Banka Kombëtare Tregtare Sh.a. - Kosova Branch

Financial statements

for the year ended 31 December 2014

(with independent auditors' report thereon)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and management of Banka Kombëtare Tregtare SH.A. – Kosova Branch

We have audited the accompanying financial statements of Banka Kombëtare Tregtare Sh.a. – Kosova Branch (the "Bank"), which comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Kosova sh.p.k.

Deloitte Kosova sh.p.k.

February 24, 2015

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

	Notes	31 December 2014	31 December 2013
Assets			
Cash and balances with Central Bank	6	36,387,581	43,231,397
Balances with banks	6	414,594	150,162
Available for Sale Securities	7	49,431,610	5,454,196
Due from Head Office	22	29,926,605	69,429,353
Loans to customers, net	8	124,076,446	96,052,859
Property and equipment	9	3,425,078	3,934,046
Intangible assets	10	128,249	158,610
Other assets	11	1,892,257	1,630,626
Total assets		**245,682,420**	**220,041,249**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	12	212,487,359	195,659,476
Due to banks	13	10,003	11,970
Deferred tax liabilities	24	875,190	704,553
Accruals and other liabilities	14	949,296	273,580
Borrowings	15	10,000,000	5,000,000
Total liabilities		**224,321,848**	**201,649,579**
Shareholder's equity			
Share capital	16	17,000,000	17,000,000
Accumulated profit from previous years		1,391,670	1,324,924
Profit for the year		3,024,604	66,746
Fair value reserve		(55,702)	-
Total shareholder's equity		**21,360,572**	**18,391,670**
Total liabilities and shareholder's equity		**245,682,420**	**220,041,249**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 41.

The financial statements were authorised for release by the Board of Directors on January 27, 2015 and signed on its behalf by:

Abdurrahman Balkiz
Country Manager

Rudin Lleshaj
Head of Operations & HR Group

Statement of profit or loss and other comprehensive income for the year ended 31 December 2014
(in EUR)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest			
Interest income	**17**	14,163,736	12,435,735
Interest expense	**18**	(3,557,109)	(5,473,739)
Net interest margin		**10,606,627**	**6,961,996**
Non-interest income, net			
Fees and commissions, net	**19**	2,483,818	2,148,676
Foreign exchange revaluation gain, net		496	11
Loss from FX trading activities, net		(110,021)	(47,478)
Other income, net		(19,589)	1,310
Total non-interest income, net		**2,354,704**	**2,102,519**
Operating expenses			
Personnel expenses	**20**	(3,506,230)	(3,067,293)
Administrative expenses	**21**	(3,894,968)	(3,499,921)
Depreciation and amortization	**9,10**	(1,066,875)	(1,285,645)
Total operating expenses		**(8,468,073)**	**(7,852,859)**
Loan impairment expense	**8**	(1,299,175)	(920,622)
Profit before income tax		**3,194,083**	**291,034**
Income Tax	**24**	(170,637)	(224,288)
Profit for the year		**3,023,446**	**66,746**
Foreign currency translation differences		1,158	-
		3,024,604	**66,746**
Revaluation of available for sale securities, net of income tax		(55,702)	-
Total comprehensive income for the year		**2,968,902**	**66,746**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 41.

Statement of changes in equity for the year ended 31 December 2014
(in EUR)

	Share Capital	Fair Value Reserve	Retained earnings	Total
Balance at 1 January 2013	**12,000,000**	**-**	**1,324,924**	**13,324,924**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital	5,000,000	-	-	5,000,000
Total transactions with owners recorded in equity	**5,000,000**	**-**	**-**	**5,000,000**
Total comprehensive income for the year				
Profit for the year	-	-	66,746	66,746
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**66,746**	**66,746**
Balance at 31 December 2013	**17,000,000**	**-**	**1,391,670**	**18,391,670**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	-	-	-	-
Increase in share capital	-	-	-	-
Total transactions with owners recorded in equity	**-**	**-**	**-**	**-**
Total comprehensive income for the year				
Profit for the year	-	-	3,024,604	3,024,604
Revaluation of available for sale securities, net of income tax	-	(55,702)	-	(55,702)
Total comprehensive income for the year	**-**	**(55,702)**	**3,024,604**	**2,968,902**
Balance at 31 December 2014	**17,000,000**	**(55,702)**	**4,416,274**	**21,360,572**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 41.

