Türkiye İş Bankası A.Ş. – DEGA NË KOSOVË

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
WITH INDEPENDENT AUDITORS' REPORT THEREON

CONTENTS

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of **Türkiye İş Bankası A.Ş. - Dega në Kosovë**. ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Responsibilities of management 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 IFRS 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

29 March, 2018
Prishtina, Kosovo

Statement of financial position as at 31 December 2017
(Amounts in EUR)

	Notes	31 December 2017	31 December 2016
Assets			
Cash on hand, at banks and balances with Central Bank	7	19,006,820	14,276,905
Investments in securities	8	620,199	4,645,875
Loans and advances to costumers, net	9	80,948,677	54,491,314
Property and equipment, net	10	688,453	832,667
Intangible assets, net	11	47,015	56,770
Prepaid income tax	25	12,840	
Other assets	12	5,769	4,767
Total assets		**101,329,773**	**74,308,298**
Liabilities			
Due to customers	13	42,808,947	30,914,346
Short-term borrowings	14	5,525,602	7,905,295
Due to Head Office	15	42,186,943	25,146,612
Other taxes and contribution payable	16	21,168	32,444
Deferred tax liability	25	101,853	
Deferred revenues	17	23,816	38,375
Other liabilities	18	88,721	65,802
Total liabilities		**90,757,050**	**64,102,874**
Shareholders' equity			
Share capital		10,000,000	10,000,000
Accumulated profit		572,723	205,424
Total shareholders' equity		**10,572,723**	**10,205,424**
Total liabilities and shareholders' equity		**101,329,773**	**74,308,298**

These Financial Statements were prepared by Deloitte Kosova sh.p.k. and approved behalf of the Bank on 22 March 2018 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 38 form an integral part of these Financial Statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2017
(Amounts in EUR)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest income		4,327,803	3,530,730
Interest expense		(1,246,969)	(1,039,733)
Net interest income	**20**	**3,080,834**	**2,490,997**
Fee and commission income		305,436	193,643
Fee and commission expense		(13,225)	(29,710)
Net fee and commission income	**21**	**292,211**	**163,933**
Net foreign exchange loss	**22**	152,258	(56,465)
Other income		25,522	15,749
Total operating income		**177,780**	**(40,716)**
Expenses			
Loan loss provisions	**9**	(965,542)	279,643
Provisions for guarantees issued to customers		(4,489)	13,091
Other operating expenses	**23**	(844,777)	(714,820)
Employee benefits	**24**	(882,747)	(817,154)
Depreciation and amortization	**10,11**	(178,569)	(167,766)
Total expenses		**(2,876,124)**	**(1,407,006)**
Profit before tax		**674,701**	**1,207,208**
Income tax benefit/(expense)	**25**	(101,853)	(122,269)
Net profit for the year		**572,848**	**1,084,939**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**572,848**	**1,084,939**

The accompanying notes on pages from 5 to 38 form an integral part of these Financial Statement.

Statement of changes in equity for the year ended 31 December 2017
(Amounts in EUR)

	Share capital	Retained earnings (Accumulated losses)	Total shareholders' equity
Balance at 1 January 2016	**10,000,000**	**(879,515)**	**9,120,485**
Total comprehensive loss for the year			
Net profit for the year	-	1,084,939	1,084,939
Other comprehensive income	-	-	-
Total comprehensive income for the year	**10,000,000**	**205,424**	**10,205,424**
Balance at 31 December 2016	**10,000,000**	**205,424**	**10,205,424**
Profit for the year	**-**	572,848	572,848
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income for the year	**10,000,000**	**778,272**	**10,778,272**
Transactions with owners, recognized directly in equity	**-**	**-**	**-**
Contributions by and distributions to owners/dividend	**-**	(205,549)	(205,549)
Paid in capital from Is Bankasi Turkiye A.S.	**-**	-	-
Balance at 31 December 2017	**10,000,000**	**572,723**	**10,572,723**

The accompanying notes on pages from 5 to 38 form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2017
(Amounts in EUR)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
I. Cash flows from (used in) operating activities			
Profit before tax		674,701	1,207,208
Adjustments for:			
Depreciation and amortization	**10, 11**	178,569	167,766
Net impairment loss		970,031	(292,734)
Interest income	**20**	(4,327,803)	(3,530,730)
Interest expense	**20**	1,246,969	1,039,733
Changes in operating assets and liabilities:			
Movement in mandatory reserve with CBK	**7**	(3,000,000)	-
Loans and advances to customers	**9**	(27,389,621)	(12,230,675)
Due to customers	**13**	11,771,815	11,092,078
Tax payables and other liabilities	**16, 18**	7,154	(99,886)
Deferred revenues		(14,559)	(13,708)
Other assets	**12**	(1,002)	10,414
Income tax paid		(19,830)	(2,324)
Interest paid		(1,118,966)	(961,645)
Interest received		4,318,448	3,513,870
Net cash used in operating activities (I)		**(16,704,094)**	**(100,633)**
II. Cash flows used in investing activities			
Investment in securities	**8**	4,008,737	5,087,308
Acquisition of property and equipment	**10**	(24,600)	(92,673)
Acquisition of intangible assets	**11**	-	(22,312)
Net cash used in investing activities (II)		**3,984,137**	**4,972,323**
III. Cash flows from financing activities			
Borrowings with the Head Office	**15**	17,055,421	(1,533,004)
Repayment of/Proceeds from borrowings	**14**	(2,400,000)	2,900,000
Dividends paid		(205,549)	-
Net cash from financing activities (III) (note 5)		**14,449,872**	**1,366,996**
IV. Net increase in cash and cash equivalents (I+II+III)		**1,729,915**	**6,238,686**
V. Cash and cash equivalents at the beginning of the year	**7**	**10,276,905**	**4,038,219**
VI. Cash and cash equivalents at the end of the year (IV + V)	**7**	**12,006,820**	**10,276,905**

