ANNUAL REPORT 2015

BPB

Our roots are here,

We know how this country breathes,

its traditions, the value of the home in our land,

what our heart beats for,

we know what our family needs and what you expect from life,

we know, and we are here

for what is yours to remain yours,

because we are

The bank of your homeland

CONTENTS

MISSION

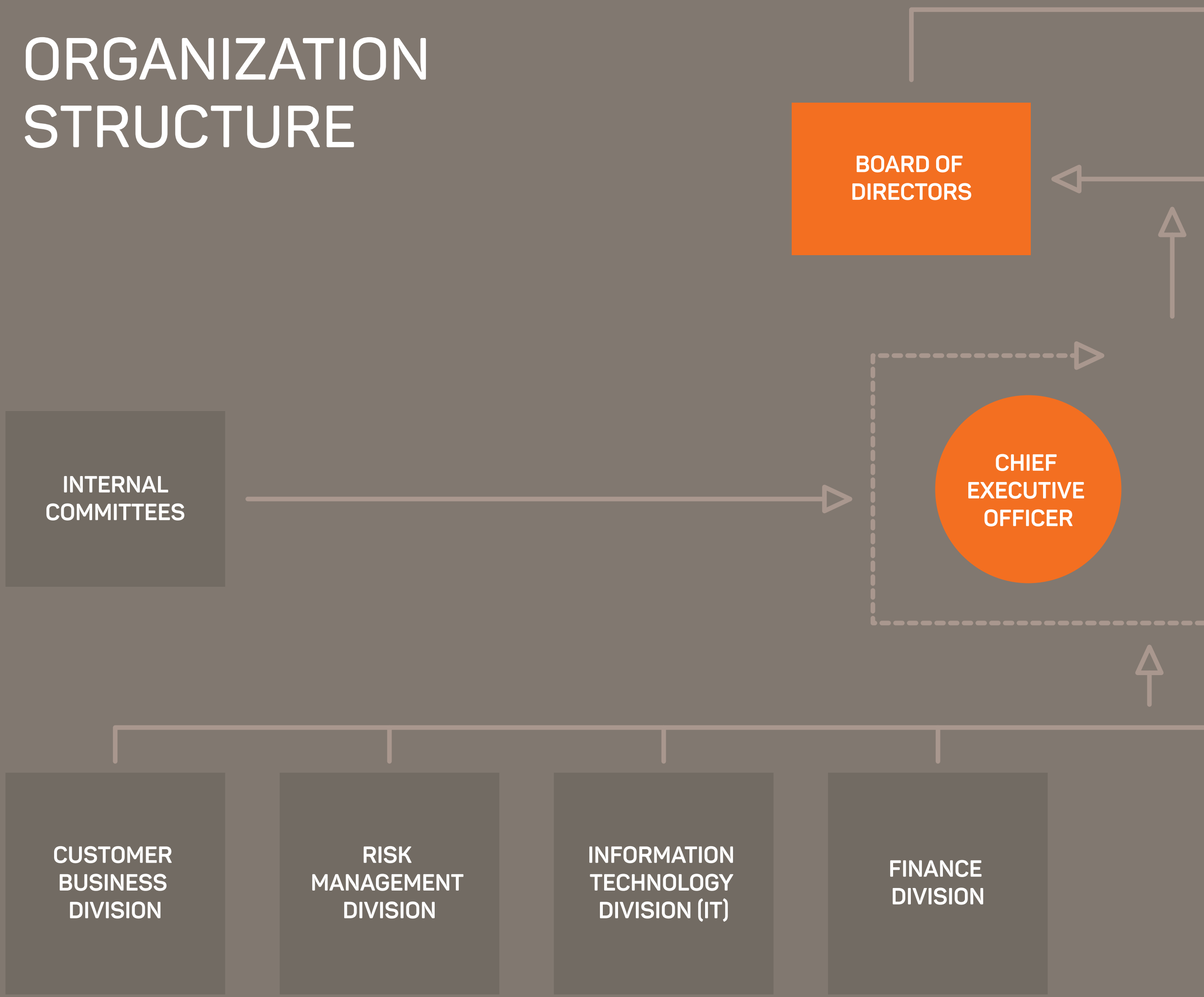
To be a reliable partner for customers in meeting their financial requirements and a secure supporter of their overall development.

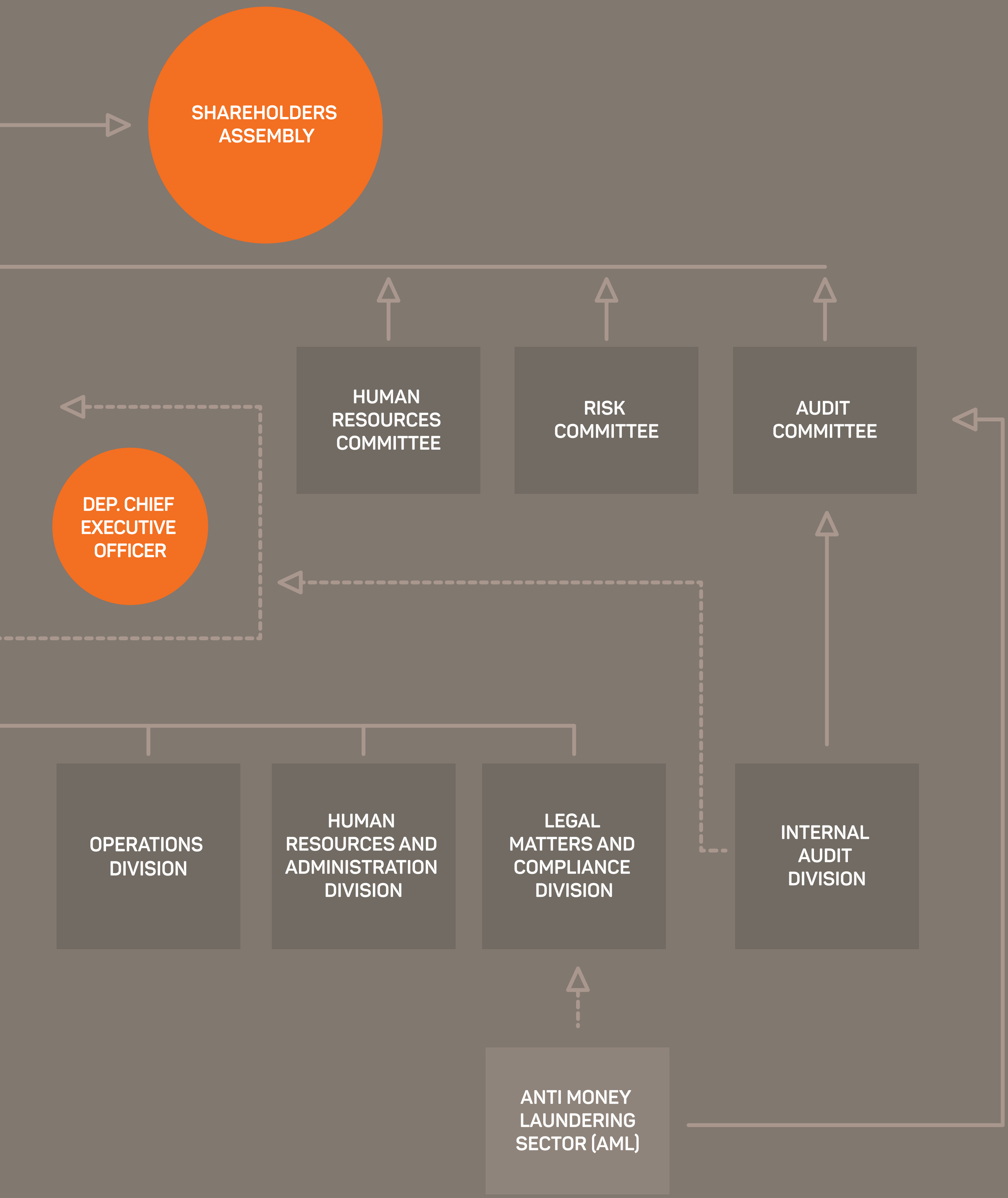
VISION

BPB's vision is to grow in sustainable ways, with the aim of supporting individuals and businesses in their economic development.

Brod, Dragash
©Arben Llapashtica

ORGANIZATION STRUCTURE




SHAREHOLDERS ASSEMBLY
HUMAN RESOURCES COMMITTEE
RISK COMMITTEE
AUDIT COMMITTEE
DEP. CHIEF EXECUTIVE OFFICER
OPERATIONS DIVISION
HUMAN RESOURCES AND ADMINISTRATION DIVISION
LEGAL MATTERS AND COMPLIANCE DIVISION
INTERNAL AUDIT DIVISION
ANTI MONEY LAUNDERING SECTOR (AML)

LETTER FROM CHAIRMAN OF THE BOARD

This is my second letter as Chairman of the Board of Directors. In my first letter I reported that the year 2014 was a year of challenges. 2015 has been a year of re-focusing.

The world economy has had a very slow development. Kosovo has not been immune to this and there has been some improvement in the economy against a politically uncertain environment. Fortunately the companies in Kosovo largely adapted to the business climate.

During 2015, BPB focused on its target market of individual customers and small and medium enterprises. This market allowed the bank to use its capital resources in the most efficient manner possible. The number of customers has increased and has enabled the bank to diversify risks across a wider base. Deposit and loan portfolios have grown in line with the business plan for this year. Returns from bad loans have been a priority and using debt collection companies and private enforcement agents has proven quite useful.

With the launch of our new image the opportunity was used to move some of the branches into more appropriate facilities and locations and at the same time our new image was included in all our branches.

Cost optimization has been one of our main objectives throughout the year, either through re-negotiation of leases of buildings or by paying more attention to costs of external service providers. In addition, staff efficiency was increased and this has contributed to maintaining a stable staff number despite business growth.

On behalf of the Board, I would like to thank the staff for their enthusiasm in approaching all of these challenges.

The bank's results reflect the many positive changes that we have implemented and for the first time the bank has generated profit after tax of 2.0 million Euro in accordance with IFRS. Retaining the profits has enabled the bank to increase its capital base to 11.7 million Euro.

