Combinations - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period)

Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),

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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

(s) The following new amendments to the existing IFRS standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. IFRS 9 will impact significantly the banking industry in terms of how they will classify and measure financial assets and liabilities and most importantly on how impairment is measured with the shift from incurred losses to expected losses model.

The impairment requirements of IFRS 9 are not applicable for the purpose of reporting under CBK's framework, since CBK has its own impairment rules as disclosed in section 3 f) above.

IFRS 9 will also introduce changes regarding how financial assets and liabilities will be classified and measured as disclosed below.

Changes to classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition • Financial assets FVPL

Presently, the bank measures all its financial assets as held to maturity and amortized cost. Under IFRS 9, the amortized cost measurement can be continued only if the following two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Central Bank has not made any official decision whether and how it intends to adopt the requirement of IFRS 9 and no changes have been made to these presentation of these financial statements as a result of IFRS 9 becoming effective.

IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018)

Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

4. FINANCIAL RISK MANAGEMENT

Risk management process and the functions involved in the process are some of the primary responsibilities of the Board of Directors of the Parent Company (Head Office). The Risk Management Department, which operates under the Board of Directors, has been organized as Asset-Liability Management Risk Unit, Credit Risk and Economic Capital Unit, Operational Risk and Model Verification and Subsidiary Risk Unit.

The Bank's risk management process is carried out within the framework of risk policies which are set by the Risk Management Department and issued by the Board of the Directors and written standards which contains risk policies.

These policies which are in line with international practices are general standards which contain: organization and scope of the risk management function, risk measurement policies, duties and responsibilities of the risk management group, procedures for determining risk limits, ways to eliminate limit violations and approval and confirmation to be given in a variety of events and situations. The scope and content of the Bank's risk management system is given by the main risk types.

The Bank has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(a) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investments.

Credit risk is defined as the risk of the failure to comply with the requirements or failing to fulfill its obligations partially or totally of the counter side of the transaction contract with the Bank. The methodology and responsibilities of the credit risk management, controlling and monitoring and the framework of credit risk limitations are specified with the credit risk policy. The Bank defines, measures and manages credit risk of all products and activities. The Board of Directors reviews the Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Management is responsible for the implementation of credit risk policies which are approved by the Board of Directors.

As a result of loan and credit risks analysis all findings are reported to the Board of Directors and Management on a regular basis. In addition to credit risk assessment process, monitoring of credit risk also comprises monitoring and managing the credit by sector, security, geography, currency, credit type and credit rating.

As part of the Bank's credit risk management, as well as limits required by legal regulations, the Bank utilizes the risk limits to undertake the maximum credit risk within risk groups or sectors that the Board of Directors determines.

These limits are determined in such a way that minimize risk concentration within particular sectors. Excess risk limits up to legal requirements and boundary limits are considered as an exception. The Board of Directors has the authority to approve exceptions. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Management and the Board of Directors.

The Bank uses credit decision support systems which are created for the purpose of credit risk management, lending decisions, controlling the credit process and credit provisioning. The consistency of the credit decision support systems with the structure of the Bank's activities, size and complexity is examined continuously. Credit decision support systems include the Risk Committee assessment and approval of Board of Directors.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Maximum Credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Balances with Central Bank of Kosovo (see Note 7)	14,421,855	16,179,963
Cash at banks (see Note 7)	8,544,260	2,262,181
Loans and advances to costumers, net	83,809,282	79,282,319
Investments in securities	2,118,926	620,199
Guarantees in favor of customers and credit commitments	11,504,823	12,159,228
Maximum exposure to credit risk	**120,399,146**	**110,503,890**

Credit quality by class of financial assets:

31 December 2018	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo (Note 7)	14,421,855	-	-	14,421,855
Cash at banks (Note 7)	8,544,260	-	-	8,544,260
Loans and advances to costumers, net	75,886,836	7,135,787	786,660	83,809,282
Investments in securities	2,118,926	-	-	2,118,926
Guarantees in favor of customers and credit commitments	11,504,823	-	-	11,504,823
Maximum exposure to credit risk	**112,476,700**	**7,135,787**	**786,660**	**120,399,146**