The accompanying notes on pages from 5 to 38 to the form an integral part of these Financial Statements.

1. REPORTING ENTITY

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

The Bank operates under a banking licence numbered 011 issued by the Central Bank of the Republic of Kosovo, registered at the Ministry of Trade and Industry on 19 November 2012 with business number 70899345 and fiscal number 600886131. The Bank operates with two branches. One office is located at UÇK 43, in Pristina and the other one at Zahir Pajaziti street, in Prizren.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Going concern

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

The preparation of Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about impairment of financial assets and fair values of financial instruments is described in note 6.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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

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

(e) Operating leases

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or when they expire.

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Amortized cost measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(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 terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Committee.

A collective component of the total allowance is established for groups of homogeneous loans that are not individually impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Collective allowance for groups of assets that are not considered individually significant and those that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

The basic method used for collective impairment calculation of loans is modelling of clients' previous behaviour (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 final historical average coefficient for Standard and Watch classifications is limited up to the ratio of substandard classification.
Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When estimating the future cash flows from sale of collaterals, the Bank makes a haircut to present valuation based on general foreclosure experience, normally in the range between 50-70%. The Bank does not have a history of foreclosures, but estimates the discount period of liquidation of collateral on average 3 years.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss.

In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(o) Grants

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

(p) Financial guarantees and loan commitments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Taxation

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. Effective from September 1, 2015, the tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 05/L-029 “On Corporate Income Tax”.

The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date.

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

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

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements. The Bank does not plan to adopt these standards and amendments early.

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank has not adopted the standard in advance as a policy choice permitted under IFRS 9. In addition, the Bank does not plan to restate comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 in the financial statements for the year ended December 31, 2018 will be reported under IAS 39 and will not comparable to the information presented for 2018. Bank expects to apply the classification, measurement, and impairment requirements of IFRS 9 retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, and does not expect to restate comparative periods and not to early apply the changed own credit risk requirements, as permitted by the standard. 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. Since IFRS is not the regulatory framework for the Bank, the Bank will implement the standard during 2018 and reflect its full impact on the next year’s financial statements. However, the expected impact is described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IFRS 9 Financial Instruments (continued)

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.

Business model assessment

The Bank is required to determine its business model based on how it actually manages its groups of financial assets to achieve its business objective. The assessment is not made on an instrument-by-instrument basis, but on a level of aggregated portfolios and is based on observable factors such as how the bank evaluates performance, the related risks, frequency of trading of instruments etc.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest, except for default loans that the Branch will derive its cash flows mainly from execution of collaterals. Thus, the Branch expects that these will continue to be measured at amortized cost under IFRS 9. However, the Branch will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

Investments in securities are presently less significant to the Bank's Balance sheet. There is no active market for such investments and the Bank's business model will not likely lead to a classification as FVTPL.

The Bank does not presently have any equity instruments, derivative financial instruments, nor any financial liabilities classified as held for trading.

Changes to the impairment calculation

The adoption of IFRS 9 will fundamentally change the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IFRS 9 Financial Instruments (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The Bank is in the processes of establishing a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on this process, the Bank will groups its loans into Stage 1, 2, and 3, as described below:

• Stage 1: Loans where the credit risk from initial recognition has not increased significantly and loans where the credit risk has improved after a deterioration and the loan has been reclassified from Stage 2. The bank records an allowance for the 12mECL.

• Stage 2: Loan that show a significant increase in credit risk since origination, including loans where the credit risk has improved and the loan has been reclassified from Stage 3. The Bank records an allowance for the LTECLs.

• Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECLs.

When the Bank will no longer have reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced or written-off.

Impairment Assessment

- Exposure at Default

In accordance with IAS 39, the Bank takes into account incurred losses when assessing impairment of its financial assets. As a result, impairment is recognized for loans and advances to customers. For other financial assets like interbank placements, deposits with the central bank, investments in Government of Kosovo treasury bills that do not have indications of incurred losses, no impairment is recognized.