Statement of cash flow for the year ended 31 December 2014
(in EUR)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities:			
Profit before income tax		**3,194,083**	**291,034**
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Interest expense	**18**	3,557,109	5,473,739
Interest income	**17**	(14,163,736)	(12,435,735)
Depreciation and amortization	**9,10**	1,066,875	1,285,645
Loss on disposal of property, plant & equipment	**9**	27,326	1,390
Impairment of loans	**8**	1,299,175	920,622
Cash flows from operating profit before changes in operating assets and liabilities		**(5,019,168)**	**(4,463,305)**
(Increase)/decrease in operating assets:			
Restricted balances with Central Bank		(756,000)	(721,000)
Loans to customers		(28,587,221)	12,601,866
Due from Head Office		39,502,748	(36,523,943)
Movement in fair value reserve		(55,702)	-
Other assets		(261,629)	(483,502)
		9,842,196	**(25,126,579)**
Increase/(decrease) in operating liabilities:			
Due to customers		16,885,572	19,851,458
Accruals and other liabilities		675,717	123,158
		17,561,289	**19,974,616**
Interest paid		(3,617,269)	(5,512,247)
Interest received		13,246,594	12,392,519
Net cash flows from / (used in) operating activities		**32,013,642**	**(2,734,996)**
Cash flows used in investing activities			
Redemptions of investment securities		(43,795,815)	(4,565,923)
Purchases of property and equipment		(554,873)	(246,475)
Net cash from/ (used in) investing activities		**(44,350,688)**	**(4,812,398)**
Cash flows from financing activities			
(Repayments of)/ Proceeds from due to banks		5,000,504	2,807,530
Capital injection		-	5,000,000
Net cash generated from financing activities		**5,000,504**	**7,807,530**
Net increase in cash and cash equivalents		**(7,336,542)**	**260,136**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		1,158	-
Cash and cash equivalents at the beginning of the period	**6**	**19,656,559**	**19,396,423**
Cash and cash equivalents at the end of the period	**6**	**12,321,175**	**19,656,559**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 41.

1. General

Banka Kombëtare Tregtare Sh.a.- Dega në Kosovë ("BKT Kosova Branch" or the "Bank") is a foreign branch 100% owned by Banka Kombëtare Tregtare Sh.a ("BKT"), an Albanian bank. The Bank offers a wide range of universal services to state and privately owned enterprises and to individuals in the Republic of Kosova. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both EUR and foreign currency. BKT offers a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, qualified international banking services and various treasury products.

BKT - Kosova Branch was registered on 30 August 2007 with the Central Bank of Republic of Kosova ('CBK') to operate as a bank in the Republic of Kosova and is subject to CBK regulations. Upon the Board of Directors Decision taken on 28 September 2012, the Bank increased its paid-up capital by EUR 4,000,000 to EUR 12,000,000. On 28 April 2013 the Board of Directors decided to increase its paid-up capital by Euro 5,000,000.
The Head Office of BKT is located in Tirana and the administrative office of BKT - Kosova Branch is located in Prishtina. The network in Kosova includes 26 units. Six units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti, Lipjan, Hani i Elezit, Dheu i Bardhe, Prishtina Airport and Skenderaj.
In 2014 the Bank opened two additional agencies in Airport and in Grand Store, Prishtina.

The number of employees at the end of 2014 was 337 (2013: 274).

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value, and investment property, which is measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in EUR, which is also the Bank's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4 and 5.

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 into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

(b) Interest

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 fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(e) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

(ii) Classification

See accounting policies 3(f) and (g).

(iii) De recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets 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.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans when they are determined to be uncollectible (see note 4).

(iv) Offsetting

Financial assets and liabilities are set off 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 intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

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

(vi) Fair value measurement

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.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

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, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. 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. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

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. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include 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 Bank, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. Significant accounting policies (continued)

(f) 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 less than three months, which are subject to 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 amortised cost in the statement of financial position.

(g) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

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

(h) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification.

(i) 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. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(i) Property and equipment

(i) Recognition and measurement

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

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

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

3. Significant accounting policies (continued)

(i) Property and equipment (continued)

(ii) Subsequent costs

The cost of replacing a part of an item of property or 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 carrying amount of the replaced part is derecognised. 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 each part of an item of property and equipment. Land is not depreciated.

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

• Leased hold improvements	10 years
• Motor vehicles and machinery	5 years
• Office furniture	5 years
• Computers and electronic equipment	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

(j) Impairment of non-financial assets

The carrying amounts of the Bank’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Deposits and borrowings

Deposits and borrowings are part of the Bank’s sources 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 plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

(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, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosova under a defined contribution pension plan.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(n) 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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for 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.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (continued)

(o) Investment property

Investment property is property that has been acquired through the enforcement of security over financial receivables and is held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with reference to the market prices, and with any change therein recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(p) Adoption of new and revised standards

i) Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation" –** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets" -** Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" –** Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

3. Significant accounting policies (continued)

(p) Adoption of new and revised standards (continued)

ii) *Standards and interpretations in issue not yet effective*

At the date of authorisation of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),
- **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 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" -** Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements" -** Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" -** Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -** Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits" -** Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to IAS 27 "Separate Financial Statements" -** Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(e)(vii).

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(e)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3(e)(vi).

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

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, polynomial option pricing models and other valuation models.

4. Use of estimates and judgements (continued)

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 determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair values

Loans 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. The majority of the loan portfolio is subject to re-pricing within a year.

Investment securities

Fair value of investment securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

The treasury bills have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying yield rates, which approximate market rates. The fair value of these instruments is based on the Level 2 method described above.

Deposits and borrowings

The time 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.

5. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- 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 financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability). Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

Risk management framework

BKT Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO) in Head Office, Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee in Head Office is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Current developments

The Bank operates in the condition of a dynamically developing global financial environment. The management of the Bank performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Bank responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

The start-up phase of the Bank, which is the main reason for the accumulated losses, was supported by the Head Office.

5. Financial risk management (continued)

(b) 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 securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosova has formed a Branch Credit Committee to oversee the approval of requests for credits up to the limit of 250,000 EUR. Amounts up to EUR 1,000,000 are approved by the Credit Committee in Head Office. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Credit Risk Management processes are undertaken by Internal Audit.

