Banka Kombëtare Tregtare Sh.a. - Kosova Branch

Financial statements

for the year ended 31 December 2015

(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, 2015, 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, 2015, 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 19, 2016

Statement of financial position as at 31 December 2015
(in EUR)

Assets	**Notes**	**31 December 2015**	**31 December 2014**
Cash and balances with Central Bank	6	51,345,469	36,387,581
Balances with banks	6	174,296	414,594
Available for Sale Securities	7	36,700,619	49,431,610
Due from Head Office	22	56,708,503	29,926,605
Loans to customers, net	8	139,364,145	124,076,446
Property and equipment	9	2,689,630	3,425,078
Intangible assets	10	82,460	128,249
Other assets	11	2,378,326	1,892,257
Total assets		**289,443,448**	**245,682,420**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	12	250,822,158	212,487,359
Due to banks	13	57,608	10,003
Deferred tax liabilities	24	431,710	875,190
Income tax liability	24	333,228	-
Accruals and other liabilities	14	1,166,691	949,296
Borrowings	15	9,546,570	10,000,000
Total liabilities		**262,357,965**	**224,321,848**
Shareholder's equity			
Share capital	16	17,000,000	17,000,000
Accumulated profit from previous years		4,416,273	1,391,670
Profit for the year		5,767,889	3,024,604
Fair value reserve		(98,679)	(55,702)
Total shareholder's equity		**27,085,483**	**21,360,572**
Total liabilities and shareholder's equity		**289,443,448**	**245,682,420**

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 43.

The financial statements were authorised for release by the Board of Directors on February 19, 2016 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 2015
(in EUR)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Interest			
Interest income	**17**	15,342,438	14,163,736
Interest expense	**18**	(2,873,916)	(3,557,109)
Net interest margin		**12,468,522**	**10,606,627**
Non-interest income, net			
Fees and commissions, net	**19**	2,624,929	2,483,818
Foreign exchange revaluation gain, net		161	496
Loss from FX trading activities, net		36,630	(110,021)
Other income, net		26,875	(19,589)
Total non-interest income, net		**2,688,595**	**2,354,704**
Operating expenses			
Personnel expenses	**20**	(3,684,379)	(3,506,230)
Administrative expenses	**21**	(3,859,468)	(3,894,968)
Depreciation and amortization	**9,10**	(1,120,587)	(1,066,875)
Total operating expenses		**(8,664,434)**	**(8,468,073)**
Loan impairment expense	**8**	(615,875)	(1,299,175)
Profit before income tax		**5,876,808**	**3,194,083**
Income Tax	**24**	(110,948)	(170,637)
Profit for the year		**5,765,860**	**3,023,446**
Foreign currency translation differences		2,029	1,158
		5,767,889	**3,024,604**
Revaluation of available for sale securities, net of income tax		(98,679)	(55,702)
Total comprehensive income for the year		**5,669,210**	**2,968,902**

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 43.

Statement of changes in equity for the year ended 31 December 2015
(in EUR)

	Share Capital	Fair Value Reserve	Retained earnings	Total
Balance at 1 January 2014	**17,000,000**	**-**	**1,391,669**	**18,391,669**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	-	-	-	-
Increase in share capital	-	-	-	-
Total transactions with owners recorded in equity	**17,000,000**	**-**	**1,391,669**	**18,391,669**
Total comprehensive income for the year				
Profit for the year	-	-	3,024,604	**3,024,604**
Other comprehensive income, 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)**	**4,416,273**	**21,360,571**
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	-	-	5,767,889	**5,767,889**
Revaluation of available for sale securities, net of income tax	-	(42,977)	-	**(42,977)**
Total comprehensive income for the year	**-**	**(42,977)**	**5,767,889**	**5,724,912**
Balance at 31 December 2015	**17,000,000**	**(98,679)**	**10,184,162**	**27,085,483**

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 43.