31 December 2017	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo (Note 7)	16,179,963	-	-	16,179,963
Cash at banks (Note 7)	2,262,182	-	-	2,262,181
Loans and advances to costumers, net	78,468,883	225,365	588,071	79,282,319
Investments in securities	620,199	-	-	620,199
Guarantees in favor of customers and credit commitments	12,159,228	-	-	12,159,228
Maximum exposure to credit risk	**109,690,454**	**225,365**	**588,071**	**110,503,890**

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

Impaired loans and securities

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

Past due but not impaired loans

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Allowances for impairment

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

Loans and advances to customers, net	**31 December 2018**	**31 December 2017**
Neither past due nor impaired	75,886,836	78,468,883
Past due and impaired	786,660	588,071
Past due but not impaired	7,135,786	225,365
Total	**83,809,282**	**79,282,319**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	**31 December 2018**	**31 December 2017**
Standard (0 days)	75,809,433	78,749,333
Standard (1-30 days)	7,981,738	1,519
Watch (31-60 days)	209,001	254,584
Substandard (61-90 days)	746,908	770,265
Doubtful (91-180 days)	25,178	45,312
Loss (more than 180 days)	732,140	2,304,066
Accrued interest	438,454	240,313
Less: Deferred disbursement fee	(93,727)	(133,510)
Total Loans at amortized cost, gross	**85,849,125**	**82,231,882**
Less: Allowance for impairment	(2,039,843)	(2,949,563)
Loans and advances to customers, net	**83,809,282**	**79,282,319**

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

Loans and advances to customers	**Maximum exposure to credit risk**	**Real Estate**	**Total collateral**	**Surplus collateral**	**Net Exposure**
31 December 2018	83,809,282	307,439,429	77,809,282	217,630,147	6,000,000
31 December 2017	79,282,319	208,791,001	73,282,319	123,508,682	6,000,000

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Concentrations

IS Bank has a credit strategy which determines the types of investments (concentrations) based primarily on economic segments such as industry, trade, construction, etc. Due to the small size of the Republic of Kosovo, geographical concentrations within Kosovo are not significant; this strategy is reviewed and updated on an annual basis by the management board or the bank.

The following table breaks down the Bank's main credit exposure at their net amounts, as categorized by the industry sectors of our counterparties.

As of December 31, 2018 and 2017, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2018	**31 December 2017**
Wholesale and retail trade	55,404,066	49,926,751
Electricity, gas, steam and air conditioning supply	12,290,036	12,570,000
Construction	3,793,366	9,090,686
Manufacturing	9,097,834	5,340,869
Accommodation and food service activities	1,210,173	1,372,617
Water, supply, sewerage and waste management and services	736,813	1,075,947
Individual	850,756	1,063,095
Mining and quarrying	455,160	750,938
Other services	645,506	528,263
Transportation and storage	530,594	248,117
Administrative and support service activities	4,853	78,880
Professional, scientific and technical activities	478,675	39,539
Information and communication	6,564	39,377
Accrued interest	438,454	240,313
Deferred revenue on disbursement fee	(93,727)	(133,510)
Total Loans at amortized cost, gross	**85,849,123**	**82,231,882**
Less: Allowance for impairment	(2,039,843)	(2,949,563)
Loans and advances to customers, net	**83,809,280**	**79,282,319**

The top 10 exposures of the Bank make up a total of 62,282 thousand Euro or 74% of the total loan portfolio (2017: Eur 58,882 thousand, 74%). The individual client exposures range from Eur 18.5 million to Eur 1.9 million (2017: Eur 14.5 million and Eur 1.9 million.

4. 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 2018 and 2017, the Bank's financial assets and liabilities have remaining contractual maturities as follows:

31 December 2018	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Unspecified**	**Total**
Assets							
Cash at banks and balances with Central Bank	18,197,928	-	-	-	-	5,003,000	23,200,928
Placements with banks	6,000,000	-	-	-	-	-	6,000,000
Investments in securities	-	-	1,998,088	120,838	-	-	2,118,925
Loans and advances to customers	13,061,888	9,098,220	29,819,424	26,873,882	4,955,868	-	83,809,283
Total	37,259,816	9,098,220	31,817,511	26,994,720	4,955,868	5,003,000	**115,129,136**
Liabilities							
Due to customers	11,922,203	4,349,770	26,566,627	14,969,691	214,000	-	58,022,291
Short-term borrowings	13,006,432	-	-	-	-	-	13,006,432
Due to Head Office	3,240,074	17,189,203	13,292,662	713,191	-	-	34,435,131
Total	**28,168,710**	**21,538,973**	**39,859,290**	**15,682,882**	**214,000**	**-**	**105,463,853**
Net Position	**9,091,106**	**(12,440,752)**	**(8,041,778)**	**11,311,838**	**4,741,868**	**5,003,000**	**9,665,282**
Cumulative net position	**9,091,106**	**(3,349,646)**	**(11,391,424)**	**(79,586)**	**4,662,282**	**9,665,282**	