Under the expected loss model of the IFRS 9, the Bank will be required to assess the probability of default of these other assets. The Bank does not expect significant impact from this exercise due to lower credit risk of these instruments and very short term nature of some of them like the interbank placements. Other items that will be considered for impairment include undrawn credit commitments, guarantees and letter of credits, which are also presently not very material to the Bank.

- Definition of Default

Under current policies, the Bank bases the default definition on the regulatory rules of the central bank, which is 90 days past due for loans and advances to customers. This is consistent with the 90 day rebuttable presumption of IFRS 9. The bank also considers qualitative factors in accordance with risk management policies, including information from loan monitoring, difficulties of borrowers in other banks, material deterioration of borrower's financial performance etc.

- Impairment methodology

IFRS 9 requires entities to measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank is still in the process of developing a methodology that meets the requirements of IFRS 9, since this exercise is significantly complex and the cost and effort relative to the size and skills available is very significant. In addition, due to the small size of the portfolio and short history of operations, the bank foresees that weighting of probable outcomes, support by historical information and factoring of future conditions will be a statistically difficult process. Management judgement will remain a significant element in the application of the impairment methodology. The bank cannot presently estimate the impact of IFRS 9, but acknowledges that the impact of its adoption could be material given the complexity of the standard and the switch from the incurred loss to expected loss model.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.
The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15.

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. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company lease its office spaces with the total gross amount per month of EUR 10,220. Company is assessing impact of IFRS 16. The undiscounted operating lease payments under non-cancellable lease contracts are disclosed in note 27.

IFRS 17 "Insurance Contracts"
IFRS 17 is effective for annual periods beginning on or after 1 January 2021. This standard does not affect the Bank.

Amendments to IFRS 2 Share-based Payment
Classification and measurement of Share-based Payment Transactions is effective for annual periods beginning on or after 1 January 2018. This standard does not affect the Bank.

Amendments to IFRS 4 Insurance Contracts
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts is effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied first time. This standard does not affect the Bank.

Amendments to IFRS 9 "Financial Instruments"
Prepayment features with negative compensation is 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 its effective date deferred indefinitely until the research project on the equity method has been concluded. This standard does not affect the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Amendments to IAS 28 "Investments in Associates and Joint Ventures"
Long-term interests in Associates and Joint Ventures is effective for annual periods beginning on or after 1 January 2019. This standard does not affect the Bank.

Amendments to IAS 40 Investment Property
Transfers of Investment Property is effective for annual periods beginning on or after 1 January 2018. The standard does not affect the Bank.

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. The standard does not affect the Bank.

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 is effective for annual periods beginning on or after 1 January 2019. The standard does not affect the Bank.

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

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

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

Amendments to IAS 7 Statement of Cash Flows
Disclosure Initiative is effective for annual periods beginning on or after 1 January 2017 (see note 5).

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

Amendments to IFRS 12 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 12 are to be applied for annual periods beginning on or after 1 January 2017. The standard does not affect the Bank.

(t) Reclassifications

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

The amount of EUR 20,439 Euro for the year ended 31 December 2016, previously included in “Other fee and commission income” in note 21 was reclassified as a separate line in the same note named “Disbursement fee income”.

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 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Balances with Central Bank of Kosovo (see Note 7)	16,179,963	11,355,178
Cash at banks (see Note 7)	2,262,181	2,208,972
Loans and advances to costumers, net	80,948,677	54,491,314
Investments in securities	620,199	4,645,875
Guarantees in favor of customers and credit commitments	12,159,228	12,110,437
Maximum exposure to credit risk	**112,170,248**	**84,811,776**

Credit quality by class of financial assets:

31 December 2017	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo (see Note 7)	16,179,963	-	-	16,179,963
Cash at banks (see Note 7)	2,262,181	-	-	2,262,181
Loans and advances to costumers, net	78,469,513	225,365	2,253,799	80,948,677
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	**109,691,084**	**225,365**	**2,253,799**	**112,170,248**

31 December 2016	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo (see Note 7)	11,355,178	-	-	11,355,178
Cash at banks (see Note 7)	2,208,972	-	-	2,208,972
Loans and advances to costumers, net	53,058,338	1,432,976	-	54,491,314
Investments in securities	4,645,875	-	-	4,645,875
Guarantees in favor of customers and credit commitments	12,110,437	-	-	12,110,437
Maximum exposure to credit risk	**83,378,800**	**1,432,976**	**-**	**84,811,776**

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 2017**	**31 December 2016**
Neither past due nor impaired	78,469,513	53,058,338
Past due and impaired	2,253,799	-
Past due but not impaired	225,365	1,432,976
Total	**80,948,677**	**54,491,314**