Statement of cash flow for the year ended 31 December 2015
(in EUR)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities:			
Profit before income tax		**5,876,808**	**3,194,083**
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Interest expense	**18**	2,873,916	3,557,109
Interest income	**17**	(15,342,438)	(14,163,736)
Depreciation and amortization	**9,10**	1,120,587	1,066,875
Loss on disposal of property, plant & equipment	**9**	7,863	27,326
Impairment of loans	**8**	615,875	1,299,175
Cash flows from operating profit before changes in operating assets and liabilities		**(4,847,389)**	**(5,019,168)**
(Increase)/decrease in operating assets:			
Restricted balances with Central Bank		6,932,000	(756,000)
Loans to customers		(16,596,147)	(28,587,221)
Due from Head Office		(26,781,898)	39,502,748
Movement in fair value reserve		(42,977)	(55,702)
Other assets		(486,071)	(261,629)
		(36,975,093)	**9,842,196**
Increase/(decrease) in operating liabilities:			
Due to customers		38,143,663	16,885,572
Due to banks		47,606	-
Accruals and other liabilities		217,394	675,717
		38,408,663	**17,561,289**
Interest paid		(2,682,781)	(3,617,269)
Interest received		16,041,558	13,246,594
Income taxes paid		(221,200)	-
Net cash flows from / (used in) operating activities		**9,723,758**	**32,013,642**
Cash flows used in investing activities			
Redemptions of investment securities		12,724,445	(43,795,815)
Purchases of property and equipment		(347,213)	(554,873)
Net cash from/ (used in) investing activities		**12,377,233**	**(44,350,688)**
Cash flows from financing activities			
(Repayments of)/ Proceeds from due to banks		(453,430)	5,000,504
Capital injection		-	-
Net cash generated from financing activities		**(453,430)**	**5,000,504**
Net increase in cash and cash equivalents		**21,647,561**	**(7,336,542)**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		2,028	1,158
Cash and cash equivalents at the beginning of the period	**6**	**12,321,176**	**19,656,559**
Cash and cash equivalents at the end of the period	**6**	**33,970,765**	**12,321,175**

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 43.

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. Seven 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, Prishtina Airport and Skenderaj.
In 2015 the Bank opened one additional unit in Prishtina, while closed Dheu i Bardh Agency and moved Hani Elezi unit to Fitorja agency.

The number of employees at the end of 2015 was 350 (2014: 337).

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

(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 IAS 19 "Employee Benefits" -** Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

- **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).

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

(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**" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),

- **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)

3. Significant accounting policies (continued)

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

(ii) Standards and interpretations in issue not yet effective (continued)

- **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 7 "Statement of Cash Flows" - Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes" -** Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **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 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 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 its financial statements 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)

Valuation of financial instruments (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.

4. Use of estimates and judgements (continued)

Fair values (continued)

The table below sets out the carrying amounts and fair values of the financial assets and liabilities and analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2015	**Note**	**Carrying Amount**		**Fair Value**		
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	6	174,296	-	174,296	-	174,296
Treasury bills	7	9,229,695	-	9,229,695	-	9,229,695
Trading and available-for-sale securities	7	27,470,924	27,470,924	-	-	27,470,924
Loans to customers	8	139,364,145	-	139,364,145	-	139,364,145
Total financial assets		**176,239,060**	**27,470,924**	**148,768,136**	**-**	**176,239,060**
Customer deposits	12	250,822,158	-	250,822,158	-	250,822,158
Due to banks and financial institutions	13	57,608	-	57,608	-	57,608
Subordinated debt	15	9,546,570	-	9,546,570	-	9,546,570
Total financial liabilities		**260,426,336**	**-**	**260,426,336**	**-**	**260,426,336**
31 December 2014	**Note**					
Placement and balances with banks	6	414,594	-	414,594	-	414,594
Treasury bills	7	38,493,092	-	38,493,092	-	38,493,092
Trading and available-for-sale securities	7	10,938,518	10,938,518	-	-	10,938,518
Loans to customers	8	124,076,446	-	124,076,446	-	124,076,446
Total financial assets		**173,922,650**	**10,938,518**	**162,984,132**	**-**	**173,922,650**
Customer deposits	12	212,487,359	-	212,487,359	-	212,487,359
Due to banks and financial institutions	13	10,003	-	10,003	-	10,003
Subordinated debt	15	10,000,000	-	10,000,000	-	10,000,000
Total financial liabilities		**222,497,362**	**-**	**222,497,362**		**222,497,362**

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 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
Loans to customers, net	139,364,145	124,076,446
Balances with banks	174,296	414,594
Investment securities – available for sale	36,700,619	49,431,610
Financial guarantees	12,276,443	13,206,645
Maximum exposures to credit risk	**188,515,503**	**187,129,295**