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash at banks and balances with Central Bank	11,442,144	-	-	-	-	7,000,000	18,442,144
Investments in securities	-	-	499,963	120,236	-	-	620,199
Loans and advances to customers	6,456,247	7,614,074	30,344,848	28,981,513	5,885,637	-	79,282,319
Total	**17,898,391**	**7,614,074**	**30,844,811**	**29,101,749**	**5,885,637**	**7,000,000**	**98,344,662**
Liabilities							
Due to customers	8,258,072	2,311,185	23,350,391	8,889,299	-	-	42,808,947
Short-term borrowings	5,174,265	-	351,337	-	-	-	5,525,602
Due to Head Office	4,250,761	14,780,151	21,683,745	1,472,286	-	-	42,186,943
Other liabilities	21,168	54,725	-	-	-	-	75,893
Total	**17,704,266**	**17,146,062**	**45,385,473**	**10,361,585**	**-**	**-**	**90,597,385**
Net Position	**194,125**	**(9,531,987)**	**(14,540,662)**	**18,740,164**	**5,885,637**	**7,000,000**	**7,747,277**
Cumulative net position	**194,125**	**(9,337,862)**	**(23,878,524)**	**(5,138,361)**	**747,277**	**7,747,277**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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). However these transactions are limited and assets and liabilities denominated in foreign currency are insignificant on the balance sheet date. As a result the bank is not sensitive to changes in foreign currency rates.

The exchange rates used for conversion of foreign currency values at 31 December 2018 and 2017 are as follows:

Compared to EUR	31 December 2018	31 December 2017
1 USD	0.8733	0.8338
1 TRY	0.1650	0.2200
1 GBP	1.1271	1.1179
1 CHF	0.8873	0.8546

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2018 and 2017 as translated into EUR:

2018	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	22,712,254	22,219	359,918	73,988	32,548	23,200,928
Placements with banks	6,000,000	-	-	-	-	6,000,000
Investment securities	2,118,926	-	-	-	-	2,118,926
Loans and advances to customers	83,698,126	-	111,156	-	-	83,809,282
Total	**114,529,305**	**22,219**	**471,074**	**73,988**	**32,548**	**115,129,135**
Liabilities						
Due to customers	57,257,652	-	474,917	256,749	32,973	58,022,291
Short term borrowings	13,006,432	-	-	-	-	13,006,432
Due to Head Office	34,378,049	-	57,081	-	-	34,435,130
Other liabilities	171,135	-	-	-	-	171,135
Total	**104,813,268**	**-**	**531,999**	**256,749**	**32,973**	**105,634,988**
Net position	**9,716,038**	**22,219**	**(60,925)**	**(182,760)**	**(425)**	**9,494,147**
Cumulative net position	**9,716,038**	**9,738,257**	**9,677,332**	**9,494,572**	**9,494,147**	**-**

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

i. Foreign currency risk (continued)

2017	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	18,278,422	93,316	2,259	41,674	26,473	18,442,144
Investment in securities	620,199	-	-	-	-	620,199
Loans and advances to customers	79,182,930	-	99,390	-	-	79,282,319
Total	**98,081,550**	**93,316**	**101,649**	**41,674**	**26,473**	**98,344,662**
Liabilities						
Due to customers	41,861,400	-	684,904	172,100	90,543	42,808,947
Short term borrowings	5,525,602	-	-	-	-	5,525,602
Due to Head Office	41,973,995	-	133,317	79,632	-	42,186,943
Other liabilities	75,893	-	-	-	-	75,893
Total	**89,436,889**	**-**	**818,221**	**251,732**	**90,543**	**90,597,385**
Net position	**8,664,661**	**93,316**	**(716,572)**	**(210,058)**	**(64,070)**	**7,747,277**
Cumulative net position	**8,644,661**	**8,737,977**	**8,021,405**	**7,811,347**	**7,747,277**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk

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

2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with Central Bank	-	-	-	-	-	23,200,928	23,200,928
Placements with banks	6,000,000	-	-	-	-	-	6,000,000
Investments in securities	-	-	1,998,088	120,838	-	-	2,118,925
Loans and advances to customers – fixed rate	12,888,514	8,916,535	29,035,729	26,244,738	4,955,868		82,041,383
Loans and advances to customers – floating rate	173,374	181,686	783,695	629,145			1,767,899
Total	**19,061,888**	**9,098,220**	**31,817,511**	**26,994,720**	**4,955,868**	**23,200,928**	**115,129,136**
Liabilities							
Due to customers	1,251,928	4,318,770	28,469,060	13,242,564	214,000	10,525,969	58,022,291
Short term borrowings	13,006,432	-	-	-	-	-	13,006,432
Dues to Head Office – fixed rate	2,548,511	17,000,000	12,400,369	60,937	-	532,176	32,541,993
Dues to Head Office – floating rate	159,387	189,203	892,294	652,253	-	-	1,893,137
Total	**16,966,259**	**21,507,973**	**41,761,722**	**13,955,755**	**214,000**	**11,058,145**	**105,463,853**
Net Position	**2,095,629**	**(12,409,752)**	**(9,944,211)**	**13,038,965**	**4,741,868**	**12,142,783**	**9,665,282**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk (continued)

2017	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	-	-	-	-	-	18,442,145	18,442,145
Investments in securities	-	-	499,962	120,236	-	-	620,198
Loans and advances to customers – fixed rate	6,233,509	7,090,961	28,677,285	28,981,530	5,885,640	-	76,868,925
Loans and advances to customers – floating rate	222,698	523,117	1,667,580	-	-	-	2,413,395
Total	**6,456,206**	**7,614,078**	**30,844,827**	**29,101,766**	**5,885,640**	**18,442,145**	**98,344,662**
Liabilities							
Due to customers	3,560,504	2,311,185	23,350,391	8,889,299	-	4,697,568	42,808,947
Short term borrowings	5,174,265	-	351,337	-	-	-	5,525,602
Dues to Head Office – fixed rate	1,931,200	14,506,234	20,876,751	300,000	-	2,159,364	39,773,549
Dues to Head Office – floating rate	160,198	273,917	806,994	1,172,286	-	-	2,413,395
Other liabilities	-	-	-	-	-	75,893	75,893
Total	**10,826,165**	**17,091,335**	**45,385,473**	**10,361,586**	**-**	**6,932,826**	**90,597,385**
Net Position	**(4,369,959)**	**(9,477,257)**	**(14,540,646)**	**18,740,180**	**5,885,640**	**11,509,319**	**7,747,277**
Cumulative net position	**(4,369,959)**	**(13,847,216)**	**(28,387,862)**	**(9,647,682)**	**(3,762,042)**	**7,747,277**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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 2018 and 2017 are as follows:

	2018		2017	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	N/a		N/a	-
Loans and advances to customers	5.65%	6.08%	5.59%	6.26%
Investment securities (HTM)	N/a	0.61%	N/a	1.72%
Liabilities				
Customer deposits	1.86%	2.27%	1.92%	1.73%
Short term borrowings	N/a	0.91%	N/a	1.76%
Dues to parent company	N/a	3.74%	3.42%	3.21%

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:

	2018		2017	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	96.653	(96,653)	77,472	(77,472)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Banks's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk and carried out with collaboration with Head Office.

All risks except financial risks are considered within the scope of operational risk. Studies are un5dertaken by execution of identification, definition, measurement, analysis, monitoring of operational risk, providing and reporting the necessary control related to monitoring the progress of the country and world, the development of techniques and methods, necessary legal reporting, notification and conduct of follow-up transactions. Studies on the subject are conducted by the Department of Risk Management.

Qualitative and quantitative methods are used in a combination for measurement and evaluation of the operational risks. In this process, information used is obtained from "Impact-Probability Analysis", "Missing Event Data Analysis", "Risk Indicators" methods. Methods prescribed by legal regulations are applied as minimum in determining the capital requirement level for the operating risk.

All risks are assessed in the context of operational risk, loss events and the risk indicators, together with operational risks are monitored on a regular basis by the Department of Risk Management and reported periodically to the Risk Committee and the Board of Directors.