	31 December 2017	**31 December 2016**
Collectively impaired	79,112,869	54,809,607
Individually impaired	3,119,643	-
Total	**82,232,512**	**54,809,607**
Less impairment	(1,283,835)	(318,293)
Loans and advances to customers, net	**80,948,677**	**54,491,314**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	**31 December 2017**	**31 December 2016**
Standard (0 days)	78,749,333	53,180,019
Standard (1-30 days)	1,519	1,502,824
Watch (31-60 days)	254,584	-
Substandard (61-90 days)	770,265	-
Doubtful (91-180 days)	45,312	-
Loss (more than 180 days)	2,304,066	-
Accrued interest	240,943	207,659
Less: Deferred disbursement fee	(133,510)	(80,895)
Total Loans at amortized cost, gross	**82,232,512**	**54,809,607**
Less: Allowance for impairment	(1,283,835)	(318,293)
Loans and advances to customers, net	**80,948,677**	**54,491,314**

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 2017	80,948,677	208,791,001	74,948,677	121,842,324	6,000,000
31 December 2016	54,491,314	197,609,163	54,491,314	143,117,849	-

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, 2017 and 2016, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2017	31 December 2016
Wholesale and retail trade	49,926,751	41,188,442
Electricity, gas, steam and air conditioning supply	12,570,000	-
Construction	9,090,686	4,847,657
Manufacturing	5,340,869	4,361,166
Accommodation and food service activities	1,372,617	1,300,858
Water, supply, sewerage and waste management and services	1,075,947	1,391,176
Individual	1,063,095	550,430
Mining and quarrying	750,938	344,894
Other services	528,263	-
Transportation and storage	248,117	234,681
Administrative and support service activities	78,880	115,533
Professional, scientific and technical activities	39,539	312,097
Information and communication	39,377	35,909
Accrued interest	240,943	207,659
Deferred revenue on disbursement fee	(133,510)	(80,895)
Total Loans at amortized cost, gross	**82,232,512**	**54,809,607**
Less: Allowance for impairment	(1,283,835)	(318,293)
Loans and advances to customers, net	**80,948,677**	**54,491,314**

The following table represents the top 5 net exposures of the bank:

Customer Name	31 December 2017	Customer Name	31 December 2016
Albi Commerce sh.p.k.	14,516,803	Albi Commerce sh.p.k.	13,655,476
Kastrati sh.p.k.	8,062,995	Kastrati sh.p.k.	7,072,389
Elkos sh.p.k.	7,609,146	Elkos sh.p.k.	9,521,650
Hidroenergji sh.p.k.	6,494,070	Alfa shpk	3,620,342
Air-energy sh.p.k.	5,932,484	Rroni Fer shpk	1,800,945

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 2017 and 2016, the Bank's financial assets and liabilities have remaining contractual maturities as follows:

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	6,590,135	7,780,647	30,977,825	29,597,832	6,002,238	-	80,948,677
Total	**18,032,279**	**7,780,647**	**31,477,788**	**29,718,068**	**6,002,238**	**7,000,000**	**100,011,020**
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	54,851	-	-	-	-	76,019
Total	**17,704,266**	**17,146,187**	**45,385,473**	**10,361,585**	-	-	**90,597,511**
Net Position	**328,013**	**(9,365,540)**	**(13,907,685)**	**19,356,483**	**6,002,238**	**7,000,000**	**9,413,509**
Cumulative net position	**328,013**	**(9,037,527)**	**(22,945,212)**	**(3,588,729)**	**2413,509**	**9,413,509**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

31 December 2016	**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	9,564,150	-	-	-	-	4,000,000	13,564,150
Investment in securities	249,993	3,525,620	752,542	117,720	-	-	4,645,875
Loans and advances to customers	1,724,536	3,056,811	18,239,833	27,280,495	4,189,639	-	54,491,314
Total	**11,538,679**	**6,582,431**	**18,992,375**	**27,398,215**	**4,189,639**	**4,000,000**	**72,701,339**
Liabilities							
Due to customers	8,068,022	2,538,105	17,121,767	3,186,452	-	-	30,914,346
Short-term borrowings	7,403,828	-	501,467	-	-	-	7,905,295
Due to Head Office	5,701,290	4,914,121	12,929,424	-	1,601,777	-	25,146,612
Other liabilities	65,802	-	-	-	-	-	65,802
Total	**21,238,942**	**7,452,226**	**30,552,658**	**3,186,452**	**1,601,777**	**-**	**64,032,055**
Net Position	**(9,700,263)**	**(869,795)**	**(11,560,283)**	**24,211,763**	**2,587,862**	**4,000,000**	**8,669,284**
Cumulative net position	**(9,700,263)**	**(10,570,058)**	**(22,130,341)**	**2,081,422**	**4,669,284**	**8,669,284**	**-**

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 2017 and 2016 are as follows:

Compared to EUR	**31 December 2017**	**31 December 2016**
1 USD	0.8338	0.9487
1 TRY	0.2200	0.2697
1 GBP	1.1271	1.1680
1 CHF	0.8546	0.9312

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2017 and 2016 as translated into EUR:

2017	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	18,348,828	93,316	-	-	-	18,442,144
Investment securities	620,199	-	-	-	-	620,199
Loans and advances to customers	80,849,287	-	99,390	-	-	80,948,677
Total	**99,818,314**	**93,316**	**99,390**	**-**	**-**	**100,011,020**
Liabilities						
Deposits from costumers	41,861,403	-	684,901	172,100	90,543	42,808,947
Short term borrowings	5,525,602	-	-	-	-	5,525,602
Due to Head Office	41,973,053	-	134,258	79,632	-	42,186,943
Other liabilities	76,019	-	-	-	-	76,019
Total	**89,436,077**	**-**	**819,159**	**251,732**	**90,543**	**90,597,511**
Net position	**10,382,237**	**93,316**	**(719,769)**	**(251,732)**	**(90,543)**	**9,413,509**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. Foreign currency risk (continued)

2016	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	13,557,937	6,213	-	-	-	13,564,150
Investment in securities	4,645,875	-	-	-	-	4,645,875
Loans and advances to customers	54,389,475	-	101,839	-	-	54,491,314
Total	**72,593,287**	**6,213**	**101,839**	**-**	**-**	**72,701,339**
Liabilities						
Customer deposits	30,098,806	-	582,908	207,554	25,078	30,914,346
Short term borrowings	7,905,295	-	-	-	-	7,905,295
Due to Head Office	24,763,328	-	300,754	82,530	-	25,146,612
Other liabilities	65,802	-	-	-	-	65,802
Total	**62,833,231**	**-**	**883,662**	**290,084**	**25,078**	**64,032,055**
Net position	**9,760,056**	**6,213**	**(781,823)**	**(290,084)**	**(25,078)**	**8,669,284**

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 note to these financial statements. Interest rate risk management policy of the bank defines the method of identification, measurement, following up and controlling the risk in the event of interest rate modification. The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. The tables below summarize the Bank's exposure to interest rate risks.

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	-	-	-	-	-	18,442,144	18,442,144
Investments in securities	-	-	499,963	120,236	-	-	620,199
Loans and advances to customers – fixed rate	6,367,437	7,257,530	29,310,245	29,597,832	6,002,238	-	78,535,282
Loans and advances to customers – floating rate	222,698	523,117	1,667,580	-	-	-	2,413,395
Total	**6,590,135**	**7,780,647**	**31,477,788**	**29,718,068**	**6,002,238**	**18,442,144**	**100,011,020**
Liabilities		-	-	-			
Deposits from costumers	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	1,931,199	14,506,234	20,876,751	300,000	-	2,159,364	39,773,548
Dues to Head Office – floating rate	160,198	273,917	806,994	1,172,286	-	-	2,413,395
Other liabilities	-	-	-	-	-	76,019	76,019
Total	**10,826,166**	**17,091,336**	**45,385,473**	**10,361,585**	**-**	**6,932,951**	**90,597,511**
Net Position	**(4,236,031)**	**(9,310,689)**	**(13,907,685)**	**19,356,483**	**6,002,238**	**11,509,193**	**9,413,509**
Cumulative net position	**(4,236,031)**	**(13,546,720)**	**(27,454,405)**	**(8,097,922)**	**(2,095,684)**	**9,413,509**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk (continued)

2016	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	-	-	-	-	-	13,564,150	13,564,150
Investments in securities	249,993	3,525,620	752,542	117,720	-	-	4,645,875
Loans and advances to customers – fixed rate	1,581,055	2,487,454	16,866,369	27,280,495	4,189,638	-	52,405,011
Loans and advances to customers – floating rate	143,481	569,357	1,373,465	-	-	-	2,086,303
Total	**1,974,529**	**6,582,431**	**18,992,376**	**27,398,215**	**4,189,638**	**13,564,150**	**72,701,339**
Liabilities							
Deposits from costumers	4,743,779	2,538,104	17,121,767	3,186,452	-	3,324,244	30,914,346
Short term borrowings	7,403,828	-	501,467	-	-	-	7,905,295
Dues to Head Office – fixed rate	2,546,775	4,344,764	11,555,960	-	1,601,775	3,011,035	23,060,309
Dues to Head Office – floating rate	143,481	569,357	1,373,465	-	-	-	2,086,303
Other liabilities						65,802	65,802
Total	**14,837,863**	**7,452,225**	**30,552,659**	**3,186,452**	**1,601,775**	**6,401,081**	**64,032,055**
Net Position	**(12,863,334)**	**(869,794)**	**(11,560,283)**	**24,211,763**	**2,587,863**	**7,163,069**	**8,669,284**
Cumulative net position	**(12,863,334)**	**(13,733,128)**	**(25,293,411)**	**(1,081,648)**	**1,506,215**	**8,669,284**	**-**

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 2017 and 2016 are as follows:

	2017		2016	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	N/a	-	N/a	-
Loans and advances to customers	N/a	6.26%	N/a	6.96%
Investment securities (HTM)	N/a	1.72%	N/a	2.09%
Liabilities				
Customer deposits	N/a	1.73%	N/a	1.44%
Short term borrowings	N/a	0.88%	N/a	1.04%
Dues to parent company	N/a	2.14%	N/a	2.84%

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:

	2017		2016	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	94,135	(94,135)	72,926	(72,926)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risks

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

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

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

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

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

(f) Capital management

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

Regulatory Capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity. The Bank's overall strategy remains unchanged from previous year. In accordance with the regulations of the Central Bank of Republic of Kosovo, the Bank should maintain a capital equivalency deposit of not less than EUR 7,000,000. The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank has met the regulatory requirements as at 31 December 2017 and 2016.

5. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2017	Cash flows	Accruals of Interest	Recognition of Dividends	31 December 2017
Interest bearing borrowings	33,051,907	14,655,421	5,217		47,712,545
Dividends payable	-	(205,549)	-	205,549	-
Total liabilities from financing activities	**33,051,907**	**14,449,872**	**5,217**	**205,549**	**47,712,545**

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 collateral. The management of the Branch is using judgment in estimating expected cash flow from the loans portfolio. Key assumptions used in the evaluation is value of collateral, as main sources of expected cash flows.

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 (CONTINUED)

(b) Fair value of financial instruments (continued)

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.

	2017		2016	
	Carrying value	Fair value Level 3	Carrying value	Fair value Level 3
Loans and advances to customers	80,948,677	81,217,475	54,491,314	54,470,878
Due to customers	37,823,754	37,982,494	30,914,346	30,781,912

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

	31 December 2017	31 December 2016
Cash on hand		
Cash on hand	564,676	712,755
Cash at banks		
Current account with Bank for Business	1,060,456	2,009,997
Current account with Raiffeisen Bank Kosovo	200,970	124,958
Current account with IS Bank AG, Germany	880,966	67,804
Current account with Head Office	119,789	6,213
Current account with CBK	9,179,963	7,355,178
	12,006,820	**10,276,905**
Cash and cash equivalents		
Restricted balances with Central Bank		
Balances with Central Bank of Kosovo (‘CBK’)	7,000,000	4,000,000
Total	**19,006,820**	**14,276,905**

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy the liquidity requirements are the deposits in EUR with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base. Balances with CBK at 31 December 2017 and 2016 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit (see note 4(e)). Investments in securities (see Note 8) are also used as capital equivalency deposits required for a branch of a foreign bank.

8. INVESTMENTS IN SECURITIES

	31 December 2017	31 December 2016
Nominal Value - Treasury Bills	**250,000**	**750,000**
Treasury Bills (price)	249,146	748,787
Amortization of discount	59	654
Carrying amount at amortized cost	**249,205**	**749,441**
Nominal Value – Bonds	370,000	3,870,000
Bonds (price)	367,432	3,876,528
Interest receivable	2,926	27,127
Amortization of discount	1,127	1,584
Amortization of premium	(491)	(8,805)
Carrying amount at amortized cost	**370,994**	**3,896,434**
Total at amortized cost	**620,199**	**4,645,875**

Investments in securities represent investments in Government Treasury Bills and Bonds classified as held to maturity and issued by the Government of the Republic of Kosovo. Treasury Bills have short maturity terms maturing by 5 December 2018, whilst bonds mature on 31 August 2020.

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2017	31 December 2016
Commercial Loans	53,929,519	40,668,980
Individual Loans	898,557	486,835
Staff Loans	67,778	70,516
Overdrafts	27,229,225	13,456,512
Accrued interest	240,943	207,659
Deferred disbursement fee	(133,510)	(80,895)
Total Loans at amortized cost, gross	**82,232,512**	**54,809,607**
Less: Allowance for impairment	(1,283,835)	(318,293)
Loans and advances to customers, net	**80,948,677**	**54,491,314**

Movements in the impairment allowance in 2017 and 2016 are composed as follows:

	2017	2016
Allowance as at 1 January	**318,293**	**597,936**
Charge for the year	965,542	(279,643)
Allowance as at 31 December	**1,283,835**	**318,293**

	2017	2016
Collective impairment	473,594	318,293
Individual impairment	810,241	-
Total impairment as of 31 December	**1,283,835**	**318,293**

10. PROPERTY AND EQUIPMENT

	Leasehold improvements	IT Equipment	Furniture, fixtures and equipment	Other Assets	Vehicles	Total
Cost						
Balance at 1 January 2016	759,652	-	150,418	46,209	49,450	**1,005,729**
Additions	2,821	188,510	10,156	850	-	**202,337**
Disposals	-	-	-	-	-	-
Balance at 31 December 2016	**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**
Accumulated depreciation						
Balance at 1 January 2016	154,546	-	45,552	20,816	10,378	**231,292**
Charge for the year	77,832	15,709	31,149	9,512	9,905	**144,107**
Balance at 31 December 2016	**232,378**	**15,709**	**76,701**	**30,328**	**20,283**	**375,399**
Charge for the year	77,894	37,702	33,400	9,928	9,890	**168,814**
Balance at 31 December 2017	**310,272**	**53,411**	**110,101**	**40,256**	**30,173**	**544,213**
Carrying amounts						
Balance at 31 December 2016	**530,095**	**172,801**	**83,873**	**16,731**	**29,167**	**832,667**
Balance at 31 December 2017	**455,639**	**135,099**	**63,039**	**15,399**	**19,277**	**688,453**