In February 2015, the Central Bank has approved members of the Board of Directors and since then we have regularly met in the supervisory function.

There are three Committees of the Board - the Audit Committee, The Risk and Human Resources Committee - and they also had meetings on a regular basis. I want to thank the board for their proactive approach towards their responsibilities.

Oliver Whittle
Chairman of the Board

Oliver Whittle
Chairman of the Board

LETTER FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to report that 2015 was another successful year for Banka për Biznes (BPB). The bank continued to intensify its focus on customers' needs, to improve efficiency and to boost profitability. Profit growth in 2015 was based on stable gross income (net interest income and fee income), the efficient management of costs and lower levels of provisions for credit risks; all of this achieved in a market that has seen intensified competition between banks.BPB comfortably meets all the regulatory requirements and it had a good performance in 2015 by all measures. Significant indicators at year end include: Shareholders' equity stood at 11.7 million euros, return on equity for 2015 at 18.6 %, while non-performing loans ratio (loans 90 days or more in delay as a percentage of the total portfolio) at 5.8 % – one of the lowest outcomes in the local and regional banking sectors. Our valued customers have undoubtedly experienced the transformation in branding and appearance in our branch locations and in our on-line offerings. Our web site has been completely redesigned and our mobile and internet delivery options have been rebranded and upgraded. All our branch outlets have been fitted out in the new corporate style; in several locations branches have been relocated to new premises that are more appropriate for catering to the needs of our customers. I would like to acknowledge the valuable support provided by the International Finance Corporation (IFC). The IFC (a member of the World Bank Group) and BPB worked together to develop new loan products to finance energy efficiency projects for homes and smaller businesses in Kosovo.

I would also like to acknowledge the role played by the European Fund for Southeast Europe (EFSE). During 2015 EFSE provided BPB with medium term funds for onward lending to micro and small enterprises and to rural business engaged in agriculture, livestock and agro-processing.

I thank the International Finance Corporation and the European Fund for Southeast Europe for their commitments to BPB and I look forward to further cooperation in the years to come.

The successes in 2015 came about due to the endeavours of my colleagues at all levels in the organisation. Without their unstinting efforts, the exceptional outcomes could not have been achieved. I am proud to work with such dedicated colleagues and I thank them for their hard work and their commitment to BPB.

In closing, I would like to thank our customers for the trust and loyalty they continue to show towards BPB. As the 'Bank of your Homeland' my colleagues and I are committed to provide the very best in banking services and products for you, our valued customers.

Richard Beasley
Chief Executive Officer

Richard Beasley
Chief Executive Officer

REBRANDING

From June 1, 2015, the Bank began to show its identity with a new image. Inspiration for the logo comes from the “Gentiana lutea” flower which has been discovered by the Illyrian King Genti.

Orange colour prevails in the new logo, as well as the flower leaf which together represent *optimism, warmth, growth and security.*

As part of the rebranding, instead of the full name: Bank for Business, the new visual identity will always be based on using the BPB acronym.

BpB BANKA PËR BIZNES

OLD LOGO

Inspired by the “Gentiana lutea” flower discovered by the Illyrian King Genti

Unique shape of two symmetrical leaves, a structure which symbolizes growth, protection and comfort

A symbol as a combination of letter “B” and the shape of leaves

The first letter of the name Bank for Business

BPB

NEW LOGO

OUR... **ROOTS** ARE HERE

Stone Bridge, Gjakova

©Arben Llapashtica

BUSINESS RESULTS

Net interest income during 2015 was 7.5 million Euro (31 December 2014: 6.4 million euro). This category of revenues represents approximately 76.8% of total gross income of the BPB generated during 2015 (31 December 2014: 74.9%).

Interest expenditure for 2015 were at 1.7 million Euro. Compared to 2014 there was a decrease of interest expenditure by approximately 887 thousand euro. This decrease was due to the continuous fall in interest rates on deposits, although there was an increase of over 12.8 million euros worth of deposits compared with 2014.

Despite the fact that the net loan portfolio at the end of 2015 reached the amount of 87.0 million Euros, which means an increase of 12.0 million euros compared to 2014, net provisions for loans and other assets, however, had a stable trend with a slight increase of 218 thousand euro.

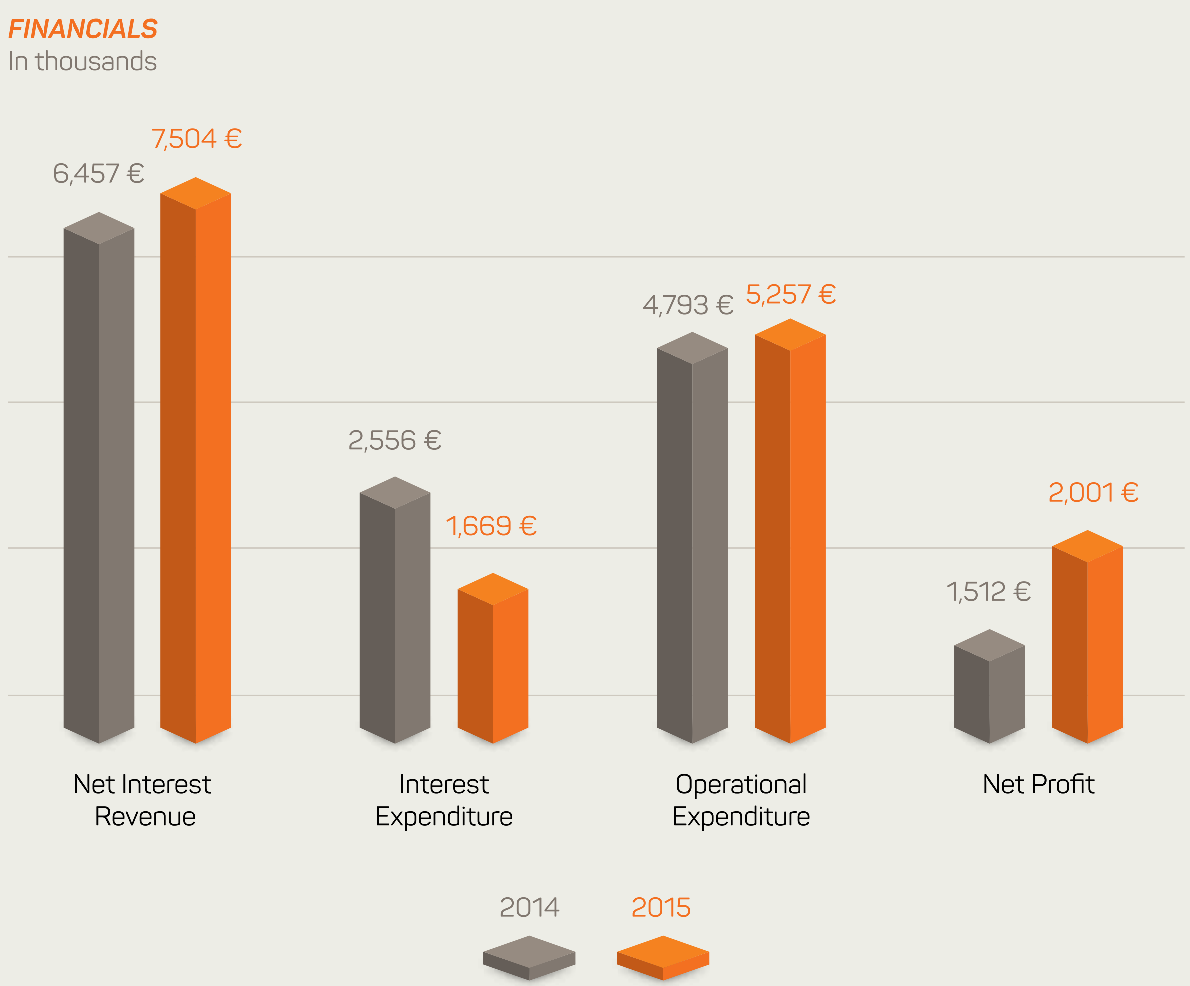
Operating expenditure in 2015 was at 5.3 million Euro, representing an increase of 9.7% compared with 2014. During 2015 BPB achieved a net profit of 2.0 million euros, or 489 thousand euros more than last year, or expressed as a percentage, an increase by 32.3%.

