TURKIYE IS BANKASI A.S. – DEGA NË KOSOVË

Financial Statements as at and for the year ended 31 December 2013

CONTENTS

Statement of financial position as at 31 December 2013
(Amounts are expressed in EUR)

	Notes	31 December 2013	31 December 2012
Assets			
Current assets			
Cash and cash equivalents	**5**	7,249,851	7,004,755
Prepayments and other receivables	**6**	43,099	481
Investment in securities	**7**	1,446,296	-
Loans and advances to customers	**8**	3,230,219	-
Property and equipment	**9**	292,242	320,772
Deferred tax asset	**21**	57,117	3,216
Total assets		**12,318,824**	**7,329,224**
Liabilities			
Deposits from customers	**10**	318,784	5,455
Short-term borrowings	**11**	4,150,000	-
Due to the parent company	**12**	336,045	368,573
Current and other tax payables	**13**	4,306	29,217
Other liabilities	**14**	8,568	29,127
Total liabilities		**4,817,703**	**432,372**
Shareholder's equity			
Share capital		8,093,000	7,000,000
Accumulated losses		(591,879)	(103,148)
Total shareholder's equity		**7,501,121**	**6,896,852**
Total liabilities and shareholder's equity		**12,318,824**	**7,329,224**

These Financial Statements prepared by Deloitte Kosova sh.p.k. were approved on 26 March 2014 by:

Işıl Dilmen Düzgünçınar
Sub Manager
Turkiye Is Bankasi A.S. – Branch in Kosovo

The accompanying notes from 1 to 33 to the Financial Statements form an integral part of these Financial Statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013
(Amounts are expressed in EUR)

	Notes	Year ended 31 December 2013	Period 19 November -31 December 2012
Interest income		19,527	-
Interest expense		(8,027)	-
Net interest income	**15**	**11,500**	**-**
Fee and commission income		21,273	-
Fee and commission expense		(8,808)	-
Net fee and commission income	**16**	**12,465**	-
Net foreign exchange gain	**17**	4,158	5,523
Interest income from investments on T-bills	**18**	1,366	-
Total operating income		**29,489**	**5,523**
Expenses			
Loan loss provisions	**8**	(33,476)	**-**
Other operating expenses	**19**	(247,261)	(109,134)
Employee Benefits	**20**	(254,866)	-
Depreciation expenses	**9**	(36,518)	(2,753)
Total expenses		**(572,121)**	**(111,887)**
Loss before tax		**(542,632)**	**(106,364)**
Income tax	**21**	53,901	3,216
Net loss for the year		**(488,731)**	**(103,148)**

The accompanying notes from 1 to 33 to the Financial Statements form an integral part of these Financial Statements.

Statement of changes in equity for the year ended 31 December 2013
(Amounts are expressed in EUR)

	Share capital	Accumulated losses	Total shareholder's equity
Balance at 19 November 2012	**-**	**-**	**-**
Total comprehensive loss for the period			
Net loss for the period	-	(103,148)	(103,148)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	**-**	**(103,148)**	**(103,148)**
Transactions with owners, recognized directly in equity	-	-	-
Contributions by and distributions to owners			
Issue of shares	7,000,000	-	7,000,000
Balance at 31 December 2012	**7,000,000**	**(103,148)**	**6,896,852**
Balance at 1 January 2013	**7,000,000**	**(103,148)**	**6,896,852**
Total comprehensive loss for the year			
Net loss for the year	-	(488,731)	(488,731)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	**-**	**(488,731)**	**(488,731)**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners			
Paid in capital from Is Bankasi Turkiye A.S.	1,093,000	-	1,093,000
Balance at 31 December 2013	**8,093,000**	**(591,879)**	**7,501,121**

The accompanying notes from 1 to 33 to the Financial Statements form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2013
(Amounts are expressed in EUR)