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 2016	33,792	33,792
Additions	46,637	46,637
Balance at 31 December 2016	**80,429**	**80,429**
Additions	-	-
Balance at 31 December 2017	**80,429**	**80,429**
Accumulated Amortization		
Balance at 1 January 2016	-	-
Charge for the year	23,659	23,659
Balance at 31 December 2016	**23,659**	**23,659**
Charge for the year	9,755	9,755
Balance at 31 December 2017	**33,414**	**33,414**
Carrying amounts		
Balance at 31 December 2016	**56,770**	**56,770**
Balance at 31 December 2017	**47,015**	**47,015**

12. OTHER ASSETS

	31 December 2017	31 December 2016
Prepayments	5,769	4,767
Total prepayments	**5,769**	**4,767**

13. DUE TO CUSTOMERS

	31 December 2017	31 December 2016
Current Accounts		
Individuals	2,597,839	2,166,931
Corporations	1,841,855	1,148,943
State owed entities	7,253	6,096
Correspondent banks	12,084	2,273
Non-profit organizations	238,537	-
Total current accounts	**4,697,568**	**3,324,243**
Term Deposits		
Individuals	15,886,271	11,723,606
Corporations	16,962,383	15,618,378
State owed entities	2,875,100	83,280
Non-profit organizations	2,100,000	-
Interest payable	287,625	164,839
Total term deposits	**38,111,379**	**27,590,103**
Total deposits	**42,808,947**	**30,914,346**

Term deposits bear fixed interest rates ranging from 0.5% - 3.1% as of 31 December 2017 (2016: 0.8% - 2.25%).

14. SHORT-TERM BORROWINGS

	31 December 2017	31 December 2016
TEB sh.a	3,000,000	6,000,000
Banka per Biznes - BPB	2,500,000	1,400,000
NLB Prishtina	-	500,000
Accrued interest payable	25,602	5,295
Total	**5,525,602**	**7,905,295**

The short-term borrowing with commercial banks bear interest rates ranging from 0.85% to 1.1% p.a. (2016: 0.4% to 1.1% p.a.), and have maturities ranging from 05 January 2018 to 29 August 2018 (2016: 26 September 2017).

15. DUE TO HEAD OFFICE

	31 December 2017	31 December 2016
Current accounts with Head Office	2,159,364	3,011,035
Short-term borrowings	38,396,108	20,362,983
Long-term borrowing	1,472,286	1,598,319
Interest payable	159,185	174,275
Total	**42,186,943**	**25,146,612**

The short-term borrowings from the Head Office bear interest rates ranging from 2.70% p.a. to 3.00% p.a. (2016: 2.90% p.a. to 2.95% p.a.). The long-term borrowings bear interest rates ranging from 1.00% p.a. to 2.99% p.a. (2016: 1.75% p.a. to 2.40%) and have maturities ranging from 22 January 2018 to 31 March 2022.

16. OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2017	31 December 2016
Withholding tax on salary	6,499	5,549
Pension contributions payable	4,379	2,784
Withholding tax on rent and interest	10,290	15,610
VAT payable	-	1,511
Corporate tax payable (Note 25)	-	6,990
Total	**21,168**	**32,444**

17. DEFERRED REVENUE

	31 December 2017	31 December 2016
Deferred revenue	23,816	38,375
Total	**23,816**	**38,375**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank. Other income of EUR 14,559 (2016: EUR 15,749) for the year ended 31 December 2017 represent the value of deferred revenue recognized as income from asset donations.

18. OTHER LIABILITIES

	31 December 2017	31 December 2016
Other accruals	54,851	36,421
Provision for off-balance sheet items	33,870	29,381
Total	**88,721**	**65,802**

19. SHARE CAPITAL

As at December 31, 2017, the share capital amounted to EUR 10,000 thousand (2015: EUR 10,000 thousand).