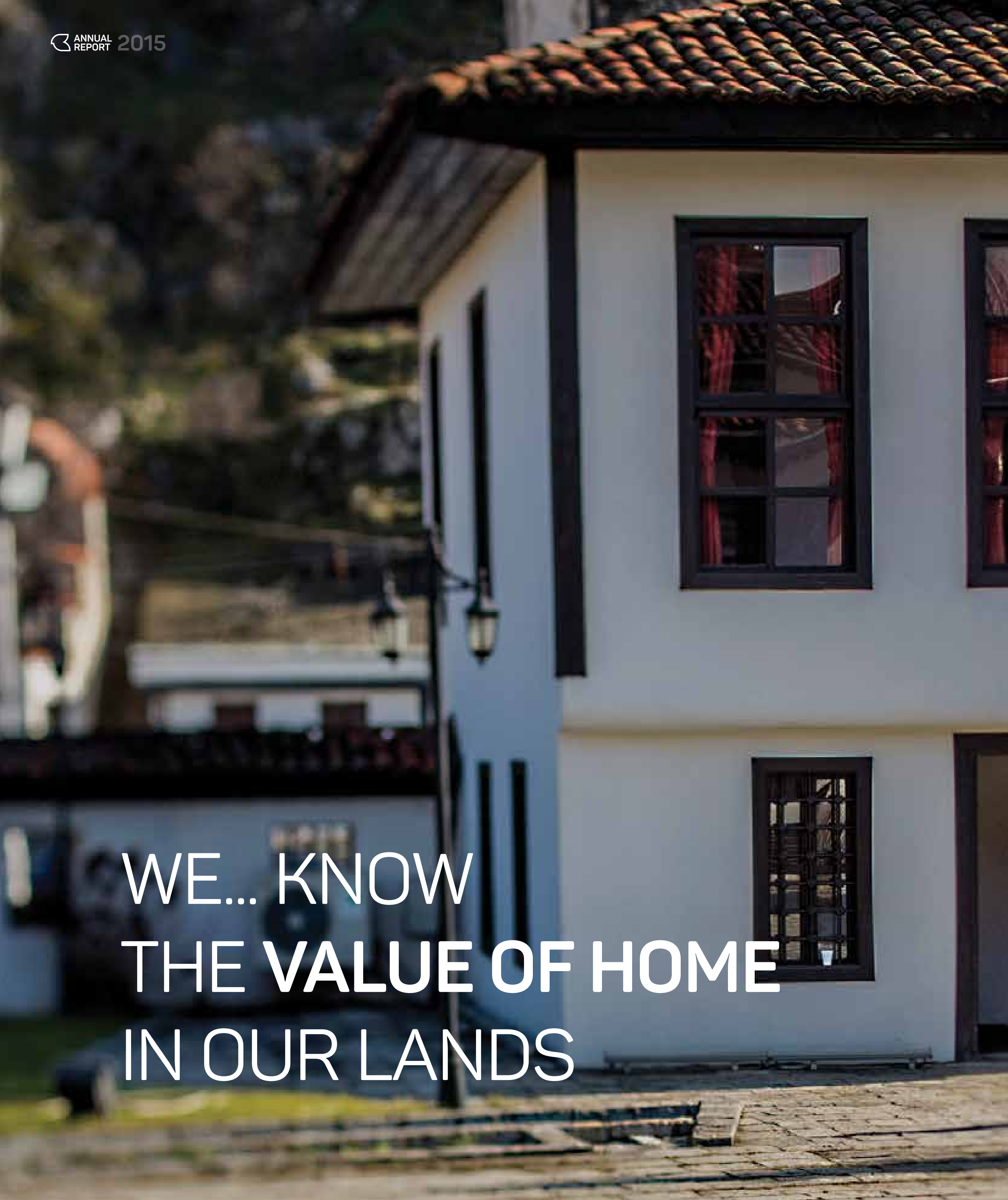
Investments in securities issued by the Government of the Republic of Kosovo during 2015 have increased by almost 3.1 million euro, expressed as a percentage, an increase of 43.2%. This increase is due to the consolidation of the secondary securities market, where the bank has expressed interest in investing in such financial instruments with the aim of trading them.

Regarding sources of funds, the bank continued to improve the quality of deposits, focusing on the growth of longer maturity deposits and changing their structure by moving from term deposits of legal entities to deposits of private individuals, as they are considered to be more sustainable and stable.

During 2015 the Bank has entered into an agreement for a loan in the amount of 4.0 million euros with EFSE. Of this amount, 3.0 million euros were collected during 2015 and we expect the amount of 1.0 million euro to be received during the first quarter of 2016. This fund will be used for financing SMEs and for the development of the agribusiness sector and the loan portfolio for energy efficiency.

In 2015 the quality of the loan portfolio was increased, where the NPL rate (according to the CBK regulations) fell to 5.8% from 8.3% in the end of 2014. In addition, the coverage ratio, always calculated according to the CBK regulations, was 103.8% at the end of 2015, while it was 92.6% at the end of 2014.





WE... KNOW THE **VALUE OF HOME** IN OUR LANDS

League of Prizren, Prizren

©Arben Llapashtica

CUSTOMER BUSINESS

During 2015, BPB has developed various activities and has been very active in providing various services to the sector of private individuals (PI), small and medium enterprises (SMEs) as well as the corporate sector. In the PI and SME sectors, the focus has been on growth and development of services specially designed for customers in such sectors. In the corporate sector the aim was the further development of the loan portfolio, maintaining existing customers and the increase of bank turnover through BPB.

Compared with 2014, in 2015 the net loan portfolio marked an increase by 16%. Customer deposits increased by 12.5%. Besides the portfolio growth in each sector, there has been a considerable improvement in the quality of the loan portfolio.

New energy efficiency projects and agro projects were a priority for the PI and SME sector. Both of these programs resulted in a steady growth of the loan portfolio. The Bank received a credit line from EFSE for SME and Agro loans, as well as technical assistance from IFC for energy efficiency.

Cross-selling was an additional focus of the customer business division. Through it, the bank aims to create sound and long-term relationships with customers.

Cooperation with corporate clients, except in the area of lending, turnover and deposits, continued with cooperation agreements, where the BPB offered more favourable conditions to the customers for the purchase of products and services of such companies.

PRODUCT MANAGEMENT AND DEVELOPMENT

Managing and modifying products to fit the customer needs, respectively developments in the market, has been a priority of BPB.

In 2015, the BPB redesigned credit and debit cards. New products were developed such as cards for pension receivers, instalment cards and revolving cards. All these cards are expected to be launched in 2016.

Transaction security features and options were added to the e-banking platform, for performing multiple transactions as well as for various internal and external payments.

To increase the accessibility of products and to strengthen relationships with customers, the bank has designed banking packages containing several banking products and services. Such packages are offered both to private individuals, as well as to SMEs and corporations.

CUSTOMER SERVICE

BPB has an extensive network of branches that enables its customers quick and easy access to banking products and services. 2015 was the year when the look of all BPB's units was updated to reflect the new identity of the bank.

The bank's permanent aim is to establish and maintain good relationships with its customers by improving service for every customer in all products and services.

Quick and professional response to addressing customer requests was the main criterion for increasing the quality of service. Handling customer suggestions and complaints in a quick and professional manner was a form of maintaining satisfied customers.

During 2015 the call centre was up and running, it contacted many customers, but also received a large number of calls from them. This centre had an impact on the increase of quality of service for customers who prefer this way of business, namely for information.

HUMAN RESOURCES

BPB considers staff to be a key element in achieving its goals. Therefore the bank places great importance in the selection of personnel, their development and the working environment. As a result of changes to the organization of work, in order to improve processes, year 2015 was characterized by an extensive recruitment process, including both movement of staff within the organization as well as recruiting new staff from outside the bank.

Year 2015 is also characterized by intensive staff training, mainly staff in customer service as well as different levels of management of the bank. The focus of training was the development of skills of service and sales, which are reflected in the quality of services that BPB offers to its customers, while management training included important areas for successful management which is in line with contemporary management trends.

Two kinds of external trainings were held for staff and four different modules were held with various management topics. Over 6500 hours of training were held by external trainers.

Environment and working conditions are among the most important criteria in staff motivation and the creation of long-term relations. As a commitment to achieving these goals, BPB has organized various activities for recognition and socializing for its employees, with the aim of establishing good interpersonal relations, which we hope will further contribute to the performance of work processes.

The Bank will continue next year with commitments to greater investment in staff development and welfare, so this is also reflected in meeting the needs of its customers.

Prizren castle
©Arben Llapashtica

WE... KNOW WHAT OUR **HEART BEATS** FOR

RISK MANAGEMENT

CREDIT RISK MANAGEMENT

Exposure to credit risk arises as the risk of financial loss, as a result of the borrower's inability to meet all contractual credit obligations to the bank.

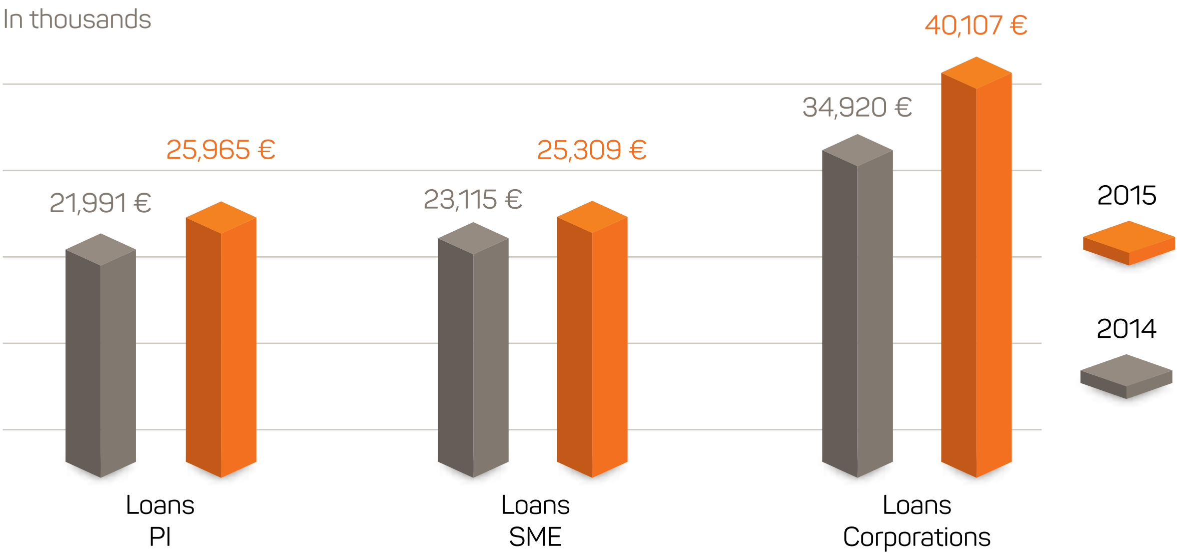
Credit risk management is a process that involves the identification of potential risks, their measurement, proper treatment and application of appropriate models for minimizing and managing these risks.

The year 2015 was characterized by consolidation and improvement of many processes and activities in managing credit risk such as: the process of evaluation and review of credit requests, including the process of distribution of credit, credit monitoring and control, legal and regulatory infrastructure of credit activity, management of the loan portfolio quality, the creation and review of statistical models, advanced structures of reporting and analysis, the process of collecting bad debts and prevention of new cases of debt deterioration.

The bank's management is committed to continue with sustainable and good quality growth of the loan portfolio.

LOAN PORTFOLIO

In thousands



OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk arising from the failure or inadequacy of bank's internal processes, people or systems and/or external events. Taking into account the business model and the process of decision-making at the bank, the management of operational risk is considered an important and integral part of the overall business management always in full compliance with Basel II principles and Regulation of the Central Bank of the Republic of Kosovo (CBK).