	Notes	Year ended 31 December 2013	Period 19 November 31 December 2012
Cash flows from (used in) operating activities			
Loss before tax		(542,632)	(106,364)
Adjustments for:			
Depreciation	**9**	36,518	2,753
Loan loss reserve	**8**	33,476	-
Interest income	**15,18**	(20,894)	-
Interest expense	**15**	8,027	-
Increase/(Decrease) in operating assets and liabilities			
Balances with Central Bank	**5**	354,045	(6,999,300)
Prepayments and other receivables	**6**	(42,618)	(482)
Loans and advances to customers	**8**	(3,247,586)	-
Due to the parent company	**12**	(32,528)	403,155
Deposits from customers	**10**	313,329	-
Current tax payables and other liabilities	**13,14**	(46,547)	29,217
Interest paid		(6,950)	-
Interest received		3,419	-
Net cash used in operating activities		**(3,190,941)**	**(6,671,021)**
Cash flows (used in)/from investing activities			
Investment in securities held to maturity	**7**	(1,444,930)	-
Purchases of property, plant and equipment	**9**	(7,988)	(323,524)
Net cash used in investing activities		**(1,452,918)**	**(323,524)**
Cash flows from (used in) financing activities			
Short-term borrowing	**11**	4,150,000	-
Paid in capital		1,093,000	7,000,000
Net cash from financing activities		**5,243,000**	**7,000,000**
Net increase in cash and cash equivalents		**599,141**	**5,455**
Cash and cash equivalents at the beginning of the year	**5**	**5,455**	**-**
Cash and cash equivalents at the end of the year	**5**	**604,596**	**5,455**

The accompanying notes from 1 to 33 to the Financial Statements form an integral part of these Financial Statements.

1. REPORTING ENTITY

Turkiye Is Bankasi A.S. – Dega në Kosovë ("the Bank" or "the Branch") is a branch of Turkiye Is Bankasi A.S., a Turkish entity. The Bank operates as a commercial and savings bank to all categories of customers within Kosovo.
The Bank operates under a banking licence 011 issued by the Central Bank of the Republic of Kosovo. The Branch was registered at the Ministry of Trade and Industry on November 19, 2012 with business number 70899345 and fiscal number 600886131.
During 2013 year the Bank operates with only one office located at UÇK 43 in Pristina.
As at 31 December 2013 the company has 8 employees (2012:5).

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

(Amounts are expressed in EUR, unless otherwise stated)

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 recognised in profit or loss.
The foreign currencies the Bank deals with are predominantly United States Dollars (USD), Turkish Lira (TRY), Swiss Franc (CHF) and Great Britain Pound (GBP). The exchange rates used for conversion of foreign currency values at 31 December 2013 and 2012 are as follows:

Compared to EUR	**31 December 2013**	**31 December 2012**
1 USD	0.7251	0.7585
1 TRY	0.3377	0.4240
1 GBP	1.1994	N/A
1 CHF	0.8145	N/A

(b) Interest income and expense

Interest income and expense are recognised 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 amortised 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 recognised 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 recognised 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 recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income tax (continued)

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

(e) Operating leases

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

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises 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 recognised 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;

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

(iii) Derecognition

Financial assets
The Bank derecognises 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 derecognised) 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 recognised in OCI is

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Assets and financial liabilities (continued)

(iii) Derecognition (continued)

recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.
The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or 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) Amortised cost measurement

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

(vi) Fair value measurement

Policy applicable from 1 January 2013

'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 maximise the use of relevant observable inputs and minimise 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 recognised 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 recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.
When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f)Financial Assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

Policy applicable before 1 January 2013 (continued)

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument.

In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

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. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate.

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.

(vii) Identification and measurement of impairment

Impairment of loans and advances

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

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

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

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

(g) Loans and advances

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 amortised 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) Mandatory liquidity reserves

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the EUR deposits with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base. As the respective liquid assets are not available to finance the Bank's day to day operations, they have been excluded from cash and cash equivalents for the purposes of the cash flow statement.

(k) Deposits and borrowings

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

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

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

(l) Provisions

A provision is recognised 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 recognised as finance cost.