Maximum credit exposure

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

	31 December 2014	**31 December 2013**
Loans to customers, net	124,076,446	96,052,859
Balances with banks	414,594	150,162
Investment securities – available for sale	49,431,610	5,454,196
Financial guarantees	13,206,645	60,019,665
Maximum exposures to credit risk	**187,129,295**	**161,676,882**

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 / securities agreement(s). These loans are graded A to D in the Bank's internal credit risk grading system and the Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures.

The risk committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management Ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

Past due but not impaired loans

Loans and securities, where contractual interest or principal payments 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.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

5. Financial risk management (continued)

(b) 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.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulations of Central Bank of Kosova. The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

	Loans to customers		
31 December 2014	**Retail**	**Corporate**	**Total**
Neither past due nor impaired	29,382,751	57,805,683	87,188,434
Past due and individually tested but not impaired	9,374,886	27,276,396	36,651,282
Individually impaired	4,091,982	1,117,915	5,209,897
Total	**42,849,619**	**86,199,994**	**129,049,613**
Allowance for impairment	(3,360,555)	(1,612,612)	(4,973,167)
Total Loans, net of impairment	**39,489,064**	**84,587,382**	**124,076,446**

	Loans to customers		
31 December 2013	**Retail**	**Corporate**	**Total**
Neither past due nor impaired	33,692,941	49,466,156	83,159,097
Past due and individually tested but not impaired	3,255,387	9,293,854	12,549,241
Individually impaired	3,149,270	869,243	4,018,513
Total	**40,097,598**	**59,629,253**	**99,726,851**
Allowance for impairment	(2,568,933)	(1,105,059)	(3,673,992)
Total Loans, net of impairment	**37,528,665**	**58,524,194**	**96,052,859**

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	**31 December 2014**	**31 December 2013**
A – Good	2,135,062	1,585,626
B – Acceptable	61,732,184	47,749,417
C - Close monitoring	13,153,122	1,710,359
D – Unacceptable	8,338,722	8,318,672
Sub Total	**85,359,090**	**59,364,074**
Accrued Interest	1,123,593	423,544
Deferred fee income	(282,689)	(158,365)
Total	**86,199,994**	**59,629,253**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is the ageing analysis of all loans to customers:

Category (Ageing)	31 December 2014	31 December 2013
Standard (0 - 30 days past due)	98,897,838	81,630,110
Special Mention (31 - 60 days past due)	1,572,749	1,414,090
Substandard (61 - 90 days past due)	15,215,208	3,181,889
Doubtful (91 - 180 days past due)	1,512,267	2,271,069
Loss (over 181 days past due)	11,851,551	11,229,693
Total Loans	**129,049,613**	**99,726,851**
Less: Provision for loan losses	(4,973,167)	(3,673,992)
Total Loans, Net	**124,076,446**	**96,052,859**

Set out below is an analysis of collateral obtained during the years:

	Loans to customers		
31 December 2014	**Retail**	**Corporate**	**Total**
Residential, commercial or industrial property	137,779,608	190,834,103	328,613,711
Financial assets	2,828,991	17,927,483	20,756,474
Other	17,537,013	9,030,474	26,567,487
Total	**158,145,612**	**217,792,060**	**375,937,672**

	Loans to customers		
31 December 2013	**Retail**	**Corporate**	**Total**
Residential, commercial or industrial property	147,038,842	212,923,738	359,962,580
Financial assets	4,173,066	18,733,474	22,906,540
Other	20,796,954	10,860,434	31,657,388
Total	**172,008,862**	**242,517,646**	**414,526,508**

(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.

The purpose of Liquidity Risk Management (LRM) 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. Bank’s LRM policy includes how the Bank identifies, measures, monitors and control that risk. Liquidity Risk Management is handled in collaboration and close supervision of BKT Treasury Group in Head Office.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2014, 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	Total
Assets						
Cash and balances with Central Bank	36,387,581	-	-	-	-	36,387,581
Balances with banks	414,594	-	-	-	-	414,594
Investment securities	5,996,612	5,818,795	26,677,685	10,938,518	-	49,431,610
Due from Head Office	29,926,605	-	-	-	-	29,926,605
Loans to customers	10,918,696	6,673,860	28,670,831	62,181,794	15,631,265	124,076,446
Other assets	1,266,470	471,671	-	154,116	-	1,892,257
Total assets	**84,910,558**	**12,964,326**	**55,348,516**	**73,274,428**	**15,631,265**	**242,129,093**
Liabilities						
Customer deposits	104,932,712	16,317,009	71,807,286	19,275,342	155,010	212,487,359
Due to banks	8,240	-	-	-	1,763	10,003
Deferred tax liabilities	-	-	-	875,190	-	875,190
Accruals and other liabilities	949,296	-	-	-	-	949,296
Borrowings	-	-	-	7,735,000	2,265,000	10,000,000
Total liabilities	**105,890,248**	**16,317,009**	**71,807,286**	**27,885,532**	**2,421,773**	**224,321,848**
Net Position	**(20,979,690)**	**(3,352,683)**	**(16,458,770)**	**45,388,896**	**13,209,492**	**17,807,245**
Cumulative net position	**(20,979,690)**	**(24,332,373)**	**(40,791,143)**	**4,597,753**	**17,807,245**	**-**