The Bank relies upon the application of a wide range of sound practices for managing operational risk. BPB operates at a high level of transparency, while retaining a wide diversity of products and processes. Furthermore, during 2015 the bank has built a system of internal controls and in this respect an internal controls committee was established, which informs the senior management and board of directors on the effectiveness of controls.

LIQUIDITY RISK MANAGEMENT

BPB manages liquidity risk through policies and procedures, which are in accordance with CBK regulations. During 2015, the bank has managed liquidity by maintaining required levels under the CBK regulations and the internal bank requirements.

Bank has monitored its liquidity through various indicators, always being within the set limits. The Bank has prepared projections of the liquidity position and has improved stress tests models. In addition, it has also been active in the primary and secondary securities market.

MARKET RISK MANAGEMENT

BPB has maintained a low level of exposure to foreign currencies by avoiding open moving positions. Foreign exchange risk management is done on a daily basis by consistently monitoring exchange rates and positions.

Interest rate risk management involves monitoring the assets and liabilities maturity gap along with the results of stress tests which serve as an early warning of the impacts of interest rate movements on bank profitability. The Bank also measures net economic value of capital. During 2015, the bank was stable against changes to interest rates on the market.

INFORMATION TECHNOLOGY

Information Technology (IT) Division, has implemented important projects which had a positive impact on the bank's daily work. In addition to improvements in the security of the system used, the IT Division has also made updates to the system which enable the provision of services in a faster and better quality manner.

In 2015 we have upgraded the computer network in the Head Office and we have strengthened the internal computer traffic control. This improvement has continued in the computer network infrastructure for connecting branches with the Head Office. All this has enabled us to have a computer system which is more efficient and more secure.

The largest project of the IT division was the upgrade of the disaster recovery centre (Disaster Recovery Site - DRS). This system ensures the continuity of all services offered by the bank in case of an emergency situation or circumstances arising from natural or human causes.

OPERATIONS MANAGEMENT

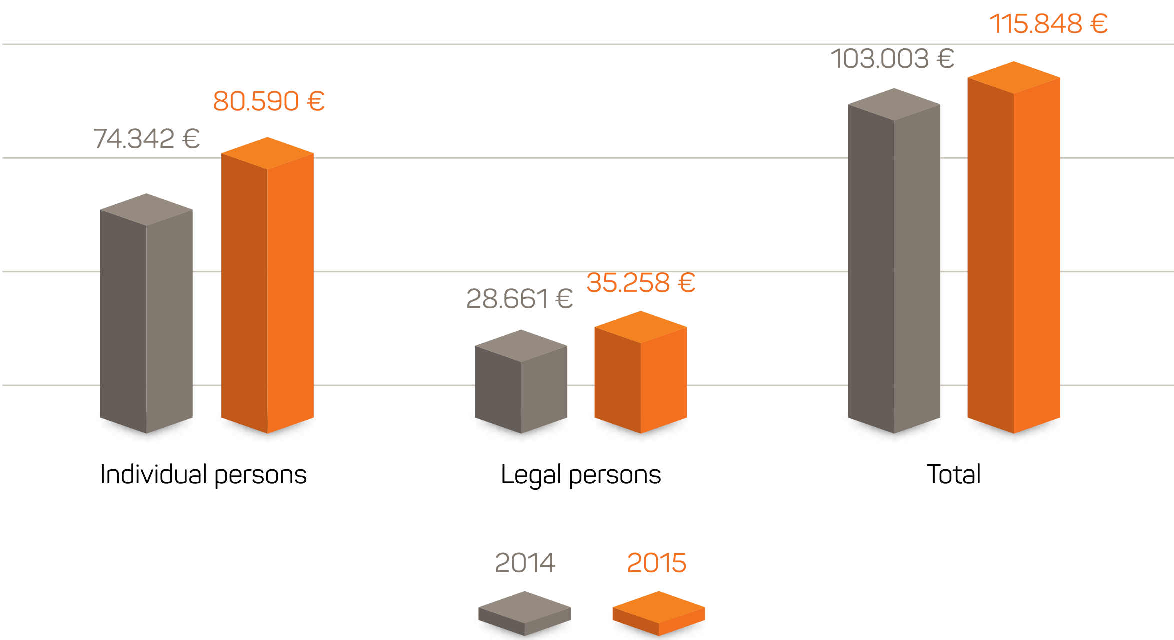
Management of operations is characterized by significant developments that have resulted in the improvement of the work process.

Management of loans, through improving the work process, has continued with a growth in efficiency compared with previous years.

The Bank continued to perform national and international payments and bank guarantees for its customers. In 2015 the bank implemented the interface between the bank system and Kosovo Customs. This project has facilitated the work of customers by reducing the time for execution of payments.

In 2015, Treasury activity was focused on cash management, investments, foreign exchange and securities trading. These processes have created successful business opportunities for BPB. Management of accounts in correspondent banks helped the performance of payment transactions through external and internal transfers

DEPOSITS IN FIGURES
In thousands



WE... KNOW WHAT OUR **CHILDREN NEED**

Smiles# 1 October

CORPORATE SOCIAL RESPONSIBILITY (CSR)

BPB has supported various activities to support the community in which it operates and works. These activities were focused on the most vulnerable groups of society.

Initially the bank was focused on ensuring that the slogan “the bank of your homeland” is understood and experienced by its own staff, such that it further conveys the meaning of the slogan to the customer. For this slogan to prove its authenticity, the bank has supported social responsibility activities under the slogan “we know what a citizen needs”.

BANKA PËR BIZNES SH.A.

Financial statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2015
(with independent auditors' report thereon)

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KPMG Albania Shpk Kosovo Branch
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Pristina, Kosovo

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Internet www.kpmg.al

Independent Auditors' Report

To the shareholders and Board of Directors of
Banka per Biznes Sh.a

Pristina, 31 March 2016

We have audited the accompanying financial statements of Banka per Biznes Sh.a ("the Bank"), which comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 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.

Auditors' 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 our 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, we consider 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 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk Kosovo Branch

KPMG Albania Shpk Kosovo Branch
6, Pashko Vasa Street,
Pristina, Kosovo

Banka per Biznes Sh.a.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

In thousands of EUR	Note	2015	2014
Interest income	6	9,173	9,013
Interest expense	6	(1,669)	(2,556)
Net interest income		**7,504**	**6,457**
Fee and commission income	**7**	1,848	1,999
Fee and commission expense	**7**	(414)	(399)
Net fee and commission income		**1,434**	**1,600**
Recoveries of loans previously written off		542	465
Net foreign exchange gain		70	25
Income from sale of securities		120	-
Other operating income		100	69
Total operating income		**9,770**	**8,616**
Impairment losses	15	(1,584)	(2,059)
Net reversal of provisions for guarantees		19	6
Repossessed assets write-downs	16	(305)	(241)
Other provisions	23	(642)	-
Other operating expenses	8	(5,257)	(4,793)
Total operating expenses		**(7,769)**	**(7,087)**
Profit before income tax		**2,001**	**1,529**
Income tax expense	9	**-**	**(17)**
Net profit for the year		**2,001**	**1,512**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale financial assets)		**(18)**	**-**
Total comprehensive income for the year		**1,983**	**1,512**

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 5 to 42.

Banka per Biznes Sh.a.
Statement of Financial Position
As at 31 December 2015

In thousands of EUR	Note	2015	2014
Assets			
Cash on hand and at banks	10	10,623	8,540
Balances with Central Bank of Kosovo	11	22,576	20,891
Loans and advances to banks	12	960	1,211
Held-to-maturity investments	13	-	7,242
Available-for-sale financial assets	14	10,372	-
Loans and advances to customers	15	87,025	74,979
Repossessed assets	16	747	843
Other financial assets	17	291	459
Other assets	18	122	249
Intangible assets	19	147	145
Property and equipment	20	1,041	642
Total assets		**133,904**	**115,201**
Liabilities			
Due to customers	21	115,848	103,003
Subordinated debt	22	1,848	1,848
Borrowings	22	3,017	-
Deferred tax liability	9	105	105
Other liabilities and provisions	23	1,345	487
Total liabilities		**122,163**	**105,443**
Equity			
Share capital	24	11,247	11,247
Other capital reserve	24	857	857
Revaluation reserve	24	96	96
Fair value reserve		(18)	-
Accumulated losses		(441)	(2,442)
Total equity		**11,741**	**9,758**
Total liabilities and equity		**133,904**	**115,201**

These financial statements were approved by the management of the Bank on 31 March 2016 and signed on its behalf by:

Richard Beasley

Richard Beasley
Chief Executive Officer

Avni Berisha
Head of Finance Division

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 5 to 42.

Banka per Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2015

In thousands of EUR	Share capital	Other capital reserve	Revaluation reserve	Accumulated losses	Fair value reserve	Total
Balance at 1 January 2014	**11,247**	**857**		**(3,954)**	**-**	**8,150**
Transactions with owners of the Bank						
Total comprehensive income for the year						
Revaluation reserve	-	-	-	-	-	-
Profit for the year	-	-	-	1,512	-	1,512
Other comprehensive income	-	-	96	-	-	96
Total comprehensive income /(loss)	**-**	**-**	**96**	**1,512**	**-**	**1,608**
Balance at 31 December 2014	**11,247**	**857**	**96**	**(2,442)**	**-**	**9,758**
Balance as at 1 January 2015	**11,247**	**857**	**96**	**(2,442)**	**-**	**9,758**
Transactions with owners of the Bank						
Total comprehensive income for the year						
Profit for the year	-	-	-	2,001	-	2,001
Other comprehensive loss (Fair value reserve)	-	-	-	-	(18)	(18)
Total comprehensive income /(loss)	**-**	**-**	**-**	**2,001**	**(18)**	**1,983**
Balance at 31 December 2015	**11,247**	**857**	**96**	**(441)**	**(18)**	**11,741**

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 5 to 42.