(m) Employee benefits

i. Mandatory social security contributions

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

ii. Paid annual leave

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

(Amounts are expressed in EUR, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Property and equipment

(i) Recognition and measurement

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

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

When parts of an item of property, plant 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, plant 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 recognised 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 recognised in profit or loss as incurred.

(iii) Depreciation

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

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

• Furniture and office equipment	20%
• Other fixed assets	20%

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

(o) New standards 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 2013, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

(i) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9) (continued)

specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, early application of IFRS 9 is permitted.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

(***ii) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)***

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.
The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.
Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia 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 inter-bank placements and items in the course of collection. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

Loans and advances to customers
Loans are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to their underlying interest rates, which approximate market rates.

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

Deposits and borrowings
The time deposits and short term deposits have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying interest rates, which approximate market rates.

4. FINANCIAL RISK MANAGEMENT

Risk management process and the functions involved in the process is one of the primary responsibilities of the Board of Directors. 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 recommendations of Risk Management Department and issued by the Board of the Directors and written standards which contains risk policies and implemented by executive units.

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

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risks

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

(a) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investment. Credit risk is defined as the risk of the failure to comply with the requirements or failing to fulfill its obligations partially or totally of the counter side of the transaction contract with the Bank. The methodology and responsibilities of the credit risk management, controlling and monitoring and the framework of credit risk limitations specified with the credit risk policy. The Bank defines, measures and manages credit risk of all products and activities. Board of Directors review the Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Key Management is responsible for the implementation of credit risk policies which are approved by Board of Directors.
As a result of loans and credit risks analysis all findings are reported to Board of Directors and Key Management on a regular basis. In addition to transaction and company based credit risk assessment process, monitoring of credit risk also refers to an approach with monitoring and managing the credit as a whole maturity, sector, security, geography, currency, credit type and credit rating.

In the Bank's credit risk management, along the limits as 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 prevents risk concentration on particular sectors. Excess risk limits up to legal requirements and boundaries limits are considered as an exception. The Board of Directors has the authority in exception process. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Key Management and Board of Directors.
The Bank uses credit decision support systems which are created for the purpose of credit risk management, lending decisions, controlling the credit process and credit provisioning. The consistency of the credit decision support systems with the structure of the Bank's activities, size and complexity is examined continuously by internal systems. Credit decision support systems contains the Risk Committee assessment and approval of Board of Directors.

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Maximum Credit exposure
Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2013 and 31 December 2012 are as follows:

	31-Dec-2013	31-Dec-2012
Loans and advances to customers, net	3,230,219	-
Current account with Banks	243,209	
Investments in securities	1,446,296	-
Financial guarantees	1,947,650	-
Letters of credit	500,000	-
Maximum exposure to credit risk	**7,367,374**	**-**

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

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

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

Loans and advances to customers, net	**31-Dec-2013**	**31-Dec-2012**
Neither past due nor specifically impaired	3,230,219	-
Past due but no specifically impaired	-	-
Total	**3,230,219**	**-**

The aging analysis of credit risk exposure is as follows:

Category (Ageing)	**31-Dec-2013**	**31-Dec-2012**
Standard (0 - 30 days past due)	3,263,695	-
Special Mention (31 - 60 days past due)	-	-
Substandard (61 - 90 days past due)	-	-
Doubtful (91 - 180 days past due)	-	-
Loss (over 181 days past due)	-	-
Total Loans	**3,263,695**	**-**
Less: Provision for loan losses	(33,476)	-
Total Loans, Net	**3,230,219**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

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

	31-Dec-2013	**31-Dec-2012**
Property, plant and equipment	10,904,500	
Financial assets	-	-
Other	-	-
Total	**10,904,500**	-

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.
Liquidity risk may occur as a result of funding long-term assets with short-term resources. Care is taken to maintain the consistency between the maturities of assets and liabilities; 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 it 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 the Bank's reputation. Liquidity Risk Management is handled in collaboration and close supervision of Treasury Group Department in Head Office.