On 21 July 2014, the Bank has signed a standby credit line contract worth of 10 million EUR with Head Office to meet liquidity needs in times of stress.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

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	Total
Assets						
Cash and balances with Central Bank	43,231,397	-	-	-	-	43,231,397
Balances with banks	150,162	-	-	-	-	150,162
Investment securities	89,984	2,393,821	2,970,391	-	-	5,454,196
Due from Head Office	69,429,353	-	-	-	-	69,429,353
Loans to customers	9,994,626	6,434,662	26,722,347	44,063,622	8,837,602	96,052,859
Other assets	655,633	-	835,878	139,115	-	1,630,626
Total assets	**123,551,155**	**8,828,483**	**30,528,616**	**44,202,737**	**8,837,602**	**215,948,593**
Liabilities						
Customer deposits	105,618,938	40,059,519	42,287,134	7,693,885	-	195,659,476
Due to banks	7,736	-	-	-	4,234	11,970
Deferred tax liabilities	-	-	-	704,553	-	704,553
Accruals and other liabilities	273,580	-	-	-	-	273,580
Borrowings	-	-	-	3,185,000	1,815,000	5,000,000
Total liabilities	**105,900,254**	**40,059,519**	**42,287,134**	**11,583,438**	**1,819,234**	**201,649,579**
Net Position	**17,650,901**	**(31,231,036)**	**(11,758,518)**	**32,619,299**	**7,018,368**	**14,299,014**
Cumulative net position	**17,650,901**	**(13,580,135)**	**(25,338,653)**	**7,280,646**	**14,299,014**	**-**

5. Financial risk management (continued)

(d) Market risk

1) 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 Kosova 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 tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2014 and 2013:

2014	**EUR**	**ALL**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	30,423,485	40,394	1,187,821	335,440	4,388,315	12,126	36,387,581
Balances with banks	211,478	-	45,835	16,803	128,567	11,911	414,594
Investment securities	49,431,610	-	-	-	-	-	49,431,610
Due from Head Office	32,968,538	(38,950)	468,157	(49,599)	(3,397,504)	(24,037)	29,926,605
Loans to customers	122,459,803	-	1,616,643	-	-	-	124,076,446
Other assets	1,848,424	6,107	20,483	7,113	10,130	-	1,892,257
Total assets	**237,343,338**	**7,551**	**3,338,939**	**309,757**	**1,129,508**	**-**	**242,129,093**
Liabilities							
Customer deposits	207,920,187	1,842	3,127,143	309,753	1,128,434	-	212,487,359
Due to banks	5,823	-	4,180	-	-	-	10,003
Deferred tax liabilities	875,190	-	-	-	-	-	875,190
Accruals and other liabilities	735,468	5,689	207,213	4	922	-	949,296
Borrowings	10,000,000	-	-	-	-		10,000,000
Total liability	**219,536,668**	**7,531**	**3,338,536**	**309,757**	**1,129,356**	**-**	**224,321,848**
Net position	**17,806,670**	**20**	**403**	**-**	**152**	**-**	**17,807,245**
Net position (GAP)	**17,806,670**	**17,806,690**	**17,807,093**	**17,807,093**	**17,807,245**	**17,807,245**	**-**

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

2013	**EUR**	**ALL**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	41,282,997	64,375	229,552	148,872	1,496,180	9,421	43,231,397
Balances with banks	64,698	-	1,735	523	83,206	-	150,162
Investment securities	5,454,196	-	-	-	-	-	5,454,196
Due to Head Office	67,310,131	(68,235)	2,784,704	178,610	(766,436)	(9,421)	69,429,353
Loans to customers	96,052,859	-	-	-	-	-	96,052,859
Other assets	1,617,652	6,104	6,858	12	-	-	1,630,626
Total assets	**211,782,533**	**2,244**	**3,022,849**	**328,017**	**812,950**	**-**	**215,948,593**
		`					
Liabilities							
Customer deposits	191,553,445	1,581	2,964,489	327,911	812,050	-	195,659,476
Due to banks	8,294	-	3,676	-	-	-	11,970
Deferred tax liabilities	704,553	-	-	-	-	-	704,553
Accruals and other liabilities	218,543	623	53,817	16	581	-	273,580
Borrowings	5,000,000	-	-	-	-	-	5,000,000
Total liability	**197,484,835**	**2,204**	**3,021,982**	**327,927**	**812,631**	**-**	**201,649,579**
Net position	**14,297,698**	**40**	**867**	**90**	**319**	**-**	**14,299,014**
Net position (GAP)	**14,297,698**	**14,297,738**	**14,298,605**	**14,298,695**	**14,299,014**	**14,299,014**	**-**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department in Head Office manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee in Head Office. 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 2014 are as follows:

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	-
Loans to customers	-	9.50%
Investment securities available for sale	-	2.12%
Liabilities		
Customer deposits and due to banks	0.69%	2.05%

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

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	-
Loans to customers	-	10.07%
Investment securities held-to-maturity	-	1.72%
Liabilities		
Customer deposits and due to banks	2.17%	3.60%

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

2014	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
	Decrease	Increase	Increase	Decrease
Estimated Profit (loss) effect	(715,066)	715,066	892,461	(892,461)