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 2015	**Retail**	**Corporate**	**Total**
Neither past due nor impaired	37,830,800	74,940,546	112,771,346
Past due and individually tested but not impaired	9,738,746	14,477,651	24,216,397
Individually impaired	5,008,451	2,956,993	7,965,444
Total	**52,577,997**	**92,375,190**	**144,953,187**
Allowance for impairment	(3,903,117)	(1,685,925)	(5,589,042)
Total Loans, net of impairment	**48,674,880**	**90,689,265**	**139,364,145**

	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**

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

Rating	**31 December 2015**	**31 December 2014**
A – Good	2,761,441	2,135,062
B – Acceptable	79,791,803	61,732,184
C - Close monitoring	2,196,447	13,153,122
D – Unacceptable	7,340,621	8,338,722
Sub Total	**92,090,312**	**85,359,090**
Accrued Interest	439,768	1,123,593
Deferred fee income	(154,890)	(282,689)
Total	**92,375,190**	**86,199,994**

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 2015**	**31 December 2014**
Standard (0 - 30 days past due)	126,684,858	98,897,838
Special Mention (31 - 60 days past due)	1,960,011	1,572,749
Substandard (61 - 90 days past due)	3,933,745	15,215,208
Doubtful (91 - 180 days past due)	2,200,874	1,512,267
Loss (over 181 days past due)	10,173,698	11,851,551
Total Loans	**144,953,186**	**129,049,613**
Less: Provision for loan losses	(5,589,041)	(4,973,167)
Total Loans, Net	**139,364,145**	**124,076,446**

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

	Loans to customers		
31 December 2015	**Retail**	**Corporate**	**Total**
Residential, commercial or industrial property	122,249,968	145,531,843	267,781,811
Financial assets	3,110,643	12,752,347	15,862,990
Other	24,569,811	7,815,778	32,385,589
Total	**149,930,422**	**166,099,968**	**316,030,390**

	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**

(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 2015, 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	51,345,469	-	-		-	51,345,469
Balances with banks	174,296	-	-	-	-	174,296
Investment securities	1,998,091	-	18,266,890	16,435,638	-	36,700,619
Due from Head Office	56,708,503	-	-	-	-	56,708,503
Loans to customers	17,238,513	8,330,703	45,120,941	55,545,747	13,128,241	139,364,145
Other assets	1,369,653	509,426	-	499,247	-	2,378,326
Total assets	**128,834,525**	**8,840,129**	**63,387,831**	**72,480,632**	**13,128,241**	**286,671,358**
Liabilities						
Customer deposits	118,653,269	15,192,932	69,985,746	46,400,119	590,092	250,822,158
Due to banks	57,608	-	-	-	-	57,608
Deferred tax liabilities	-	-	-	-	431,710	431,710
Accruals and other liabilities	1,166,691	-	-	-	-	1,166,691
Borrowings	-	-	-	-	9,546,570	9,546,570
Total liabilities	**119,877,568**	**15,192,932**	**69,985,746**	**46,400,119**	**10,568,372**	**262,024,737**
Net Position	**8,956,957**	**(6,352,803)**	**(6,597,915)**	**26,080,513**	**2,559,869**	**24,646,621**
Cumulative net position	**8,956,957**	**2,604,154**	**(3,993,761)**	**22,086,752**	**24,646,621**	**-**

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)

(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 2015 and 2014:

2015	**EUR**	**ALL**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	49,377,568	128	396,625	165,672	1,396,290	9,186	51,345,469
Balances with banks	37,369		48,835	45,341	31,670	11,081	174,296
Investment securities	36,700,619	-	-	-	-	-	36,700,619
Due from Head Office	54,589,484	9,017	1,884,807	243,621	1,841	(20,267)	56,708,503
Loans to customers	139,364,145	-	-	-	-	-	139,364,145
Other assets	2,333,065	6,234	20,118	7,575	11,334	-	2,378,326
Total assets	**282,402,250**	**15,379**	**2,350,385**	**462,209**	**1,441,135**	**-**	**286,671,358**
Liabilities							
Customer deposits	244,917,142	710	4,001,101	462,209	1,440,996	-	250,822,158
Due to banks	57,608	-	-	-	-	-	57,608
Deferred tax liabilities	431,710	-	-	-	-	-	431,710
Accruals and other liabilities	727,316	14,664	424,642	-	69	-	1,166,691
Borrowings	9,546,570	-	-	-	-	-	9,546,570
Total liability	**255,680,346**	**15,374**	**4,425,743**	**462,209**	**1,441,065**	**-**	**262,024,737**
Net position	**26,721,904**	**5**	**(2,075,358)**	**-**	**70**	**-**	**24,646,621**
Net position (GAP)	**26,721,904**	**26,721,909**	**24,646,551**	**24,646,551**	**24,646,621**	**24,646,621**	**-**