Banka per Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2015

In thousands of EUR	Note	2015	2014
Cash flows from operating activities			
Profit for the year		**2,001**	**1,512**
Non-cash items in the financial statements:			
Depreciation	20	281	271
Amortisation	19	87	109
Gain from disposal of property and equipment		(30)	(87)
Impairment losses from loans	15	1,584	2,059
Write down of repossessed assets	16	305	241
Interest expense	6	1,669	2,556
Interest income	6	(9,173)	(9,013)
		(3,276)	**(2,352)**
Changes in:			
Loans and advances to banks	12	251	(845)
Loans and advances to customers	15	(13,599)	(8,933)
Restricted balancew with the CBK	11	(1,066)	(221)
Other assets	18	127	(591)
Deferred tax liability		-	17
Other financial assets	17	168	-
Repossessed assets	16	(209)	146
Due to customers	21	13,049	2,187
Other liabilities and provisions	23	858	(2,091)
Interest received		9,142	9,013
Interest paid		(1,873)	(2,556)
Net cash used in operating activities		**3,572**	**(6,226)**
Cash flows from investing activities			
Investments in available-for-sale investments	14	(10,390)	-
Proceeds from held-to-maturity investments	13	7,242	8,806
Purchase of property and equipment	20	(711)	(159)
Purchase of intangible assets	19	(89)	(7)
Proceeds from sale of property and equipment		61	127
Net cash from investing activities		**(3,887)**	**8,767**
Cash flows from financing activities			
Receipts from borrowings	22	3,017	-
Net cash used in financing activities		**3,017**	**-**
Net increase in cash and cash equivalents		**2,702**	**2,541**
Cash and cash equivalents at beginning of the year	10	**21,452**	**18,911**
Cash and cash equivalents at the end of the year	10	**24,154**	**21,452**

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 5 to 42.

Banka per Biznes Sh.a.
Notes to the financial statements
For the year ended 31 December 2015
(Amounts in thousands of EUR, unless otherwise stated)

1. Introduction

The Bank for Private Business Sh.a obtained a license for banking activities on 29 March 2001 and commenced operations on 24 April 2001.

Based on the decision of the Board of Directors dated 28 February 2005, and the final approval from the Central Bank of Kosovo ("CBK") dated 22 March 2005, the Bank changed its name to Banka per Biznes (the "Bank"). In 2006, the Bank was registered as a joint stock company ("Sh.a"). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 7 branches in Prishtina, Gjakova, Peja, Prizren, Ferizaj, Mitrovica and Gjilan and 19 sub-branches located throughout Kosovo (2014: 20).

2. Basis of preparation

(a) Statement of compliance

These 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 preparation

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

(c) Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's 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 estimates are recognised prospectively.

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, 5 and 26.

Banka per Biznes Sh.a.
Notes to the financial statements
For the year ended 31 December 2015
(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) 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 financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial 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 transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis.

(b) Fees and commissions

Fees and commission income and expense 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, including account servicing fees, fund transfer fees, sales commission and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

(c) Lease payments

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.

(d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss 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.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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Notes to the financial statements
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3. Significant accounting policies (continued)

(d) Tax expense (continued)

(ii) Deferred tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it 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.

(iii) Tax exposures

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. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement 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.

(e) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised costs 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 year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, held-to-maturity and available-for-sale investments, deposits, borrowings and subordinated debt on the date that 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 recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

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3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification

Financial assets

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

- loans and receivables;
- held to maturity, and
- available-for-sale financial assets.
  See notes 3.(g),(h), (i) and (j).

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost. See note 3.(k).

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

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

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

Impairment of loans and advances

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). Based on historical data for each of these groups a loss factor is calculated. These expected loss factors are adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends, and then they are applied to estimate impairment loss on each group. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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Notes to the financial statements
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3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Impairment of loans and advances (continued)

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. The loans are written off after reasonable collection measures have been taken in accordance with the Bank's established policy. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment of available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for - sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(g) Cash and cash equivalents

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

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

(h) Investments held-to-maturity

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as held to maturity.

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3. Significant accounting policies (continued)

(h) Investments held-to-maturity (continued)

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

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 3.(f).(vii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(i) Available-for-sale financial assets

Investment securities are initially measured at fair value plus incremental direct transaction costs.

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 comprise debt securities. All available-for-sale investments are measured at fair value after initial recognition.

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. Impairment losses are recognised in profit or loss (see (f)(vii)).

Other fair value changes, other than impairment losses (see (f)(vii)), are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(j) Loans and receivables

Loans and receivables 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. Loans and advances to banks and to customers are classified as loans and receivables.

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

(k) Deposits, borrowings and subordinated debt

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

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

(l) Repossessed assets

Repossessed assets are acquired through enforcement of security over non-performing loans and advances to customers that do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time. Repossessed assets are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss.

(m) Property and equipment

(i) Recognition and measurement

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

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3. Significant accounting policies (continued)

(m) Property and equipment (continued)

(i) Recognition and measurement (continued)

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii)Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognised in profit or loss.

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

	Useful life
Buildings	20 years
Computer and related equipment	5 years
Vehicles	5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful life of the leasehold improvements is 5 years.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(n) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss over the estimated useful life of the asset, from the date that it is available for use.

Software is amortised using the straight-line method over the estimated useful life of five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(o) 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.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

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3. Significant accounting policies (continued)

(o) Impairment of non-financial assets (continued)

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 are recognised in profit or loss. 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.

(p) 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. The unwinding of the discount is recognised as finance cost.

(q) 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 only 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 Kosovo 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. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(r) Financial guarantees and loan commitments

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

(s) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards and amendments early.

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3. Significant accounting policies (continued)

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank has started the process of evaluating the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements:

Effective for annual reporting periods beginning on or after 1 January 2016
IFRS 14 Regulatory Deferral Accounts
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
Equity Method in Separate Financial Statements (Amendments to IAS 27)
Annual Improvements to IFRSs 2012–2014 Cycle – various standards
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
Disclosure Initiative (Amendments to IAS 1)

Effective for annual reporting periods beginning on or after 1 January 2017
Disclosure Initiative (Amendments to IAS 7)
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Effective for annual reporting periods beginning on or after 1 January 2019
IFRS 16 Leases

4. Use of estimates and judgments

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the separate financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 26).

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4. Use of estimates and judgments (continued)

(a) Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.(f).(vii).

The Bank reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the 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 Bank.

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.

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(b) Net realizable value of repossessed assets

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value. The fair value measurement include the use of external, independent property values, having appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

The Bank does not present repossessed property in the statement of financial position for periods longer than 5 years.

The fair values of the Bank's repossessed assets are categorized into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of repossessed assets, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: • The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain • Specific condition of each property (construction, position etc.)

(c) Determining fair values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.(f).(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.

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4. Use of estimates and judgments (continued)

(c) Determining fair values (continued)

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.

The estimation of the fair value is disclosed in note 5.

5. Disclosure and estimation of fair value

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Financial instruments – fair value hierarchy

The following table sets out the fair values of financial instruments measured and not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

		2015		2014
	Carrying value	**Fair value Level 2**	**Carrying value**	**Fair value Level 2**
Financial assets measured at fair value				
Available-for-sale	10,372	10,372	-	-
Financial assets not measured at fair value				
Cash on hand and at banks	33,199	33,199	29,431	29,431
Loans and advances to banks	960	960	1,211	1,211
Held-to-maturity investments	-	-	7,242	7,244
Loans and advances to customers	87,025	89,974	74,979	73,222
Other financial asset	291	291	459	459
Financial liabilities not measured at fair value				
Due to customers	115,848	116,330	103,003	103,371
Subordinated debt	1,848	1,842	1,848	1,599
Borrowings	3,017	3,017	-	-
Other financial liabilities	651	651	416	416

Fair value for financial assets and liabilities above have been determined using Level 2 input described above.

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

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5. Disclosure and estimation of fair value (continued)

Balances with banks

Due from other banks include inter-bank placements and accounts. As loans, advances and deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Treasury Bills

Treasury Bills include treasury bills issued by the Government of Kosovo which are bought with the intention to hold till maturity. The fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Bonds

Bonds include bonds issued by the Government of Kosovo which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs.

Loans and advances to customers

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers, borrowings and subordinated debt

The fair value of subordinated debt and Due to customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits and subordinated debt of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

6. Net interest income

Net interest income is composed as follows:

	2015	2014
Interest income		
Loans and advances to customers	9,018	8,917
Loans and advances to banks	2	5
Held-to-maturity investments	-	91
Available-for-sale investments	153	-
	9,173	**9,013**
Interest expenses		
Due to customers	(1,466)	(2,373)
Subordinated debt	(186)	(183)
Borrowings	(17)	-
	(1,669)	**(2,556)**
Net interest income	**7,504**	**6,457**

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7. Net fee and commission income

	2015	2014
Fee and commission income		
Payment transfers and transactions	1,485	1,665
Account maintainance fees	321	287
Other fees and commissions	42	47
Total fee and commission income	**1,848**	**1,999**
Fees and commissions on bank accounts	(323)	(328)
Fees and commissions on social aid distribution	(69)	(65)
Other fees and commissions	(22)	(6)
Total fee and commission expense	**(414)**	**(399)**
Net fee and commission income	**1,434**	**1,600**

8. Other operating expenses

	2015	2014
Personnel expenses (see below)	2,388	2,173
Rent	667	718
Depreciation and Amortisation	368	380
Insurance and security	303	324
Utilities and fuel	162	171
Repairs and maintenance	152	148
Communications	135	141
Consultancy	87	111
Card issuance costs	131	104
Advertising and marketing expenses	170	91
Cleaning expenses	39	54
Office materials	49	51
Board member remuneration	42	23
Travel	12	8
Other expenses	552	296
Total	**5,257**	**4,793**

The number of employees as at 31 December 2015 is 288 (31 December 2014: 276).

Personnel expenses are detailes as follows:

	2015	2014
Wages and salaries	2,111	1,946
Pension contribution	104	99
Fringe benefits	163	122
Other compensations	10	6
Total	**2,388**	**2,173**

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9. Income taxes

The income tax charge differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the bank as follows:

	Effective tax rate	2015	Effective tax rate	2014
Profit before tax		**2,001**		**1,529**
Tax calculated at 10%	10%	200	10%	153
Adjustment due to difference on provision for loans based on Central Bank of Kosovo rules	-	-	(1.11%)	(17)
Adjustment due to difference on repossesed assets write-downs	-	-	0.52%	8
Tax effect of non-deductible expenses	0.05%	1	0.33%	5
Unrecognised tax effect of the accrued interest on term deposits	(1.00%)	(20)	(3.47%)	(53)
Utilisation of tax loss carried forward	(9.05%)	(181)	(5.17%)	(79)
Income tax	**-**	**-**	**1.11%**	**17**

Deferred tax is calculated based on the enacted tax rate of 10%. Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable. As at 31 December 2015, a net deferred tax asset of EUR 87 thousand (2014: EUR 268 thousand) has not been recognized due to the uncertainty that sufficient taxable profits will be available to allow the benefit of that deferred tax asset to be utilized.