2013	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
	Decrease	Increase	Increase	Decrease
Estimated Profit (loss) effect	(265,566)	265,566	402,031	(402,031)

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2014 and 2013 are as follows:

2014	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with Central Bank	36,387,581	-	-	-	-	36,387,581
Balances with banks	414,594	-	-	-	-	414,594
Investment securities	5,996,612	5,818,795	26,677,685	10,938,518	-	49,431,610
Due from Head Office	29,926,605	-	-	-	-	29,926,605
Loans to customers	10,918,696	6,673,860	28,670,831	62,181,794	15,631,265	124,076,446
Total	**83,644,088**	**12,492,655**	**55,348,516**	**73,120,312**	**15,631,265**	**240,236,836**
Liabilities						
Customer Deposits and due to banks	104,940,953	16,317,009	71,807,286	19,275,342	156,772	212,497,362
Borrowings	-	-	-	7,735,000	2,265,000	10,000,000
Total	**104,940,953**	**16,317,009**	**71,807,286**	**27,010,342**	**2,421,772**	**222,497,362**

2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with Central Bank	43,231,397	-	-	-	-	43,231,397
Balances with banks	150,162	-	-	-	-	150,162
Investment securities	89,984	2,393,821	2,970,391	-	-	5,454,196
Due from Head Office	69,429,353	-	-	-	-	69,429,353
Loans to customers	9,994,626	6,434,662	26,722,347	44,063,622	8,837,602	96,052,859
Total	**122,895,522**	**8,828,483**	**29,692,738**	**44,063,622**	**8,837,602**	**214,317,967**
Liabilities						
Customer Deposits and due to banks	105,626,676	40,059,519	42,287,134	7,693,885	4,232	195,671,446
Borrowings	-	-	-	4,095,000	905,000	5,000,000
Total	**105,626,676**	**40,059,519**	**42,287,134**	**11,788,885**	**909,232**	**200,671,446**

5. 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 behaviour. Operational risks arise from all of the Bank'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 to avoid control procedures that restrict initiative and creativity. 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.

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 to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

(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 recognised and the Bank recognises 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. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosova ("CBK"). The Bank operates in compliance with CBK Rule "On Capital Equivalency Deposit for Branches of Foreign Banks", effective from 3 December 2012.

5. Financial risk management (continued)

(f) Capital management (continued)

Capital Adequacy

The scope of CBK Rule “On bank capital adequacy”, effective from 3 December 2012 excludes branches of foreign banks.

BKT monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania. The regulation “On capital adequacy” is issued pursuant to Law No. 8269 date 23.12.1997 “On the Bank of Albania” and Law No. 9662 date 18.12.2006 “On Banks in the Republic of Albania”.

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and ‘off balance-sheet’ items, expressed as a percentage. The minimum Capital Adequacy Ratio required by the Bank of Albania is 12%.

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and ‘off balance-sheet’ items, expressed as a percentage. The minimum modified capital adequacy is 6%.

Compliance

Both BKT and the Bank, as an individually regulated operation have complied with all internally and externally imposed capital requirements.

6. Cash and balances with Central Bank and other banks

Cash and balances with Central Bank as at 31 December 2014 and 2013 are detailed as following:

	31 December 2014	31 December 2013
Cash on hand	13,136,386	7,480,678
Balances with CBK	23,251,195	35,750,719
	36,387,581	**43,231,397**

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

Cash and cash equivalents as at 31 December 2014 and 2013 are presented as follows:

	31 December 2014	31 December 2013
Cash and balances with Central Bank	36,387,581	43,231,397
Statutory reserves	(17,481,000)	(16,725,000)
Minimum capital equivalency deposit	(7,000,000)	(7,000,000)
Balances with banks	414,594	150,162
	12,321,175	**19,656,559**

Balances with banks at 31 December 2014 & 2013 include current accounts with resident and non-resident banks.

7. Investment securities

Investment securities represent Euro denominated Kosova Treasury Bills, as follows:

	31 December 2014	**31 December 2013**
Treasury bonds	10,938,518	-
Treasury bills	38,493,092	5,454,196
	49,431,610	**5,454,196**

All securities are categorized as available for sale.

Treasury bills available-for-sale by original maturity as at 31 December 2014 and 31 December 2013 are presented as follows:

	31 December 2014			
	Purchase value	Amortized discount	Marked to market gain (loss)	Amortized
3 months	2,995,608	3,813	-	2,999,421
6 months	14,848,511	69,444	-	14,917,955
12 months	20,479,452	96,265	-	20,575,716
24 months	10,980,000	55,286	(96,767)	10,938,518
	49,303,571	**224,808**	**(96,767)**	**49,431,610**

	31 December 2013		
	Purchase value	Amortized discount	Amortized cost
3 months	149,821	128	149,950
6 months	2,325,476	8,379	2,333,855
12 months	2,935,692	34,700	2,970,391
24 months	-	-	-
	5,410,989	**43,207**	**5,454,196**

8. Loans to customers

Loans to customers consisted of the following:

	31 December 2014	31 December 2013
Loans to customers	127,543,908	98,956,687
Accrued interest	1,505,705	770,164
Less allowances for impairment on loans	(4,973,167)	(3,673,992)
	124,076,446	**96,052,859**

Movements in the allowance for impairment on loans:

	2014	2013
At 1 January	3,673,992	2,753,370
Net impairment charge for the year	1,299,175	920,622
At the end of the year	**4,973,167**	**3,673,992**

The breakdown of the loan portfolio is as follows:

	2014	2013
Retail (individuals)	33%	40%
Private Enterprises	67%	60%

All the loans are in EUR and bear interest rates ranging from 1.5% to 22.0 %. The Bank has granted a few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.