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

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)

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 2015 are as follows:

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	-
Loans to customers	-	8.69%
Investment securities available for sale	-	2.76%
Liabilities		
Customer deposits and due to banks	0.73%	2.03%

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%

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:

2015	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Decrease	100 bp Increase	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(614,147)	614,147	948,279	(948,279)

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

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 and 2014 are as follows:

2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	51,345,469	-	-	-	-	51,345,469
Balances with banks	174,296	-	-	-	-	174,296
Investment securities	1,998,091	-	18,266,890	16,435,638	-	36,700,619
Due from Head Office	56,708,503	-	-	-	-	56,708,503
Loans to customers	17,238,513	8,330,703	45,120,941	55,545,747	13,128,241	139,364,145
Total	**127,464,872**	**8,330,703**	**63,387,831**	**71,981,385**	**13,128,241**	**284,293,032**
Liabilities						
Customer Deposits and due to banks	118,710,877	15,192,932	69,985,746	46,400,119	590,092	250,879,766
Borrowings	-	-	-	-	-	-
Total	**118,710,877**	**15,192,932**	**69,985,746**	**46,400,119**	**590,092**	**250,879,766**

2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
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**

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 2015 and 2014 are detailed as following:

	31 December 2015	**31 December 2014**
Cash on hand	12,318,048	13,136,386
Balances with CBK	39,027,421	23,251,195
	51,345,469	**36,387,581**

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo.

Cash and cash equivalents as at 31 December 2015 and 2014 are presented as follows:

	31 December 2015	**31 December 2014**
Cash and balances with Central Bank	51,345,469	36,387,581
Statutory reserves	(17,549,000)	(17,481,000)
Minimum capital equivalency deposit	-	(7,000,000)
Balances with banks	174,296	414,594
	33,970,765	**12,321,175**

Balances with banks at 31 December 2015 & 2014 include current accounts with resident and non-resident banks.

As of December 31, 2015 the bank has invested on government securities of the Republic of Kosova as capital adequacy deposit. As of December 2014 the minimum cash deposit was pledged as capital equivalency deposit.

7. Investment securities

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

	31 December 2015	31 December 2014
Treasury bonds	27,470,924	10,938,518
Treasury bills	9,229,695	38,493,092
	36,700,619	**49,431,610**

All securities are categorized as available for sale.

Treasury bills available-for-sale by original maturity as at 31 December 2015 and 31 December 2014 are presented as follows:

	31 December 2015			
	Purchase value	Amortized discount	Marked to market gain (loss)	Amortized cost cost
3 months	-	-	-	-
6 months	-	-	-	-
12 months	-	-	-	-
24 months	27,440,000	150,984	(120,060)	27,470,924
	27,440,000	**150,984**	**(120,060)**	**27,470,924**

	31 December 2014			
	Purchase value	Amortized discount	Marked to market gain (loss)	Amortized cost cost
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**

8. Loans to customers

Loans to customers consisted of the following:

	31 December 2015	31 December 2014
Loans to customers	144,140,055	127,543,908
Accrued interest	813,132	1,505,705
Less allowances for impairment on loans	(5,589,042)	(4,973,167)
	139,364,145	**124,076,446**

Movements in the allowance for impairment on loans:

	2015	2014
At 1 January	4,973,167	3,673,992
Net impairment charge for the year	615,875	1,299,175
At the end of the year	**5,589,042**	**4,973,167**

The breakdown of the loan portfolio is as follows:

	2015	2014
Retail (individuals)	36%	33%
Private Enterprises	64%	67%

All the loans are in EUR and bear interest rates ranging from 0.5% 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 2015		31 December 2014	
	EUR	%	EUR	%
Wholesale Trade	33,435,982	37%	26,785,249	32%
Retail Trade	12,816,805	14%	13,927,223	16%
Construction	11,159,397	12%	8,429,918	10%
Education	2,836,876	3%	2,963,099	4%
Manufacturing of Food, Beverages, Tobacco	1,216,837	1%	13,574,013	16%
Other Community, Social and Personal Activities	3,302,806	4%	3,912,060	5%
Hotels and Restaurants	2,093,989	2%	1,658,493	2%
Financial Intermediation	396,348	0%	1,002,529	1%
Manufacturing of Rubber and Plastic Products	180,577	0%	396,200	-
Health and Social Work	2,714,112	3%	3,100,914	4%
Manufacturing of Basic Metals and Metal Products	860,794	1%	769,588	1%
Agriculture, Hunting and Forestry	2,863,687	3%	3,028,479	4%
Transport, Storage and Communication	5,221,996	6%	830,066	1%
Manufacturing of Textile and Textile Products	404,607	0%	281,326	-
Manufacturing of Wood and Wood Products	392,558	0%	286,178	-
Personal Needs	239,568	0%	498,555	1%
Manufacturing of Pulp and Paper Products	94,648	0%	92,619	-
Manufacturing of Transport Equipment	-	-	3,657	-
Private Households	32,757	0%	201,615	-
Real Estate & Renting Activity	-	-	49,123	-
Manufacturing of Furniture	97,256	0%	186,103	-
Electricity, Gas & Water Supply	822,147	1%	1,370,643	2%
Extra Territory Organisation. & Bodies	22,274	0%	33,865	-
Manufacturing Of Chemicals & Chemical Prod.	17,721	0%	30,948	-
Manufacturing Of Leather & Leather	70,393	0%	119,911	-
Manufacturing of Machinery& Equipment	25,015	0%	32,520	-
Manufacturing of other Non-Metallic product	1,819,604	2%	1,022,489	1%
Mining and Quarrying	7,550,511	8%	-	-
	90,689,265	**100%**	**84,587,383**	**100%**

The classification of retail loans by type is as follows:

	31 December 2015		31 December 2014	
	EUR	%	EUR	%
Home Purchase	21,491,378	44%	20,636,548	52%
Home Improvement	4,103,238	8%	3,871,972	10%
Home Construction	218,384	0%	304,994	1%
Call Loan	17,628,638	36%	10,598,806	27%
Shop Purchase	863,846	2%	370,585	1%
Overdraft and Credit Cards	2,286,333	5%	2,084,144	5%
Car Purchase	315,538	1%	270,511	1%
Cash Loan	1,755,251	4%	1,329,778	3%
Education	12,274	0%	21,725	-
	48,674,880	**100%**	**39,489,063**	**100%**

9. Property and equipment

Property and equipment as at 31 December 2015 and 2014 are composed as follows:

	Leasehold improvements	Motor vehicles and machinery	Computers and electronic	Office furniture	Total
Cost					
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**
At 1 January 2015	2,923,252	1,317,388	3,769,278	476,682	8,486,600
Additions	58,981	21,461	264,204	2,567	347,213
Disposals	(13,290)	(13,900)	-	-	(27,190)
At 31 December 2015	**2,968,943**	**1,324,949**	**4,033,482**	**479,249**	**8,806,623**
Accumulated depreciation					
At 1 January 2014	**(985,747)**	**(882,948)**	**(1,940,888)**	**(283,250)**	(4,092,833)
Charge for the year	(286,711)	(130,562)	(556,504)	(49,701)	(1,023,478)
Eliminated on disposals	38,256	13,450	3,084	-	54,790
At 31 December 2014	**(1,234,202)**	**(1,000,060)**	**(2,494,308)**	**(332,951)**	**(5,061,521)**
At 1 January 2015	(1,234,202)	(1,000,060)	(2,494,308)	(332,951)	(5,061,521)
Charge for the year	(305,323)	(145,057)	(567,019)	(57,400)	(1,074,799)
Disposals	5,427	13,900			19,327
At 31 December 2015	**(1,534,098)**	**(1,131,217)**	**(3,061,327)**	**(390,351)**	**(6,116,993)**
Net book value					
At 1 January 2014	**1,875,457**	**358,405**	**1,516,595**	**183,590**	**3,934,047**
At 31 December 2014	**1,689,050**	**317,328**	**1,274,970**	**143,731**	**3,425,079**
At 31 December 2015	**1,434,845**	**193,732**	**972,155**	**88,898**	**2,689,630**

10. Intangible assets

	Intangible assets
Cost	
At 1 January 2014	**215,901**
Additions	13,036
Disposals	
At 31 December 2014	**228,937**
At 1 January 2015	228,937
Additions	-
Disposals	-
At 31 December 2015	**228,937**
Accumulated depreciation	
At 1 January 2014	**(57,292)**
Charge for the year	(43,397)
Eliminated on disposals	-
At 31 December 2014	**(100,689)**
At 1 January 2015	**(100,689)**
Charge for the year	(45,788)
Disposals	-
At 31 December 2015	**(146,477)**
Net book value	
At 1 January 2014	**158,609**
At 31 December 2014	**128,248**
At 31 December 2015	**82,460**