(f) Capital management

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

Regulatory Capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity. The Bank's overall strategy remains unchanged from previous year. In accordance with the regulations of the Central Bank of Republic of Kosovo, the Bank should maintain a capital equivalency deposit of not less than EUR 7,000,000. The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank has met the regulatory requirements as at 31 December 2018 and 2017.

5. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

2018	1-Jan-18	Cash flows	Accruals of Interest	Recognition of Dividends	31-Dec-18
Due to head office	42,186,943	(7,948,392)	196,578	-	34,435,130
Short-term borrowings	5,525,602	7,500,000	(19,170)	-	13,006,432
Total liabilities from financing activities	**47,712,545**	**(448,392)**	**177,408**	**-**	**47,441,562**

6. USE OF ESTIMATES AND JUDGMENTS

(a) Impairment

In determining, whether the loans to customers are impaired on individual basis requires the estimation of the present value of expected cash flows from loans to customers including amounts recoverable from guarantees. Actual results may differ significantly. Key assumptions used in the evaluation of client's credit worthiness are based on the financial positions, profitability, market share, and the value of collateral. Similarly circumstances prevailing in the region of the client are taken in to consideration, such as the court efficiency etc.

The main differences between the CBK and IFRS methodology for provisioning calculation is that CBK methodology is mainly based on days past due and does not take into account expected cash flow from repayments of loan and execution of collateral on the provisioning calculation" and as a result, assumptions used in determining provisions require less management judgement.

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

(b) Fair value of financial instruments

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

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

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

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

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

Cash and cash equivalents and mandatory reserve

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

Investment in securities

The treasury bills have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying yield rates except one bond with maturity till 2020 (note 8) , which approximate market rates.

6. USE OF ESTIMATES AND JUDGMENTS

(b) Fair value of financial instruments

Due to Head Office and Short term borrowings

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

	2018		2017	
	Carrying value	**Fair value Level 2**	**Carrying value**	**Fair value Level 2**
Loans and advances to customers	83,809,282	83,920,753	79,282,319	79,551,117
Due to customers	47,457,628	47,256,178	37,823,753	37,982,494

Fair value measurements (FVM) has been calculated for loans and advances to customers and deposits due to customers. FVM has been calculated as present value of loans and advances to customers and due to customers taken into account as discounting factor open market rates for loans and deposits applicable on the sector.

The portfolio of loans and advances to customers has been homogenized based on original maturity, remaining maturity, type of loan, and industry. The portfolio of dues to customers has been homogenized based on amount, original maturity date and industry.

The open market interest rate has been used from CBK time series data reports that represent the characteristics of Is Bankasi portfolio of loans and advances to customers and portfolio of due to customers.

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

	31 December 2018	31 December 2017
Cash on hand		
Cash on hand	234,812	564,676
Cash at banks		
Current account with Bank for Business	1,503,989	1,060,456
Current account with Raiffeisen Bank Kosovo	207,909	200,970
Current account with IS Bank AG, Germany	5,670,744	880,966
Current account with BKT	1,111,909	-
Current account with Head Office	49,710	119,789
	8,779,073	**2,826,857**
Cash and cash equivalents		
Restricted balances with Central Bank		
Balances with Central Bank of Kosovo (‘CBK’)	9,418,855	9,179,963
Capital Equivalent Deposit	5,003,000	7,000,000
Total	**23,200,928**	**19,006,820**

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 5,683 thousand (31 December 2017: EUR 5,877 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 2018 and 2017 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit (see note 4(f)). Investments in securities (see Note 8) are also used as capital equivalency deposits required for a branch of a foreign bank.

8. INVESTMENTS IN SECURITIES

	31 December 2018	31 December 2017
Nominal Value - Treasury Bills		**250,000**
Treasury Bills (price)	-	249,146
Amortization of discount	-	59
Carrying amount at amortized cost	**-**	**249,205**
Nominal Value – Bonds	2,120,000	370,000
Bonds (price)	2,113,137	367,432
Accrued Interest	4,025	2,926
Amortization of discount	1,764	1,127
Amortization of premium	-	(491)
Carrying amount at amortized cost	**2,118,926**	**370,994**
Total at amortized cost	**2,118,926**	**620,199**

Investments in securities represent investments in Government Treasury Bills and Bonds classified as held to maturity and issued by the Government of the Republic of Kosovo. Bonds have short maturity terms maturing by on 31 August 2020.