8. Loans to customers (continued)

The classification of loans granted to private enterprises by industry is as follows:

	31 December 2014		31 December 2013	
	EUR	**%**	**EUR**	**%**
Wholesale Trade	26,785,249	32%	20,502,972	35%
Retail Trade	13,927,223	16%	11,366,889	19%
Construction	8,429,918	10%	7,301,729	13%
Education	2,963,099	4%	3,841,415	7%
Manufacturing of Food, Beverages, Tobacco	13,574,013	16%	3,159,173	5%
Other Community, Social and Personal Activities	3,912,060	5%	2,926,312	5%
Hotels and Restaurants	1,658,493	2%	1,756,115	3%
Financial Intermediation	1,002,529	1%	1,642,791	3%
Manufacturing of Rubber and Plastic Products	396,200	-	1,290,474	2%
Health and Social Work	3,100,914	4%	959,697	2%
Manufacturing of Basic Metals and Metal Products	769,588	1%	919,339	2%
Agriculture, Hunting and Forestry	3,028,479	4%	598,868	1%
Transport, Storage and Communication	830,066	1%	852,943	2%
Manufacturing of Textile and Textile Products	281,326	-	553,686	1%
Manufacturing of Wood and Wood Products	286,178	-	255,072	-
Personal Needs	498,555	1%	41,085	-
Manufacturing of Pulp and Paper Products	92,619	-	93,459	-
Manufacturing of Transport Equipment	3,657	-	6,344	-
Private Households	201,615	-	95,965	-
Real Estate & Renting Activity	49,123	-	108,210	-
Manufacturing of Furniture	186,103	-	251,655	-
Electricity, Gas & Water Supply	1,370,643	2%	-	-
Extra Territory Organisation. &Bodies	33,865	-	-	-
Manufacturing Of Chemicals & Chemical Prod.	30,948	-	-	-
Manufacturing Of Leather & Leather	119,911	-	-	-
Manufacturing of Machinery& Equipment	32,520	-	-	-
Manufacturing of other Non-Metallic product	1,022,489	1%	-	-
	84,587,383	**100%**	**58,524,193**	**100%**

The classification of retail loans by type is as follows:

	31 December 2014		31 December 2013	
	EUR	**%**	**EUR**	**%**
Home Purchase	20,636,548	52%	19,703,602	53%
Home Improvement	3,871,972	10%	4,156,585	11%
Home Construction	304,994	1%	356,196	1%
Call Loan	10,598,806	27%	8,169,313	22%
Shop Purchase	370,585	1%	588,700	1%
Overdraft and Credit Cards	2,084,144	5%	2,907,236	8%
Car Purchase	270,511	1%	252,590	-
Cash Loan	1,329,778	3%	1,334,267	4%
Education	21,725	-	60,177	-
	39,489,063	**100%**	**37,528,666**	**100%**

9. Property and equipment

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

	Leasehold improvements	Motor vehicles and machinery	Computers and electronic	Office furniture	Total
Cost					
At 1 January 2013	**2,842,194**	**1,214,555**	**3,301,009**	**451,098**	**7,808,856**
Additions	19,010	40,698	156,474	15,742	231,924
Disposals	-	(13,900)	-	-	(13,900)
At 31 December 2013	**2,861,204**	**1,241,353**	**3,457,483**	**466,840**	**8,026,880**
At 1 January 2014	**2,861,204**	**1,241,353**	**3,457,483**	**466,840**	**8,026,880**
Additions	127,630	89,485	314,879	9,842	541,836
Disposals	(65,582)	(13,450)	(3,084)	-	(82,116)
At 31 December 2014	**2,923,252**	**1,317,388**	**3,769,278**	**476,682**	**8,486,600**
Accumulated depreciation					
At 1 January 2013	**(695,467)**	**(675,238)**	**(1,289,151)**	**(200,355)**	**(2,860,211)**
Charge for the year	(290,280)	(220,221)	(651,737)	(82,895)	(1,245,133)
Eliminated on disposals	-	12,510	-	-	12,510
At 31 December 2013	**(985,747)**	**(882,949)**	**(1,940,888)**	**(283,250)**	**(4,092,834)**
At 1 January 2014	**(985,747)**	**(882,949)**	**(1,940,888)**	**(283250)**	**(4,092,834)**
Charge for the year	(286,711)	(130,562)	(556,504)	(49,701)	(1,023,478)
Disposals	38,256	13,450	3,084	-	54,790
At 31 December 2014	**(1,234,202)**	**(1,000,061)**	**(2,494,308)**	**(332,951)**	**(5,061,522)**
Net book value					
At 1 January 2013	**2,146,727**	**539,317**	**2,011,858**	**250,743**	**4,948,645**
At 31 December 2013	**1,875,457**	**358,404**	**1,516,595**	**183,590**	**3,934,046**
At 31 December 2014	**1,689,050**	**317,327**	**1,274,970**	**143,731**	**3,425,078**