The carry forward period for any tax losses in accordance with the Kosovo Tax Law is six years.

Income tax is assessed at the rate of 10% (2014: 10%) of taxable income. The following represents a reconciliation of the accounting profit to the income tax:

	2010	2011	2012	2013	2014	2015
Tax losses unrecognized (utilized) during the year	167	1,160	2,232	(87)	(789)	(1,814)
Tax losses carried forward	167	1,327	3,559	3,472	2,683	869

	2014	Movement during 2015	2015
Tax losses carried forward	(2,683)	1,814	(869)
Deferred tax asset at 10%	268	(181)	87
Less: unrecognised tax losses	(268)	181	(87)
Deferred tax asset at the end of the year	-	-	-

The movements in deferred tax liabilities are presented as follows:

	2014	Movement during 2015	2015
Provisions for loan impairment	105	-	105
Deferred tax liability at the end of the year	**105**	-	**105**

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10. Cash on hand and at banks

	2015	2014
Cash on hand	6,335	5,421
Cash at banks	4,288	3,119
Total	**10,623**	**8,540**

Cash and cash equivalents consist of the following:

	2015	2014
Cash on hand and at banks	10,623	8,540
Unrestricted balances with CBK (note 11)	13,531	12,912
Total	**24,154**	**21,452**

11. Balances with Central Bank of Kosovo

	2015	2014
Statutory reserves	9,045	7,979
Current accounts	13,531	12,912
Total	**22,576**	**20,891**

In accordance with the CBK requirements relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year, as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves. The assets with which the Bank may satisfy its liquidity requirement are EUR deposits with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base.

12. Loans and advances to banks

	2015	2014
Blocked accounts:		
Raiffeisen Bank International	960	776
Banca di Cividale	-	435
Total	**960**	**1,211**

Loans and advances to banks include blocked accounts on behalf of guarantees from customers.

13. Held-to-maturity investments

Treasury Bills and Government Bonds held-to-maturity at 31 December 2014 are issued by the Kosovo Government and are denominated in EUR. Kosovo Government securities are not rated.

	2015	2014
Treasury Bills	-	6,942
Government Bonds	-	300
Total (see note 14)	-	**7,242**

14. Available-for-sale investments

	2015	2014
Treasury Bills	5,334	-
Government Bonds	5,038	-
Total	**10,372**	**-**

During 2015, the Bank sold held-to-maturity investments of EUR 6,034 thousan. As a result, the entire held-to-maturity portfolio was tainted and reclassified to available-for sale-instruments.

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15. Loans and advances to customers

	2015	2014
Loans and advances to customers	91,380	80,025
Accrued interest	534	549
Deferred disbursement fees	(474)	(520)
Total	**91,440**	**80,054**
Allowance for impairment losses on loans and advances to customers	(4,415)	(5,075)
Loans and advances to customers, net	**87,025**	**74,979**

Movements in the allowance for impairment losses on loans and advances to customers are as follows:

	2015	2014
At January 1	5,075	4,458
Loan loss provision	1,584	2,059
Loans written off	(2,244)	(1,442)
At December 31	**4,415**	**5,075**

The Bank exceeded the limit set by CBK in relation to Tier One capital, for the maximum exposure to a single or group of connected customers and related parties for one case as at 31 December 2014, for which the Bank obtained approval from CBK up to 30 June 2015. The Bank did not exceed such limits at 31 December 2015.

16. Repossesed assets

Repossessed assets are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell them within a reassonable short period of time.

	2015	2014
Residential real estate	572	371
Commercial real estate	1,008	1,000
Total	**1,580**	**1,371**
Less: write-down	(833)	(528)
Net carrying value	**747**	**843**

The fair value of these assets is determined with reference to market values by independent external valuers. The values are further written down depending on their location, maintenance and conditions to reflect delays in likely settlement and the length of time for holding the assets.

Movements in the values written down are as follows:

	2015	2014
At January 1	528	307
Charge for the year	305	241
Reversal on disposal	-	(20)
At December 31	**833**	**528**

17. Other financial assets

	2015	2014
Receivables from customers	133	160
Accrued income from banking services	67	28
Accrued fees and commissions	84	264
Other receivables	7	7
Total	**291**	**459**

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18. Other assets

	2015	2014
Prepaid expenses	122	65
Shares of the Bank held for sale	-	184
Total	**122**	**249**

In previous years, the Bank had issued a loan of EUR 1,800 thousand to Getoar, one of its shareholders. The loan was secured with the Getoar's shares in the Bank, with a total nominal value of EUR 184 thousand. Getoar failed to repay the loan and in 2014, based on a court decision the shares were acquired by the Bank through the enforcement of security over the loan. As at 31 December 2014, these shares were recognized as part of the share capital with a corresponding asset held for sale, included in other assets. In 2015, the shares were purchased by one of the existing shareholders of the Bank.

19. Intangible assets

	Software
Cost	
At 1 January 2014	**798**
Additions	7
At 31 December 2014	**805**
Additions	89
At 31 December 2015	**894**
Accumulated amortisation	
At 1 January 2014	**551**
Charge for the year	109
At 31 December 2014	**660**
Charge for the year	87
At 31 December 2015	**747**
Net carrying amount	
At 31 December 2014	**145**
At 31 December 2015	**147**

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20. Property and equipment

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2014	**221**	**636**	**610**	**1,196**	**515**	**3,178**
Additions during the year	-	29	9	108	13	159
Disposals during the year	(112)	(55)	(45)	(123)	(39)	(374)
At 31 December 2014	**109**	**610**	**574**	**1,181**	**489**	**2,963**
Additions during the year	-	275	101	177	158	711
Disposals during the year	-	(111)	(130)	(178)	(50)	(469)
At 31 December 2015	**109**	**774**	**545**	**1,180**	**597**	**3,205**
Accumulated depreciation						
At 1 January 2014	**42**	**520**	**487**	**985**	**304**	**2,338**
Charge for the year	4	42	52	97	76	271
Disposals during the year	(33)	(55)	(44)	(120)	(36)	(288)
At 31 December 2014	**13**	**507**	**495**	**962**	**344**	**2,321**
Charge for the year	2	62	75	84	58	281
Disposals for the year	-	(108)	(129)	(173)	(28)	(438)
At 31 December 2015	**15**	**461**	**441**	**873**	**374**	**2,164**
Carrying amounts						
At 31 December 2014	**96**	**103**	**79**	**219**	**145**	**642**
At 31 December 2015	**94**	**313**	**104**	**307**	**223**	**1,041**

As at 31 December 2015 and 2014, the Bank does not have any property pledged as collateral.

Included in property and equipment as of 31 December 2015 are buildings with a carrying amount of EUR 94 thousand (2014: EUR 96 thousand) which represent repossessed collaterals and which management is using in its day to day activities.

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21. Due to customers

	2015	2014
Current accounts	**50,036**	**43,646**
In EUR	47,625	41,955
In foreign currencies	2,411	1,691
Time deposits	**65,812**	**59,357**
In EUR	65,084	58,878
In foreign currencies	728	479
Total	**115,848**	**103,003**

22. Subordinated debt and borrowings

:

	2015	2014
Subordinated debt		
EBRD	1,008	1,008
Individuals:		
Valon Budima	420	420
Armend Skeja	420	420
Total	**1,848**	**1,848**
Borrowings		
Borrowings from EFSE	3,017	-
Total	**3,017**	-

Subordinated debt was provided by the above parties to enable the Bank to maintain the minimum regulatory capital requirements. The subordinated debt bears an annual interest rate of 10%. The interest is payable to EBRD on a quarterly basis, and to individuals on an annual basis. The subordinated debt is repayable on the following dates:

- Debt from EBRD: 31 July 2019
- Debt from individuals: 26 December 2023.

During the year 2015, the Bank entered into a borrowing agreement with EFSE (European Fund for Southeastern Europe) for a total of EUR 4,000 thousand. The purpose is to support the private individuals and the SME loans portfolios. An amount of EUR 1,000 had not yet been disbursed at 31 December 2015. The borrowing bears an interest rate of 3.4% annualy, and is repayable within three years. The interest is payable on a quarterly basis.

The subordinated debt from individuals has no specific covenants attached to the greements. The Bank has not complied with certain financial covenants attached to the agreement with EBRD. As at 31 December 2015 the Bank was not in compliance with the following:

- Maintain a ratio of Liquid Assets to Deposits of 75% or more (2014: the same);
- Maintain a negative liquidity Gap Ratio with respect to each maturity Band of not more than 20% all times (2014: the same);
- Maintain an Open Credit Exposure Ratio of not more than 12%;
- Maintain the exposure to top 10 borrowers by the size of their loans with a share in the aggregate Loan Portfolio of not more than 10%.

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23. Other liabilities and provisions

	2015	2014
Payments in transit	295	205
Provisions for letters of guarantee issued by the Bank	52	71
Payable on behalf of Ministry of Labour and Social Welfare	170	8
Payable on behalf of Ministry of Economy and Finance	25	83
Due to suppliers	161	120
Other provisions	642	-
Total	**1,345**	**487**

The Bank acts as an agent for the transactions performed on behalf of government institutions with third parties. These include payments on behalf of the Ministry of Labour and Social Welfare and Ministry of Economy and Finance.

Other provisions represent a provision related to a legal claim with previous shareholders of the Bank. During, 2015, the claimants have won the court case against the Bank and it is likely that the Supreme Court will confirm the decision. The value of the dispute was Euro 642 thousand and the entire amount was provided for by 31 December 2015.