Bonds amounting to a nominal value of Eur 2,000,000 are part of the Capital Equivalent Deposit, and are restricted in the same manner as Restricted Balances with Central Bank as described in Note 7.

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Commercial Loans	54,761,411	53,929,519
Individual Loans	807,678	898,557
Staff Loans	43,078	67,778
Overdrafts	29,892,231	27,229,225
Accrued interest	438,454	240,313
Deferred disbursement fee	(93,727)	(133,510)
Total Loans at amortized cost, gross	**85,849,125**	**82,231,882**
Less: Allowance for impairment	(2,039,843)	(2,949,563)
Loans and advances to customers, net	**83,809,282**	**79,282,319**

Movements in the impairment allowance in 2018 and 2017 are composed as follows:

	2018	2017
Allowance as at 1 January	**2,949,563**	**318,293**
Charge for the year	(909,720)	2,631,270
Allowance as at 31 December	**2,039,843**	**2,949,563**

10. PROPERTY AND EQUIPMENT

	Leasehold improvements	**IT Equipment**	**Furniture, fixtures and equipment**	**Other Assets**	**Vehicles**	**Total**
Cost						
Balance at 1 January 2017	762,473	188,510	160,574	47,059	49,450	**1,208,066**
Additions	3,438	-	12,566	8,596	-	**24,600**
Disposals	-	-	-	-	-	-
Balance at 31 December 2017	**765,911**	**188,510**	**173,140**	**55,655**	**49,450**	**1,232,666**
Additions	400,192	25,030	62,062	37,439	-	**524,723**
Disposals	(303,420)	-	-	-	-	**(303,420)**
Balance at 31 December 2018	**862,682**	**213,540**	**235,202**	**93,094**	**49,450**	**1,453,968**
Accumulated depreciation						
Balance at 1 January 2017	**232,378**	**15,709**	**76,701**	**30,328**	**20,283**	**375,399**
Charge for the year	77,894	37,702	33,399	9,928	9,890	**168,813**
Balance at 31 December 2017	**310,272**	**53,411**	**110,101**	**40,256**	**30,173**	**544,213**
Charge for the year	206,185	38,326	35,900	6,536	9,890	296,838
Disposals	(303,440)	-	(6,637)	(541)	-	**(310,619)**
Balance at 31 December 2018	**213,017**	**91,738**	**139,364**	**46,251**	**40,063**	**530,432**
Carrying amounts						
Balance at 31 December 2017	**455,639**	**135,099**	**63,039**	**15,399**	**19,277**	**688,453**
Balance at 31 December 2018	**649,665**	**121,802**	**95,838**	**46,844**	**9,387**	**923,537**

The value of EUR 16,391 and EUR 52,003 categorized into the furniture, fixtures and equipment category represent assets received as donations from Head Office during the fiscal years of 2015 and 2014.

11. INTANGIBLE ASSETS

	Software	Total
Cost		
Balance at 1 January 2017	80,428	80,428
Additions	-	-
Balance at 31 December 2017	**80,428**	**80,428**
Additions	58,641	58,641
Balance at 31 December 2018	**139,069**	**139,069**
Accumulated Amortization		
Balance at 1 January 2017	23,658	23,658
Charge for the year	9,756	9,756
Balance at 31 December 2017	**33,415**	**33,415**
Charge for the year	10,343	10,343
Balance at 31 December 2018	**43,758**	**43,758**
Carrying amounts		
Balance at 31 December 2017	**47,014**	**47,014**
Balance at 31 December 2018	**95,311**	**95,311**

12. REPOSSESSED COLLATERALS

	31 December 2018	31 December 2017
Repossessed assets	206,666	-
Provisioning for impairment	(41,333)	-
Total	**165,333**	**-**

Repossessed assets consist of a residential building repossessed during 2018. Provision for impairment of 20% is created in accordance with CBK guidelines.

13. OTHER ASSETS

	31 December 2018	31 December 2017
Prepayments	12,999	5,769
Rent Prepayments	229,127	-
Corporate income tax prepayment	12,840	12,840
Total prepayments	**254,966**	**18,609**

14. DUE TO CUSTOMERS

	31 December 2018	31 December 2017
Current Accounts		
Individuals	3,038,987	2,597,839
Corporations	5,130,682	1,841,855
State owed entities	2,063,606	7,253
Correspondent banks	38,694	12,084
Non-profit organizations	292,695	238,537
Total current accounts	**10,564,664**	**4,697,568**
Term Deposits		
Individuals	21,657,185	15,886,271
Corporations	22,618,890	16,962,383
State owed entities	800,000	2,875,100
Non-profit organizations	1,900,000	2,100,000
Interest payable	481,553	287,625
Total term deposits	**47,457,628**	**38,111,379**
Total deposits	**58,022,291**	**42,808,947**

Term deposits bear fixed interest rates ranging from 0.36% - 2.56% as of 31 December 2018 (2017: 0.5% - 3.1%).