11. Other assets

Other assets as at 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
Cards transactions settlement	964,706	787,130
Prepaid expenses	255,958	296,664
Advances to suppliers	56,544	55,523
Collaterals repossessed by the Bank	499,247	154,115
Fixed assets in magazine	148,990	182,676
Cash differences	316,518	313,655
Other debtors	136,363	102,494
	2,378,326	**1,892,257**

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 2015 and 2014 are composed as follows:

	31 December 2015	31 December 2014
Current accounts:		
Individuals	62,906,736	53,163,174
Private enterprises	38,740,800	32,838,593
State owned entities	1,627,250	1,325,461
	103,274,786	**87,327,228**
Term Deposits:		
Individuals	106,503,840	72,359,952
Private enterprises	29,581,714	25,681,904
State owned entities	11,461,818	27,118,275
	147,547,372	**125,160,131**
	250,822,158	**212,487,359**

Current accounts and deposits can be further analysed as follows:

	31 December 2015			31 December 2014		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	99,291,701	3,983,086	103,274,787	84,944,980	2,382,248	87,327,228
Term Deposits	**145,625,441**	**1,921,930**	**147,547,371**	**122,975,208**	**2,184,923**	**125,160,131**
One month	1,426,306	-	1,426,306	1,443,102	-	1,443,102
Three months	3,479,844	-	3,479,844	4,288,034	946,342	5,234,376
Six months	3,720,778	862,662	4,583,440	4,648,320	-	4,648,320
Twelve months	60,590,461	1,011,754	61,602,215	90,440,703	1,214,651	91,655,354
Two years and over	76,408,052	47,514	76,455,566	22,155,049	23,930	22,178,979
Total deposits	**244,917,142**	**5,905,016**	**250,822,158**	**207,920,188**	**4,567,171**	**212,487,359**

The five largest depositors of the Bank at 31 December 2015 comprise approximately 15% (2014: 21%) of total deposits.

13. Due to banks

	31 December 2015	31 December 2014
Current accounts	57,608	8,240
Accrued interest	-	1,763
	57,608	**10,003**

14. Accruals and other liabilities

	31 December 2015	31 December 2014
Accrued expenses	756,467	337,730
Accounts payable	401,968	602,624
Guarantee deposits received	8,256	8,943
	1,166,691	**949,298**

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

15. Borrowings

	31 December 2015	31 December 2014
Borrowings from resident/non-resident banks (EFSE)	9,545,000	10,000,000
Accrued interest	1,570	1,763
	9,546,570	**10,001,763**

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 2015 the authorised share capital was EUR 17,000,000 (2014: EUR 17,000,000).

17. Interest income

Interest income is composed as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Loans to customers	12,746,430	12,138,362
Due from Head Office	1,553,118	1,651,911
Investment securities	1,042,802	373,423
Balances with Central Bank	88	40
	15,342,438	**14,163,736**

18. Interest expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Customer deposits	2,558,654	3,302,663
Due to banks	315,262	254,446
	2,873,916	**3,557,109**

19. Fees and commissions, net

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

	Year ended 31 December 2015	Year ended 31 December 2014
Fee and commission income		
Payment services to clients	1,555,700	1,580,972
Lending activity	748,033	642,529
Customer accounts' maintenance	199,442	203,267
Cash transactions with clients	175,048	131,425
	2,678,223	**2,558,193**
Fee and commission expense		
Inter-bank transactions	(53,294)	(74,375)
	(53,294)	**(74,375)**
	2,624,929	**2,483,818**

20. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries	3,382,625	3,130,351
Social insurance	147,776	139,801
Other	118,596	178,993
Training	35,382	22,680
Life insurance for staff	-	34,405
	3,684,379	**3,506,230**

21. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Lease payments	1,040,666	1,008,534
Credit/debit card miscellaneous expenses	645,480	661,936
Telephone, electricity and IT expenses	527,460	529,580
Other external services	428,794	446,677
Repairs and maintenance	289,771	308,433
Security and insurance expenses	281,198	289,235
Taxes other than tax on profits	243,257	282,062
Marketing expenses	183,486	204,979
Office stationery and supplies	86,645	86,444
Sundry expenses	83,524	40,095
Representation expenses	49,187	36,993
	3,859,468	**3,894,968**

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 2015. 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. As at January 1, 2015 KEDS is divided into two companies: KEDS and Kosovo Electricity Supply Company (KESCO).