10. Intangible assets

	Intangible assets
Cost	
At 1 January 2013	**201,350**
Additions	14,551
Disposals	-
At 31 December 2013	**215,901**
At 1 January 2014	**215,901**
Additions	13,036
Disposals	-
At 31 December 2014	**228,937**
Accumulated depreciation	
At 1 January 2013	**(16,779)**
Charge for the year	(40,512)
Eliminated on disposals	-
At 31 December 2013	**(57,291)**
At 1 January 2014	**(57,291)**
Charge for the year	(43,397)
Disposals	-
At 31 December 2014	**(100,688)**
Net book value	
At 1 January 2013	**184,571**
At 31 December 2013	**158,610**
At 31 December 2014	**128,249**

11. Other assets

Other assets as at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Cards transactions settlement	787,130	655,633
Prepaid expenses	296,664	359,820
Advances to suppliers	55,523	404,160
Collaterals repossessed by the Bank	154,115	139,115
Fixed assets in magazine	182,676	-
Cash differences	313,655	53
Other debtors	102,494	71,845
	1,892,257	**1,630,626**

Collaterals repossessed by the Bank represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken by the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. These assets are accounted for as investment property and measured at fair value. The fair value of these assets at the reporting date is determined with reference to the current market prices.

12. Customer deposits

Customer deposits as of 31 December 2014 and 2013 are composed as follows:

	31 December 2014	31 December 2013
Current accounts:		
Individuals	53,163,174	46,285,589
Private enterprises	32,838,593	47,002,632
State owned entities	1,325,461	1,708,641
	87,327,228	**94,996,862**
Term Deposits:		
Individuals	72,359,952	54,086,381
Private enterprises	25,681,904	18,104,808
State owned entities	27,118,275	28,471,425
	125,160,131	**100,662,614**
	212,487,359	**195,659,476**

Current accounts and deposits can be further analysed as follows:

	31 December 2014			31 December 2013		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	84,944,980	2,382,248	87,327,228	92,361,268	2,635,595	94,996,863
Term Deposits	**122,975,208**	**2,184,923**	**125,160,131**	**99,192,176**	**1,470,437**	**100,662,613**
One month	1,443,102	-	1,443,102	3,073,340	113,433	3,186,773
Three months	4,288,034	946,342	5,234,376	27,366,273	152,992	27,519,265
Six months	4,648,320	-	4,648,320	10,016,866	162,097	10,178,963
Twelve months	90,440,703	1,214,651	91,655,354	47,130,571	995,406	48,125,977
Two years and over	22,155,049	23,930	22,178,979	11,605,126	46,509	11,651,635
Total deposits	**207,920,188**	**4,567,171**	**212,487,359**	**191,553,444**	**4,106,032**	**195,659,476**

The five largest depositors of the Bank at 31 December 2014 comprise approximately 21% (2013: 28%) of total deposits.

13. Due to banks

	31 December 2014	31 December 2013
Current accounts	8,240	7,736
Accrued interest	1,763	4,234
	10,003	**11,970**

14. Accruals and other liabilities

	31 December 2014	31 December 2013
Accrued expenses	337,729	94,573
Accounts payable	602,624	171,466
Guarantee deposits received	8,943	7,541
	949,296	**273,580**

"Guarantee deposits received" represents guarantees received from suppliers based on contracts with them.

15. Borrowings

	31 December 2014	31 December 2013
Borrowings from resident/non-resident banks (EFSE)	10,000,000	5,000,000
	10,000,000	**5,000,000**

1. A loan by European Fund for Southeast Europe S.A. ("EFSE") in amount of EUR 5,000,000 was disbursed on December 20, 2013. The applicable margin for the loan is 3% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 30, 2015.

2. A loan by European Fund for Southeast Europe S.A**.** ("EFSE") in amount of EUR 5,000,000 was disbursed on June 30, 2014. The applicable margin for the loan is 3% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from June 30, 2016.

Loans are given with the purpose to be made to private micro and small enterprises and entrepreneurs (MSEs) that are registered and/or residents in Kosova to finance working capital and investment requirements.

16. Share capital

At 31 December 2014 the authorised share capital was EUR 17,000,000 (2013: EUR 17,000,000).

17. Interest income

Interest income is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Loans to customers	12,138,362	11,060,363
Due from Head Office	1,651,911	1,298,627
Investment securities	373,423	76,541
Balances with Central Bank	40	204
	14,163,736	**12,435,735**

18. Interest expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Customer deposits	3,302,663	5,463,145
Due to banks	254,446	10,594
	3,557,109	**5,473,739**

19. Fees and commissions, net

Fee and commission income and expense are comprised of the following items:

	Year ended 31 December 2014	Year ended 31 December 2013
Fee and commission income		
Payment services to clients	1,580,972	1,717,593
Lending activity	642,529	266,107
Customer accounts' maintenance	203,267	153,281
Cash transactions with clients	131,425	81,526
	2,558,193	**2,218,507**
Fee and commission expense		
Inter-bank transactions	(74,375)	(69,831)
	(74,375)	**(69,831)**
	2,483,818	**2,148,676**

20. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries	3,130,351	2,855,859
Social insurance	139,801	116,852
Life insurance for staff	34,405	41,000
Training	22,680	21,792
Other	178,993	31,790
	3,506,230	**3,067,293**

21. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Lease payments	1,008,534	875,907
Credit/debit card miscellaneous expenses	661,936	494,775
Telephone, electricity and IT expenses	529,580	566,933
Other external services	446,677	292,094
Repairs and maintenance	308,433	266,246
Security and insurance expenses	289,235	300,296
Taxes other than tax on profits	282,062	52,317
Marketing expenses	204,979	505,479
Office stationery and supplies	86,444	86,150
Sundry expenses	40,095	24,366
Representation expenses	36,993	35,358
	3,894,968	**3,499,921**

22. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 December 2014. The ultimate controlling party is Mr. Ahmet Calik

Aktif Yatirim Bankasi and Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding.

Balances and transactions with related parties

	31 December 2014	31 December 2013
Assets		
Placements and balances with banks:		
Aktif Yatirim Bankasi	87,219	31,003
Due from /(to) Head Office	29,926,605	69,429,353
Loans to customers:		
KEDS	1,357,614	1,347,111
Senior management	37,208	30,455
Total Assets	**31,408,646**	**70,837,922**
Liabilities		
Customer current accounts and deposits:		
KEDS	5,918,003	13,347,324
Senior management	120,383	61,467
Other liabilities:		
Other liabilities	5,299	4,273
Total Liabilities	**6,043,685**	**13,413,064**

22. Related party transactions (continued)

	31 December 2014	31 December 2013
Commitments and contingencies		
Guaranties in favour of customers:		
KEDS	1,989,844	5,204,193
Senior management	50,063	13,094
Commitments in favour of customers:		
KEDS	1,500,000	-

The balances due from/ (to) Head Office include transfers of funds on behalf of the Bank or its customers, management of foreign currency positions performed by the BKT Kosova, and other inter-company balances.

The decrease of the balances due to Head Office in 2014, is related mainly to the increase of the investments on securities. These funds bear an interest rate of 2.21% p.a. (31 December 2013: 2.88% p.a.).

	31 December 2014	31 December 2013
Statement of comprehensive income		
Interest income from:		
KEDS	125,897	3,655
Head Office	1,651,911	1,298,626
Interest expenses for:		
KEDS	(52,986)	(42,727)
Fees and commissions:		
KEDS	9,901	44,720
Net	**1,734,723**	**1,304,274**

Balances and transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Directors	172,226	191,425
Executive officers	363,536	317,520
	535,762	**508,945**

23. Contingencies and commitments

Guarantees and letters of credit	31 December 2014	31 December 2013
Guarantees in favour of customers	11,843,007	38,536,793
Letters of credit issued to customers	1,363,638	21,482,872

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

Other	31 December 2014	31 December 2013
Undrawn credit commitments	21,067,890	13,382,742
Collaterals for loan portfolio	375,937,672	414,526,508

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2014.

Lease commitments

Lease commitments for the years ended 31 December 2014 and 2013 are composed as follows:

	31 December 2014	31 December 2013
Not later than 1 year	901,973	710,217
Later than 1 year and not later than 5 years	1,824,799	2,175,150
Later than 5 years	477,101	466,221
Total	**3,203,873**	**3,351,588**

The Bank has entered into lease commitments with duration up to ten years. The Bank may cancel these leases upon giving three months' notice period. Therefore, at 31 December 2014, the maximum non-cancellable commitment payable not later than one year is EUR 209,456 (2013: EUR 178,537).

24. Income tax

Income tax is comprised as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax	-	-
Deferred tax expense	170,637	224,288
	170,637	**224,288**

24. Income tax (continued)

The tax on the Bank's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Banks as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before tax	**3,194,083**	**291,034**
Add: non-deductible expenses	591,914	262,010
Less allowable tax depreciation	(85,146)	(78,576)
CBK Impairment losses allowed for tax purposes	1,210,199	(2,390,475)
Taxable profit/ (losses) for the year	**4,911,050**	**(1,916,007)**
Tax profit/(losses) carried forward	**4,911,050**	**(1,916,007)**
Current income tax	**-**	**-**

	Year ended 31 December 2014	Year ended 31 December 2013
Opening taxable losses	6,342,635	4,426,628
(Profit)/Losses for the year	(4,911,050)	1,916,007
Accumulated tax losses	**1,431,585**	**6,342,635**

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 Kosova is seven years. The Bank did not recognize the net deferred tax assets relating to temporary differences, due to the fact that it is not certain that the deferred tax asset will be utilized. The tax losses are detailed as follows:

The movement on the deferred income tax account is as follows:

	31 December 2014	31 December 2013
Liability at 1 January	704,553	480,265
Expense	170,637	224,288
Liability at the end of the year	**875,190**	**704,553**

Deferred income tax (liabilities)/assets are attributable to the following items:

	31 December 2014	31 December 2013
Allowance for loan impairment	121,020	(239,047)
Decelerated depreciation	(8,515)	(7,858)
Deferred interest expenses	58,132	22,617
	170,637	**(224,288)**

25. Events after the reporting period

There are no events after the reporting period that would require either adjustments or additional disclosures in the financial statements.