15. DUE TO BANKS

	31 December 2018	31 December 2017
TEB sh.a	10,000,000	3,000,000
Banka per Biznes - BPB	3,000,000	2,500,000
NLB Prishtina	-	-
Accrued interest payable	6,432	25,602
Total	**13,006,432**	**5,525,602**

The short-term borrowing with commercial banks bear interest rates ranging from 0.85%% p.a. (2017: 0.9% to 1.1% p.a.), and have maturities ranging from 04e January 2019 to 11 June 2019.

16. DUE TO HEAD OFFICE AND OTHER AFFILIATIES

	31 December 2018	31 December 2017
Current accounts with Head Office	493,481	2,159,364
Short-term borrowings	31,700,000	38,396,108
Long-term borrowing	1,885,885	1,472,286
Interest payable	355,763	159,185
Total	**34,435,130**	**42,186,943**

The short-term borrowings from the Head Office bear interest rates ranging from 0.85% p.a. to 5.35% p.a. (2017: 2.70% p.a. to 3.00% p.a.). The long-term borrowings bear interest rates ranging from 1.25% p.a. to 2.45% p.a. (2017: 1.00% p.a. to 2.99%) and have remaining weighted average maturity of 2 years.

Depending on needs for additional disbursements, the Branch has the right at its discretion, to renew or obtain additional funds at short notice from Head Office, as well as return to Head Office any extra liquidity.

17. OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2018	31 December 2017
Withholding tax on salary	5,203	6,499
Pension contributions payable	4,091	4,379
Withholding tax on rent and interest	21,018	10,290
Corporate tax payable	37,969	-
Total	**68,281**	**21,168**

18. DEFERRED REVENUE

	31 December 2018	31 December 2017
Deferred revenue	10,137	23,816
Total	**10,137**	**23,816**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank. Other income of EUR 13,679 (2017: EUR 14,559) for the year ended 31 December 2018 represent the value of deferred revenue recognized as income from asset donations.

19. OTHER LIABILITIES

	31 December 2018	31 December 2017
Accrued expenses	63,901	54,725
Provision for off-balance sheet items	28,816	33,870
Total	**92,717**	**88,595**

20. SHARE CAPITAL

As at December 31, 2018, the share capital amounted to EUR 10,000 thousand (2017: EUR 10,000 thousand).

21. NET INTEREST INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income from loans and advances to customers	5,071,789	4,281,727
Interest income from securities	12,112	44,963
Interest income from deposits in local banks	510	483
Total interest income	**5,084,412**	**4,327,174**
Interest expenses		
Interest expenses for deposits	(813,773)	(519,209)
Interest expenses for borrowings	(1,263,755)	(727,760)
Total interest expenses	**(2,077,528)**	**(1,246,969)**
Net interest income	**3,006,884**	**3,080,205**

22. NET FEE AND COMMISION INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Fees for letter of guarantees	141,420	137,333
Fees for early termination of contracts	27,573	15,574
Other fee and commission income	152,162	152,529
Total fee and commission income	**321,155**	**305,436**
Fee and commission expense	(9,118)	(13,225)
Net fee and commission income	**312,037**	**292,211**

23. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2018	Year ended 31 December 2017
Foreign exchange gain	50,589	172,467
Foreign exchange loss	(96,083)	(20,209)
Net foreign exchange gain\(loss)	**(45,494)**	**152,258**

24. OTHER OPERATING EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Fees paid to CBK	150,908	180,861
Consultancy and auditing	117,085	130,712
Rent	232,681	122,637
Other tax and fee expenses	145,253	95,491
Payments system expenses	84,169	88,367
Communication expenses	65,338	74,922
Utilities and Fuel	30,936	34,205
Representation expenses	63,967	29,378
Maintenance and repair	22,888	26,426
Memberships	13,508	14,087
Security expenses	12,975	12,810
Operating lease expenses for vehicle	1,000	1,399
Other expenses	51,954	33,482
Total other operating expenses	**992,662**	**844,777**

25. EMPLOYEE BENEFITS

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries	704,368	772,967
Welfare and pension contribution expenses	63,236	84,318
Health insurance	9,203	9,097
Other employee compensations	11,843	16,365
Total employee benefits	**788,650**	**882,747**

At 31 December 2018, the Bank had 28 employees (2017: 30).