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specific	Total
Assets							
Cash and balances with Central Bank	604,596	-	-	-	-	6,645,255	7,249,851
Investment securities	-	-	1,446,296	-	-	-	1,446,296
Loans and advances to customers	41,125	52,188	977,874	1,749,695	409,337	-	3,230,219
Property and equipment	-	-	-	-	-	292,242	292,242
Prepayments and other receivables	43,099	-	-	-	-	-	43,099
Deferred tax asset	-	-	-	-	-	57,117	57,117
Total assets	**688,820**	**52,188**	**2,424,170**	**1,749,695**	**409,337**	**6,994,614**	**12,318,824**
Liabilities							
Deposits from customers	318,784	-	-	-	-	-	318,784
Due to banks	-	4,150,000	-	-	-	-	4,150,000
Due to Head Office	336,045	-	-	-	-	-	336,045
Accruals and other liabilities	12,874	-	-	-	-	-	12,874
Shareholder's equity	-	-	-	-	-	7,501,223	7,501,121
Total liabilities and equity	**667,703**	**4,150,000**	**-**	**-**	**-**	**7,501,223**	**12,318,824**
Net Position	**21,117**	**(4,097,812)**	**2,424,170**	**1,749,695**	**409,337**	**(506,624)**	**-**
Cumulative net position	**21,117**	**(4,076,578)**	**(1,652,408)**	**97,287**	**506,624**	**-**	**-**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at 31 December 2012, the Bank's assets, liabilities and shareholder's equity have remaining maturities as follows:

2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specific	Total
Assets							
Cash and balances with Central Bank	5,455	-	-	-	-	6,999,300	7,004,755
Investment securities	-	-	-	-	-	-	-
Loans to customers	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	320,772	320,772
Prepayments and other receivables	481	-	-	-	-		481
Deferred tax assets	-	-	-	-	-	3,216	3,216
Total assets	**5,936**	**-**	**-**	**-**	**-**	**7,323,288**	**7,329,224**
Liabilities							
Deposits from customers	5,455	-	-	-	-	-	5,455
Short term borrowings	-	-	-	-	-	-	-
Due to the parent company	368,573	-	-	-	-	-	368,573
Accruals and other liabilities	58,344	-	-	-	-	-	58,344
Shareholder's equity	-	-	-	-	-	6,896,852	6,896,852
Total liabilities and equity	**432,372**	**-**	**-**	**-**	**-**	**6,896,852**	**7,329,224**
Net Position	**(426,436)**	**-**	**-**	**-**	**-**	**426,436**	**-**
Cumulative net position	**(426,436)**	**(426,436)**	**(426,436)**	**(426,436)**	**(426,436)**	**-**	**-**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk

i. Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosovo guidelines and 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 following table presents the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2013 as translated into EUR:

2013	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	7,022,979	3,736	199,046	19,707	4,383	7,249,851
Investment securities	1,446,296	-	-	-	-	1,446,296
Loans to customers	3,230,219	-	-	-	-	3,230,219
Prepayments and other receivables	43,099	-	-	-	-	43,099
Property and equipment	292,242	-	-	-	-	292,242
Deferred tax asset	57,117	-	-	-	-	57,117
Total assets	**12,091,952**	**3,736**	**199,046**	**19,707**	**4,383**	**12,318,824**
Liabilities						
Customer deposits	301,955	-	16,829	-	-	318,784
Due to banks	4,150,000	-	-	-	-	4,150,000
Due to Head Office	82,698	-	253,337	10		336,045
Accruals and other liabilities	12,874	-	-	-	-	12,874
Shareholder's equity	7,501,121	-	-	-	-	7,501,121
Total liability and equity	**12,048,750**	**-**	**270,166**	**10**	**-**	**12,318,824**
Net position	**43,202**	**3,736**	**(71,120)**	**19,697**	**4,383**	**-**
Cumulative net position	**43,202**	**46,939**	**(24,080)**	**(4,383)**	**-**	

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

i. Foreign currency risk (continued)

The following table presents the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2012 as translated into EUR:

2012	EUR	TRY	USD	GBP	CHF	Total
Assets						
Cash and balances with Central Bank	7,004,755					7,004,755
Investment securities	-					-
Loans to customers	-					-
Property and equipment	320,772					320,772
Other assets	3,697					3,697
Total assets	**7,329,224**	**-**	**-**	**-**	**-**	**7,329,224**
Liabilities						
Customer deposits	5,455	-	-	-	-	5,455
Due to the parent comapny	93,638	274,935	-	-	-	368,573
Accruals and other liabilities	58,344	-	-	-	-	58,344
Shareholder's equity	6,896,852	-	-	-	-	6,896,852
Total liability and equity	**7,054,289**	**274,935**	**-**	**-**	**-**	**7,329,224**
Net position	**274,935**	**(274,936)**	**-**	**-**	**-**	**0**
Cumulative net position	**-**	**-**	**-**	**-**	**-**	**-**

(Amounts are expressed in EUR, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2013 and 31 December 2012 is as follows:

	2013		**2012**	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	-	-	-	-
Loans and advances to customers	-	8.2%	-	-
Investment securities (HTM)	-	-	-	-
Liabilities				
Customer deposits	-	-	-	-
Short term borrowings	-	0.9%	-	-

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 ofinancial position) is as follows:

	2013		**2012**	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Estimated Profit (loss) effect	32,500	(32,500)	-	-

(d) 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 behaviour. 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 consisted and are formed of occur by execution of identification, definition, measurement, analysis, monitoring of operational risk, providing and reporting the necessary control related to monitoring the progress of our country and the 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 uses that 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 same as operational risks that occurred in the Bank, are monitored on a regular basis by the Department of Risk Management and reported periodically to the Risk Committee and the Board of Directors.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) 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 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 complied with all internally and externally imposed capital requirements.

(Amounts are expressed in EUR, unless otherwise stated)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at the end of the reporting period consist of cash on hand and at banks and balances with the Central Bank of Kosovo. As at 31 December 2013 and 2012 cash and cash equivalents were as follows:

	31 December 2013	31 December 2012
Cash on hand and at banks		
Cash on hand	361,387	5,455
Current account in Raiffeisen Bank Kosovo	239,473	-
Nostro account with parent company	3,736	-
Cash and cash equivalents	**604,596**	**5,455**
Restricted blances with Central Bank		
Balances with Central Bank of Kosova	6,645,255	6,999,300
Total	**7,249,851**	**7,004,755**

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

6. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables as at 31 December 2013 and 31 December 2012 consisted of the following:

	31 December 2013	31 December 2012
Prepayments	39,349	-
Other receivables	-	481
Corporate income tax prepayment	3,750	-
Total	**43,099**	**481**

7. INVESTMENT IN SECURITIES

Investments in securities as at 31 December 2013 and 31 December 2012 are composed as presented below:

	31 December 2013	31 December 2012
Government T-Bills	1,444,930	-
Interest receivables	1,366	-
Total	**1,446,296**	-

Investment in securities represent investments in two Government Treasury Bills recognized as held to maturity issued from the Government of the Republic of Kosovo on 10 December 2013. The nominal values of the treasury bills as at 31 December 2013 are EUR 1,000,000 and EUR 470,000 (2012:0) while the annual yield is set at 1.72%. The Government T-Bills mature on 10 December 2014.

(Amounts are expressed in EUR, unless otherwise stated)

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2013 and 31 December 2012 are composed as follows:

	31 December 2013	31 December 2012
Corporate commercial loans	2,500,000	-
Retail	-	-
Overdrafts	747,586	-
Accrued interest	16,109	-
Less loan loss provisions	(33,476)	-
Net Loans and advances to customers	**3,230,219**	**-**

(Amounts are expressed in EUR, unless otherwise stated)

9. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2013 and 2012 are composed as follows:

Description	**Leasehold improvements**	**Furniture and office equipment**	**Other fixed assets**	**Total**
Cost				
Balance at 19 November 2012	-	-	-	-
Additions	294,538	9,951	19,036	**323,525**
Disposals	-	-	-	-
Balance at 31 December 2012	**294,538**	**9,951**	**19,036**	**323,525**
Accumulated depreciation				
Balance at 19 November 2012	-	-	-	-
Charge for the year	2,270	166	317	**2,753**
Disposals	-	-	-	-
Balance at 31 December 2012	**2,270**	**166**	**317**	**2,753**
Net Balance at 31 December 2012	**292,268**	**9,785**	**18,719**	**320,772**
Cost				
Balance at 1 January 2013	294,538	9,951	19,036	**323,525**
Additions	-	3,220	4,768	**7,988**
Disposals	-	-	-	-
Balance at 31 December 2013	**294,538**	**13,171**	**23,804**	**331,513**
Accumulated depreciation				
Balance at 1 January 2013	2,270	166	317	**2,753**
Charge for the year	29,454	2,503	4,561	**36,518**
Disposals	-	-	-	-
Balance at 31 December 2013	**31,724**	**2,669**	**4,878**	**39,271**
Net Balance at 31 December 2013	**262,814**	**10,502**	**18,926**	**292,242**

(Amounts are expressed in EUR, unless otherwise stated)

10. DEPOSITS FROM CUSTOMERS

Deposits from customers as at 31 December 2013 and 2012 are composed as follows

	31 December 2013	31 December 2012
Individuals	189,591	5,455
Corporations	129,193	-
Total	**318,784**	**5,455**

Deposits from customers represent current accounts in EUR and USD of individuals and corporations.

11. SHORT-TERM BORROWINGS

Short term borrowings as at 31 December 2013 and 31 December 2012 are composed as follows:

	31 December 2013	31 December 2012
IS Bank AG	4,150,000	-
Total	**4,150,000**	**-**

The short-term borrowings represents a fixed term deposit from Is Bank AG of EUR 4,150,000 as at 31 December 2013 with annual interest rate of 0.95%, maturing on 20 January 2014.

12. DUE TO THE PARENT COMPANY

Due to the parent company as at 31 December 2013 and 31 December 2012 are composed as follows:

	31 December 2013	31 December 2012
Due to Is Bankasi Turkiye A.S.	-	293,596
Vostro account with parent company	336,045	74,977
Total	**336,045**	**368,573**

13. CURRENT AND OTHER TAXES PAYABLE

Current and other taxes payable as at 31 December 2013 and 31 December 2012 are composed as follows:

	31 December 2013	31 December 2012
WHT tax on salary	3,160	-
Pension contributions payable	820	-
WHT on rent, interest and non-residents	326	7,044
VAT payable	-	22,173
Total	**4,306**	**29,217**

(Amounts are expressed in EUR, unless otherwise stated)

14. OTHER LIABILITIES

Other liabilities for the year ended 31 December 2013 and 31 December 2012 are composed as follows:

	31 December 2013	31 December 2012
Office rent payable	-	21,677
Interest payable	1,077	-
Other accruals	7,492	7,450
Total	**8,569**	**29,127**

15. NET INTEREST INCOME

Net interest income for the year ended 31 December 2013 and 31 December 2012 is composed as follows:

	Year ended 31 December 2013	Period 19 November-31 December 2012
Interest income		
Interest income from loans	15,424	-
Interest income from overdrafts	4,104	-
Total interest income	**19,527**	**-**
Interest expenses		
Interest expenses from borrowings	(8,027)	-
Total interest expenses	**(8,027)**	**-**
Net interest income	**11,500**	**-**

16. NET FEE AND COMMISION INCOME

Net fee and commission income for the year ended 31 December 2013 and 31 December 2012 is composed as follows:

	Year ended 31 December 2013	Period 19 November-31 December 2012
Fee and commission income	21,273	-
Fee and commission expense	(8,808)	-
Net fee and commission income	**12,465**	**-**

(Amounts are expressed in EUR, unless otherwise stated)

17. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain for the year ended 31 December 2013 and 31 December 2012 are composed as follows:

	Year ended 31 December 2013	Period 19 November- 31 December 2012
Foreign exchange gain	4,556	5,702
Foreign exchange loss	(398)	(179)
Net foreign exchange gain/(loss)	**4,158**	**5,523**

18. NET FINANCIAL INCOME

Net financial income for the year ended 31 December 2013 and 31 December 2012 is composed as follows:

	Year ended 31 December 2013	Period 19 November 31 December 2012
Interest income from government T-bills	1,366	-
Total	**1,366**	**-**

19. OTHER OPERATING EXPENSES

Other operating expenses for the period ended 31 December 2013 and 31 December 2012 are composed as follows:

	Year ended 31 December 2013	Period 19 November 31 December 2012
Consultancy and auditing	65,874	5,640
Rent	65,363	21,677
Deposit insurance expenses	21,035	-
Other expenses	28,818	69,427
Swift charges	16,005	-
Utilities and fuel	13,895	2,040
Memberships	12,050	-
Operating lease expenses for vehicle	11,400	1,552
CBK and other local fees	6,390	-
Maintenance and repair	1,011	910
Representation expenses	5,420	703
Withholding tax on non-resident services	-	7,044
Other accrued expenses	-	1,141
Total	**247,261**	**109,134**

Other expenses in 2012 represent the expenses incurred for the opening of the Bank.

(Amounts are expressed in EUR, unless otherwise stated)

20. EMPLOYEE BENEFITS

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

	Year ended 31 December 2013	**Period 19 November 31 December 2012**
Salaries	213,445	-
Welfare and pension contribution expenses	39,516	-
Health insurance	1,011	-
Other employee compensations	894	-
Total	**254,866**	**-**

21. INCOME TAX EXPENSE

The income tax is composed of the corporate income tax for the year ended 31 December 2013 and 31 December 2012. Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until such time as the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Kosovo tax laws and regulations are subject to interpretations by the tax authorities.
The income tax expense for the year ended 31 December 2013 and for the period ended 31 December 2012 is calculated as follows:

	Year ended 31 December 2013	**Period 19 November 31 December 2012**
Current tax expense	-	-
Deferred tax income	53,901	3,216
Total	**53,901**	**3,216**

Effective tax rate

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

	Year ended 31 December 2013	**Period 19 November 31 December 2012**
Loss before tax	(542,632)	(106,364)
Tax calculated at tax rate 10%	(54,263)	(10,636)
Tax effect of non-deductible expenses	362	7,421
Total taxable profit for tax purposes	**(53,901)**	**(3,216)**
Deferred tax asset recognized	**53,901**	**3,216**
Total tax charge	**-**	**-**

(Amounts are expressed in EUR, unless otherwise stated)

22. RELATED PARTY TRANSACTIONS

Related party balances as at 31 December 2013 and 31 December 2012 is composed as follows:

	31 December 2013	31 December 2012
Dues from parent company:		
Nostro account with parent company	3,736	-
Dues to parent company		
Vostro account with parent company	336,045	74,977
Other payable to parent company	-	293,596
Due to IS Bank AG - Germany	4,150,000	-
Management remuneration	161,824	-

23. CONTINGENCIES AND COMMITMENTS

Guarantees and letters of credit	31 December 2013	31 December 2012
Guarantees in favour of customers	1,947,650	-
Letters of credit issued to customers	500,000	-
Total	**2,447,650**	**-**

Guarantees issued in favour of customers are guaranteed by mortgages or fully cash collateralized.

Other	31 December 2013	31 December 2012
Loans approved but not disbursed	-	-
Unused balance of overdraft	2,414	-
Total	**2,450,064**	**-**

Lease commitments	31 December 2013	31 December 2012
Less than one year	63,297	63,297
Between one and five years	316,485	316,485
Above five years	152,968	216,265
Total	**532,750**	**596,047**

Legal

During the year ended 31 December 2013 the Bank has no outstanding legal claims and litigation and consequently the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2013 (2012:Nil).

24. SUBSEQUENT EVENT

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