Balances and transactions with related parties

	31 December 2015	31 December 2014
Assets		
Placements and balances with banks:		
Aktif Yatirim Bankasi	4,619	87,219
Due from /(to) Head Office	56,708,503	29,926,605
Loans to customers:		
KEDS / KESCO	706,004	1,357,614
Senior management	72,045	37,208
Total Assets	**57,491,171**	**31,408,646**
Liabilities		
Customer current accounts and deposits:		
KEDS / KESCO	11,353,685	5,918,003
Senior management	191,651	120,383
Other liabilities:		
Other liabilities	2,513	5,299
Total Liabilities	**11,547,849**	**6,043,685**

22. Related party transactions (continued)

	31 December 2015	31 December 2014
Commitments and contingencies		
Guaranties in favour of customers:		
KESCO/KEDS (2014)	-	1,989,844
Senior management	7,783	50,063
Commitments in favour of customers:		
KESCO/KEDS (2014)	-	1,500,000
Senior Management	23,869	-

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.

	31 December 2015	31 December 2014
Statement of comprehensive income		
Interest income from:		
KESCO/KEDS (2014)	89,694	125,897
Head Office	1,553,118	1,651,911
Interest expenses for:		
KESCO/KEDS (2014)	(25,132)	(52,986)
Fees and commissions:		
KESCO/KEDS (2014)	10,208	9,901
Net	**1,627,888**	**1,734,723**

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 2015	Year ended 31 December 2014
Directors	195,856	172,226
Executive officers	381,955	363,536
	577,811	**535,762**

23. Contingencies and commitments

Guarantees and letters of credit	31 December 2015	31 December 2014
Guarantees in favour of customers	10,146,703	11,843,007
Letters of credit issued to customers	2,129,741	1,363,638

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

Other	31 December 2015	31 December 2014
Undrawn credit commitments	22,934,135	21,067,890
Collaterals for loan portfolio	316,030,390	375,937,672

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 2015.

Lease commitments

Lease commitments for the years ended 31 December 2015 and 2014 are composed as follows:

	31 December 2015	31 December 2014
Not later than 1 year	846,120	901,973
Later than 1 year and not later than 5 years	1,496,932	1,824,799
Later than 5 years	517,030	477,101
Total	**2,860,082**	**3,203,872**

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 2015, the maximum non-cancellable commitment payable not later than one year is EUR 214,470 (2014: EUR 209,456).

24. Income tax

Income tax is comprised as follows:

	31 December 2015	31 December 2014
Current income tax	554,428	-
Deferred tax expense	(443,480)	170,637
	110,948	**170,637**

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 2015	Year ended 31 December 2014
Profit before tax	**5,878,836**	**3,194,083**
Add/Less: non-deductible expenses	(579,050)	(410,278)
Allowable tax depreciation	15,690	(29,452)
CBK Impairment losses allowed for tax purposes	4,019,936	1,210,199
Taxable profit/ (losses) for the year	**9,335,412**	**3,964,552**
Tax profit/(losses) carried forward	**9,335,412**	**3,964,552**
	-	**-**

	Year ended 31 December 2015	Year ended 31 December 2014
Opening taxable losses	**(3,791,128)**	(7,755,680)
(Profit)/Losses for the year	9,335,412	3,964,552
Accumulated tax losses	**5,544,284**	**(3,791,128)**

The Bank has recalculated and changed the comparative figures of losses.

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 2015	31 December 2014
Liability at 1 January	875,190	704,553
Charge of the period	(443,480)	170,637
Liability at the end of the year	**431,710**	**875,190**

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

	31 December 2015	31 December 2014
Allowance for loan impairment	401,993	121,020
Decelerated depreciation	1,569	(8,515)
Deferred interest expenses	39,918	58,132
	443,480	**170,637**

24. Income tax (continued)

Income tax liability is consisted as follow:

	31 December 15	31 December 14
Accumulated tax profit (loss)	**5,544,284**	**(3,791,128)**
10% tax on income	554,428	**-**
Prepayments of income tax during the year	(221,200)	5,200
Tax liability	**333,228**	**-**

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.