26. INCOME TAX

Tax expense for the year is composed of the following:	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Current tax expense	(224,252)	-
Deferred tax income	-	64,782
Total income tax	**(224,252)**	**64,782**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2018	**Year ended 31 December 2017**
Prepaid tax\(tax liability) on January 1	12,840	(6,990)
Settlement of liability		6,990
Current year tax payments	121,500	12,840
Current tax expense	(224,252)	-
Utilization of carried forward losses DTA	64,782	-
(Tax Payable)\Prepaid tax	**(37,969)**	**12,840**

Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Kosovo tax laws and regulations are subject to interpretations by the tax authorities.

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosovo is six years.

The Bank had recognized a deferred tax asset arising from tax losses in 2017, which is utilized in the current year.

Prepaid ta as of 01 January 2018 represents the value of CIT receivable from previous years and it could not be automatically offset with the tax liability of current year.

The table below represents the calculation of corporate income tax for the year ended 31 December 2018 and 31 December 2017:

	Effective Tax rate	**Year ended 31 December 2018**	**Effective Tax rate**	**Year ended 31 December 2017**
Profit/(Loss) before tax		**2,084,420**		**(991,656)**
Tax calculated at 10%	10%		10%	(99,166)
Tax effect of interest earned from investments in Kosovo Governments securities	-10%	1,211	-10%	(4,496)
Tax effect of non-deductible expenses	10%	2,051	10%	7,266
Impairment of repossessed asset		4,133		
Tax effect of exchange loss	10%	4,549		
Tax effect of the accrued interest on term deposits	10%	6,286	10%	31,614
Total corporate income tax expenses/(benefit)		**(224,252)**		**64,782**
Deferred tax asset recognized\(utilized)				
Utilizing of deferred tax asset		**64,782**		**-**
Taxes paid in advance		**121,500**		**-**
Total tax payable at the end of the year		**(37,969)**		**-**

27. RELATED PARTY TRANSACTIONS

Türkiye İş Bankası A.Ş.– Dega në Kosovë 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 2018 are as follows:

- Isbank Pension Fund, acting on behalf of both active and retired Bank employees: 40.47%;
- Free Float: 31.44% (about 60% of the free float is held by foreign investors);
- Ataturk's Shares: 28.09%. The Republican People's Party (CHP) is the testamentary heir to the shares initially held by Ataturk (founder of Isbank).

Related party balances and transactions as at 31 December 2018 and 31 December 2017 are composed as follows:

	31 December 2018	31 December 2017
Due from Head Office		
Current accounts with Head Office	49,710	119,789
Due to Head Office		
Current accounts with Head Office	493,481	2,159,364
Short term borrowing	31,700,000	38,396,108
Long term borrowings	1,885,885	1,472,286
Other payables to Head office	-	-
Interest payable related to short and long-term borrowing	355,763	159,185
Deferred revenue from donated assets	10,137	23,816
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	5,670,744	880,966
Due to other related parties	4,000,000	
Due to Is Bank London, UK	-	-

	Year ended 31 December 2018	Year ended 31 December 2017
Income generated from Head Office		
Interest income from Head Office	-	-
Other income from donated assets	11,270	14,559
Expense incurred with related parties	-	-
Management remuneration	189.906	253,275
Interest expense for short-term borrowings	1,186,400	662,339

28. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	**31 December 2018**	**31 December 2017**
Guarantees in favor of customers	8,823,241	9,755,015
Loans approved but not yet disbursed	72,250	15,943,903
Undrawn credit commitments	2,609,332	2,404,213
Total	**11,504,823**	**28,103,131**

Non-cancelable lease commitments	**31 December 2018**	**31 December 2017**
Less than one year	46,919	30,659
Total	**46,919**	**30,659**

Legal

In 2018, the Bank had no outstanding legal claims and litigations, and consequently the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims as at 31 December 2018 (2017:Nil).

29. SUBSEQUENT EVENTS

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