24. Shareholders' equity and reserves

Share capital

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Finacial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million.

At 31 December 2015, the subscribed capital was divided into 28,530 ordinary shares (2014: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

The structure of subscribed capital is as follows:

Name of shareholder	**2015**		**2014**	
	%	**EUR ('000)**	**%**	**EUR ('000)**
Afrim Govori	21.27	2,392	21.27	2,392
Rrustem Aliaj	17.27	1,942	17.27	1,942
EBRD	10.00	1,125	10.00	1,125
John Xhan Taip	9.91	1,115	9.91	1,115
Mejdi Rexhepi	9.35	1,052	9.35	1,052
Nazmi Viça	6.89	775	8.80	989
Kareman Limani	4.85	545	4.85	545
Banka di Cividale	4.62	520	4.62	520
Ahmet Arifi	2.39	269	2.39	269
Ismet Sylejmani	1.90	214	-	-
BPB (see note 18)	-	-	1.63	184
Rasim Gashi	1.54	173	1.54	173
Riza Mikullovci	1.45	163	1.45	163
Others	1.26	141	1.26	141
DMTH shpk	5.17	581	3.27	367
Naser Aliu	0.62	70	0.62	70
Besnik Vrella	0.62	70	0.62	70
Agim Bilalli	0.62	70	0.62	70
Flamur Bryma	0.27	30	0.53	60
Total	**100.00**	**11,247**	**100.00**	**11,247**

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24. Shareholders' equity and reserves (continued)

Other capital reserve

Other capital reserve was created as of 31 December 2011 as the difference between accumulated losses in accordance with IFRS and CBK which were written off through a reduction in the share capital. As a result, these reserves are restricted and not distributable.

Revaluation reserve

During 2014, the Bank decided to include in the Property and equipment a building which have been previously obtained as reposesed copllateral. The building was recognized by the Bank in Property and equipment with a corresponding amount in the revaluation reserve in equity.

25. Commitments and contingencies

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees issued in favour of customers are secured by cash collateral, and non cash collateral (real estate and movable collateral).

Guarantees extended to customers	2015	2014
Secured by cash deposits	525	825
Secured by collateral (real estate and movable collateral)	1,133	1,659
Unsecured	996	1,156
Less: Provision recognised as liabilities	(66)	(84)
Total	**2,588**	**3,556**

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Credit commitments	2015	2014
Approved but not disbursed loans	581	215
Unused overdraft limits approved	3,896	5,867
Unused credit card facilities	434	353
Total	**4,911**	**6,435**

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business at 31 December 2015 and 2014. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for provisions which have been recognized in the profit or loss.

Lease commitments

The Bank has entered into non-cancelable lease commitments, which are composed as follows:

	2015	2014
Not later than 1 year	482	337
Later than 1 year and not later than 5 years	186	-
Total	**668**	**337**

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26. Financial risk management

(a) Introduction and overview

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

- market risk
- credit risk
- liquidity risk

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.

Risk management framework

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee ("ALCO"), Credit Committee, Audit Committee, and Risk Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and 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.

(a) Introduction and overview (continued)

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee 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 Bank's Audit Committee is assisted in these functions by the Internal Audit Department. 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.

The Bank operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Bank. 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. Based on this, the management 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 an adequate capital and liquidity position.

(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 and advances to customers and to other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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26. Financial risk management (continued)

Management of credit risk

The Board of Directors has delegated the responsibility for the management of credit risk to its Risk Division for the following categories: business loans (SME) and personal loans (PI) up to EUR 50 thousand which are approved by the Risk Division.

Credit exposures larger than EUR 50 thousand and less than 10% of the Bank's Tier I Capital are approved by the Risk Division / Credit Committee, while exposures over 10% of the Bank's Tier I Capital are approved by the Board of Directors.

Separate units of the Bank's Risk and Sales Divisions are responsible for the oversight of the Bank's credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits prior to facilities being committed to customers.
- Limiting concentrations of exposure to geographies and industries.
- Establishing the Banks' credit risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the risks. The risk grading system is used in determining where impairment losses may be required. The current risk grading framework consists of 5 grades reflecting varying degrees of risk of default and the availability of collateral.
- Reviewing compliance with agreed exposure limits, including those for industries, country risk and product types.
- Regular reports for the credit exposure, risk grading and allowance for impairment are provided to the Credit Risk Committee and appropriate corrective action is taken.
- Units within the credit department are required to implement credit policies and procedures and are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.
- Regular audits of the credit department's processes are undertaken by Internal Audit Department.

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26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality

The table below represents a worst case scenario of credit risk exposure of the Bank at 31 December 2015 and 2014, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		Investments (AFS/HTM)		Loans and advances to customers		Other financial assets		Financial guarantees	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Maximum exposure to credit risk										
Carrying amount	34,159	30,642	10,372	7,242	87,025	74,979	291	459	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	7,565	10,075
	34,159	**30,642**	**10,372**	**7,242**	**87,025**	**74,979**	**291**	**459**	**7,565**	**10,075**
At amortised cost										
Neither past due nor impaired	34,159	30,642	10,372	7,242	75,035	60,915	291	459	-	-
Past due but not impaired	-	-	-	-	9,489	8,549	-	-	-	-
Individually impaired	-	-	-	-	6,916	10,590	-	-	-	-
Total	**34,159**	**30,642**	**10,372**	**7,242**	**91,440**	**80,054**	**291**	**459**	**-**	**-**
Allowance for impairment (individual and collective)	-	-	-	-	(4,415)	(5,075)	-	-	-	-
Net carrying amount	**34,159**	**30,642**	**10,372**	**7,242**	**87,025**	**74,979**	**291**	**459**	**-**	**-**
Off balance: maximum exposure										
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	4,911	6,435
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	2,654	3,640
Total committed/guaranteed	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,565**	**10,075**
Provisions recognised as liabilities	-	-	-	-	-	-	-	-	(66)	(84)
Total exposure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,499**	**9,991**

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26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

	2015			2014		
Loans and advances to customers	**Retail**	**Corporate**	**Total Loans**	**Retail**	**Corporate**	**Total Loans**
Total gross amount	26,948	64,492	91,440	22,352	57,702	80,054
Allowance for impairment (individual and collective)	(530)	(3,885)	(4,415)	(505)	(4,570)	(5,075)
Net carrying amount	**26,418**	**60,607**	**87,025**	**21,847**	**53,132**	**74,979**
At amortised cost						
Neither past due nor impaired	25,267	49,768	75,035	20,881	40,034	60,915
Past due but not impaired	1,505	7,984	9,489	1,384	7,165	8,549
Individually impaired	176	6,740	6,916	87	10,503	10,590
Total Gross	**26,948**	**64,492**	**91,440**	**22,352**	**57,702**	**80,054**
Less: allowance for individually impaired loans	(63)	(2,231)	(2,294)	(42)	(3,471)	(3,513)
Less: allowance for collectively impaired loans	(467)	(1,654)	(2,121)	(463)	(1,099)	(1,562)
Total Allowance for impairment	**(530)**	**(3,885)**	**(4,415)**	**(505)**	**(4,570)**	**(5,075)**
Loans with renegotiated terms						
Carrying amount	351	8,451	8,802	302	11,377	11,679
From which: Impaired	72	5,774	5,846	82	8,585	8,667
Allowance for impairment	(81)	(2,187)	(2,268)	(96)	(3,659)	(3,755)
Net carrying amount	**270**	**6,264**	**6,534**	**206**	**7,718**	**7,924**
Past due but not impaired						
Past due 0-30 days	792	5,142	5,934	986	5,376	6,362
Past due 31 - 90 days	252	2,139	2,391	155	1,330	1,485
Past due 91 – 180 days	94	217	311	44	275	319
Past due over 180 days	367	486	853	199	184	383
	1,505	**7,984**	**9,489**	**1,384**	**7,165**	**8,549**
Individually impaired						
Past due 0 – 30 days	59	1,847	1,906	72	5,287	5,359
Past due 31 - 90 days	43	1,441	1,484	4	2,899	2,903
Past due 91 – 180 days	1	2,256	2,257	-	1,024	1,024
Past due over 180 days	73	1,196	1,269	11	1,293	1,304
	176	**6,740**	**6,916**	**87**	**10,503**	**10,590**

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26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

Impaired loans

Impaired loans are loans 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. These loans are graded A to E in the Bank's internal credit risk grading system where A is Standard while E is Loss. The provisioning policy for these loans is detailed in Note 3.(f) (vii).

Individual and collective assessment of loan portfolio

For internal management purpose, the Bank segregates the loans into loans that are assessed individually for impairment: these are loans that are classified as substandard-list or lower. All other loans are analysed collectively for impairment assessment purposes.

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 50 thousand (2014: EUR 50 thousand) at least quarterly when individual circumstances demand it.

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.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment) with the decision of the Board of Directors, in accordance with the regulations of Central Bank of Kosovo. 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. The total amount written off during 2015 is EUR 2,244 thousand (2014: EUR 1,442 thousand).

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and the Treasury Department. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

In accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital.

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

At 31 December	**2015**	**2014**
A+ to A-	-	776
BBB+ to B-	960	-
Not rated	-	435
	960	**1,211**

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26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

Financial assets held-to-maturity

Investments in debt securities are only with the Kosovo Government. These securities are not rated. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment.