20. NET INTEREST INCOME

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income from loans and advances to customers	4,282,357	3,380,687
Interest income from securities	44,963	150,043
Interest income from deposits in local banks	483	-
Total interest income	**4,327,803**	**3,530,730**
Interest expenses		
Interest expenses for deposits	(519,209)	(311,382)
Interest expenses for borrowings	(727,760)	(728,351)
Total interest expenses	**(1,246,969)**	**(1,039,733)**
Net interest income	**3,080,834**	**2,490,997**

21. NET FEE AND COMMISION INCOME

	Year ended 31 December 2017	Year ended 31 December 2016
Fees for letter of guarantees	137,333	86,109
Disbursement fee income	68,157	20,439
Other fee and commission income	99,946	87,095
Total fee and commission income	**305,436**	**193,643**
Fee and commission expense	(13,225)	(29,710)
Net fee and commission income	**292,211**	**163,933**

22. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2017	Year ended 31 December 2016
Foreign exchange gain	172,467	7,805
Foreign exchange loss	(20,209)	(64,270)
Net foreign exchange gain\(loss)	**152,258**	**(56,465)**

23. OTHER OPERATING EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016
Fees paid to CBK	180,861	119,674
Consultancy and auditing	130,712	123,780
Rent	122,637	122,637
Other tax and fee expenses	95,491	97,470
Payments system expenses	88,367	86,443
Communication expenses	74,922	50,592
Utilities and Fuel	34,205	28,532
Representation expenses	29,378	15,885
Maintenance and repair	26,426	20,502
Memberships	14,087	16,235
Security expenses	12,810	11,449
Operating lease expenses for vehicle	1,399	1,200
Other expenses	33,482	20,421
Total other operating expenses	**844,777**	**714,820**

24. EMPLOYEE BENEFITS

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries	772,967	691,107
Welfare and pension contribution expenses	84,318	99,025
Health insurance	9,097	7,826
Other employee compensations	16,365	19,196
Total employee benefits	**882,747**	**817,154**

At 31 December 2017, the Bank had 30 employees (2016: 24).

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

25. INCOME TAX

The income tax expense for the years ended 31 December 2017 and 31 December 2016 is composed of the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax expense	-	(122,269)
Deferred tax	(101,853)	-
Total income tax	**(101,853)**	**(122,269)**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2017	Year ended 31 December 2016
Opening	(6,990)	6,250
Paid	6,990	-
Current tax expense	-	(122,269)
Addition during the year Prepaid tax	12,840	2,324
Utilization of losses carried forward	-	106,705
Tax prepaid/payable	**12,840**	**(6,990)**

25. INCOME TAX (CONTINUED)

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 has recognized a deferred tax liability as of 31 December 2017 arising from temporary differences.

	Year ended 31 December 2017	**Year ended 31 December 2016**
Current tax expense	-	6,990
Deferred tax liability	101,853	-
Total	**101,853**	**6,990**

The table below represents the calculation of corporate income tax for the year ended 31 December 2017 and 31 December 2016:

	Effective Tax rate	**Year ended 31 December 2017**	**Effective Tax rate**	**Year ended 31 December 2016**
Profit before tax		**674,701**		**1,207,554**
Tax calculated at 10%	10%	67,470	10%	120,720
Tax effect of interest earned from investments in Kosovo Governments securities	-10%	(4,496)	-10%	(15,004)
Tax effect of additional impairment for CBK provisioning	-10%	(166,573)		
Tax effect of non-deductible expenses	10%	7,266	10%	806
Tax effect of exchange loss		-		5,646
Tax effect of the accrued interest on term deposits	10%	31,614	10%	10,100
Total corporate income tax expenses/(benefit)		**(64,720)**		**122,269**
Deferred tax asset (utilized)/recognized		**-**		**(106,705)**
Deferred tax liability from temporary differences utilized/(recognized)		**166,573**		**-**
Utilizing of CIT advance payment		**-**		**(8,574)**
Total tax charge		**101,853**		**6,990**

26. 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 2017 are as follows:

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

Related party balances and transactions as at 31 December 2017 and 31 December 2016 are composed as follows:

	31 December 2017	31 December 2016
Due from Head Office		
Current accounts with Head Office	119,789	6,213
Due to Head Office		
Current accounts with Head Office	2,159,364	3,011,035
Short term borrowing	38,396,108	20,362,983
Long term borrowings	1,472,286	1,598,319
Other payables to Head office	-	-
Interest payable related to short and long term borrowing	159,185	174,275
Deferred revenue from donated assets	23,816	38,375
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	880,966	67,804
Due to other related parties		
Due to Is Bank AG, Germany	-	-

	Year ended 31 December 2017	Year ended 31 December 2016
Income generated from Head Office		
Interest income from Head Office	-	-
Other income from donated assets	14,559	15,749
Expense incurred with related parties		
Management remuneration	253,275	261,648
Interest expense for short-term borrowings	662,339	661,241

27. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	31 December 2017	31 December 2016
Guarantees in favor of customers	9,755,015	9,318,949
Loans approved but not yet disbursed	15,943,903	43,154,834
Undrawn credit commitments	2,404,213	2,791,488
Total	**28,103,131**	**55,265,271**

Non-cancelable lease commitments	31 December 2017	31 December 2016
Less than one year	30,659	30,659
Total	**30,659**	**30,659**

Legal

In 2017, 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 2017 (2016:Nil).

28. SUBSEQUENT EVENTS

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