Risk limit control and mitigation policies

The Bank manage limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, if necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements, and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other movable assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and on subsequent valuations, when applicable. Collateral generally is not held over loans and advances to banks.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Estimated Value of Collateral	
	2015	**2014**
Property	57,169	48,908
Equipment	18,268	21,620
Goods	4,077	3,477
Without collateral	11,866	6,021
Total	**91,380**	**80,026**

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26. Financial risk management (continued)

(b) Credit risk (continued)

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Cash and balances with Banks and CBK		Loans and advances to banks		Held to maturity investments		Available-for-sale financial assets		Loans and advances to customers		Other financial assets		Financial guarantees	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Concentration by sector														
Corporate	-	-	-	-	-	-		-	60,606	53,537	-	-	7,565	10,075
Banks	33,199	29,431	960	1,211	-	7,242	10,372	-		-	-	-	-	-
Retail	-	-	-	-	-	-		-	26,419	21,442	291	459	-	-
Total	**33,199**	**29,431**	**960**	**1,211**	**-**	**7,242**	**10,372**	**-**	**87,025**	**74,979**	**291**	**459**	**7,565**	**10,075**
Concentration by location														
EU countries	3,103	3,139	960	1,211	-	-		-	-	-	-	-	-	-
Republic of Kosovo	30,029	26,254	-	-	-	7,242	10,372	-	87,025	74,979	291	459	7,565	10,075
Other countries	67	38	-	-	-	-		-	-	-	-	-	-	-
Total	**33,199**	**29,431**	**960**	**1,211**	**-**	**7,242**	**10,372**	**-**	**87,025**	**74,979**	**291**	**459**	**7,565**	**10,075**

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26. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

Interest rate risk is comprised of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the Bank carry fixed interest rates.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and liabilities mature or reprice at different times or in differing amounts. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Exposure to interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In decreasing interest rate environments, margins earned will narrow as liabilities interest rates will decrease with a lower percentage compared to assets' interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall or rise in all yield curves.

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 and 2014 are as follows:

	USD		*EUR*	
Assets	**2015**	**2014**	**2015**	**2014**
Cash at banks	0.51%	0.15%	-	-
Loans and advances to banks	-	0.48%	-	-
Loans to customers	-	-	10.02%	11.48%
Available-for-sale financial assets	-	-	1.95%	-
Held-to-maturity investments	-	-	-	1.90%
Liabilities				
Due to customers	0.04%	0.66%	1.81%	2.08%
Subordinated debt	-	-	10.04%	10.04%
Borrowings	-	-	3.40%	-

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26. Financial risk management (continued)

(c) Market risk (continued)

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 Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(278)	278	376	(376)

2014	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(102)	102	181	(181)

The following table shows the interest bearing and non-interest bearing financial instruments by repricing date.

31 December 2015		**Up to 1 month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets							
Cash on hand and at banks							
Non-interest bearing		10,623	-	-	-	-	10,623
Balances with CBK							
Non-interest bearing		22,576	-	-	-	-	22,576
Loans and advances to banks							
Interest bearing	*Fixed*	100	306	-	454	100	960
Investment securities							
Interest bearing	*Fixed*	1,750	649	2,938	300	4,735	10,372
Loans to customers							
Interest bearing	*Fixed*	4,512	6,105	8,696	15,890	51,822	87,025
Other financial assets							
Non-interest bearing		291	-	-	-	-	291
Total		**39,852**	**7,060**	**11,634**	**16,644**	**56,657**	**131,847**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	14,804	4,629	3,626	28,047	14,706	65,812
Non-interest bearing		50,036	-	-	-	-	50,036
Subordinated debt							
Interest bearing	*Fixed*	-	7	41	-	1,800	1,848
Borrowings							
Interest bearing	*Variable*	-	17	-	400	2,600	3,017
Other liabilities							
Non-interest bearing		651	-	-	-	-	651
Total		**65,491**	**4,653**	**3,667**	**28,447**	**19,106**	**121,364**
Gap		**(25,639)**	**2,407**	**7,967**	**(11,803)**	**37,551**	**10,483**
Cumulative gap		**(25,639)**	**(23,232)**	**(15,265)**	**(27,068)**	**10,483**	

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26. Financial risk management (continued)

(c) Market risk (continued)

31 December 2014		**Up to 1 month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets							
Cash on hand and at banks							
Non-interest bearing		8,540	-	-	-	-	8,540
Balances with CBK							
Non-interest bearing		20,891	-	-	-	-	20,891
Loans and advances to banks							
Interest bearing	*Fixed*	400	30	290	491	-	1,211
Investment securities							
Interest bearing	*Fixed*	200	2,191	2,282	2,170	399	7,242
Loans to customers							
Interest bearing	*Fixed*	3,553	9,122	8,313	16,920	37,071	74,979
Other financial assets							
Non-interest bearing		459	-	-	-	-	459
Total		**34,043**	**11,343**	**10,885**	**19,581**	**37,470**	**113,322**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	12,779	2,103	4,546	22,394	17,535	59,357
Non-interest bearing		43,646	-	-	-	-	43,646
Subordinated debt							
Interest bearing	*Fixed*	-	7	41	-	1,800	1,848
Other liabilities							
Non-interest bearing		416					416
Total		**56,841**	**2,110**	**4,587**	**22,394**	**19,335**	**105,267**
Gap		**(22,798)**	**9,233**	**6,298**	**(2,813)**	**18,135**	**8,055**
Cumulative gap		**(22,798)**	**(13,565)**	**(7,267)**	**(10,080)**	**8,055**	

Exposure to currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term balances.

The foreign currencies the Bank deals with are predominantly United States Dollars (USD), Swiss Franc (CHF) and Great Britain Pounds (GBP). The rates used for translation as at 31 December 2015 and 2014 are as follows:

	2015	**2014**
CURRENCY	**EUR**	**EUR**
1 USD	0.9185	0.8237
1 CHF	0.9229	0.8317
1 GBP	1.3625	1.2839

An analysis of the Bank's sensitivity to an increase or decrease in foreign currency rates is as follows:

in thousands of EUR	**USD**		**CHF**		**GBP**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Sensitivity rates	5%	5%		5%		5%
Profit or loss						
+5% of Euro	11.70	0.45	(2.65)	4.25	1.45	1.05
- 5% of Euro	(11.70)	(0.45)	2.65	(4.25)	(1.45)	(1.05)

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26. Financial risk management (continued)

(c) Market risk (continued)

Exposure to currency risk (continued)

The Bank's exposure to foreign currency risk is as follows:

All amounts are translated in thousands of EUR

31 December 2015	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial Assets					
Cash on hand and at banks	7,400	1,202	1,730	291	10,623
Balances with CBK	22,576	-	-	-	22,576
Loans and advances to banks	960	-	-	-	960
Available-for-sale investments	10,372	-	-	-	10,372
Loans and advances to customers	87,025	-	-	-	87,025
Other financial assets	291	-	-	-	291
Total financial assets	**128,624**	**1,202**	**1,730**	**291**	**131,847**
Financial Liabilities					
Due to customers	112,835	968	1,783	262	115,848
Subordinated debt	1,848	-	-	-	1,848
Borrowings	3,017	-	-	-	3,017
Other liabilities	651	-	-	-	651
Total financial liabilities	**118,351**	**968**	**1,783**	**262**	**121,364**
Net foreign currency position	**10,273**	**234**	**(53)**	**29**	**10,483**

All amounts are translated in thousands of EUR

31 December 2014	EUR	USD	CHF	GBP	**Total**
Financial Assets					
Cash on hand and at banks	5,377	1,173	1,839	151	8,540
Balances with CBK	20,891	-	-	-	20,891
Loans and advances to banks	1,086	-	125	-	1,211
Held-to-maturity investments	7,242	-	-	-	7,242
Loans and advances to customers	74,979	-	-	-	74,979
Other financial assets	459	-	-	-	459
Total financial assets	**110,034**	**1,173**	**1,964**	**151**	**113,322**
Financial Liabilities					
Due to customers	99,830	1,164	1,879	130	103,003
Subordinated debt	1,848	-	-	-	1,848
Other liabilities	416	-	-	-	416
Total financial liabilities	**102,094**	**1,164**	**1,879**	**130**	**105,267**
Net foreign currency position	**7,940**	**9**	**85**	**21**	**8,055**

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26. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank's approach to managing liquidity 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.

The Liquidity Risk Management Committee ("LRMC") receives information from the department of foreign payments and other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The LRMC in cooperation with foreign payments then establishes a portfolio of short-term liquid assets, largely made up of short-term loans and advances to banks, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by LRMC and ALCO. Daily reports cover the liquidity position of the Bank. Liquidity reports are submitted monthly to CBK.

Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including customers' deposits, subordinated debt and share capital.

Flexibility limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Management of liquidity risk

Residual contractual maturities of financial assets and liabilities

The following tables show the discounted cash flows of the Bank's financial liabilities and unrecognized loan commitments and guarantees on the basis of their earliest possible contractual maturity. The Bank's expected cash flows of these instruments vary significantly from this analysis. For example, demand accounts are expected to maintain a stable or increasing balance.

31 December 2015	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial Assets						
Cash on hand and at banks	10,623	-	-	-	-	**10,623**
Balances with CBK	22,576	-	-	-	-	**22,576**
Loans and advances to banks	100	306	-	454	100	**960**
Available-for-sale financial assets	1,750	649	2,938	300	4,735	**10,372**
Loans and advances to customers	4,512	6,105	8,696	15,890	51,822	**87,025**
Other financial assets	291					**291**
Total	**39,852**	**7,060**	**11,634**	**16,644**	**56,657**	**131,847**
Financial Liabilities						
Due to customers	64,840	4,629	3,626	28,047	14,706	**115,848**
Subordinated debt	-	7	41	-	1,800	**1,848**
Borrowings	-	17	-	400	2,600	**3,017**
Other liabilities	651	-	-	-	-	**651**
Guarantees issued	7,499	-	-	-	-	**7,499**
Unused credit commitments	4,911	-	-	-	-	**4,911**
Total	**77,901**	**4,653**	**3,667**	**28,447**	**19,106**	**133,774**
Liquidity gap	**(38,049)**	**2,407**	**7,967**	**(11,803)**	**37,551**	**(1,927)**

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26. Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2014	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial Assets						
Cash on hand and at banks	8,540	-	-	-	-	**8,540**
Balances with CBK	20,891	-	-	-	-	**20,891**
Loans and advances to banks	400	30	290	491	-	**1,211**
Held-to-maturity investments	200	2,191	2,282	2,170	399	**7,242**
Loans and advances to customers	3,553	9,122	8,313	16,920	37,071	**74,979**
Other financial assets	459	-	-	-	-	**459**
Total	**34,043**	**11,343**	**10,885**	**19,581**	**37,470**	**113,322**
Financial Liabilities						
Due to customers	56,425	2,103	4,546	22,394	17,535	**103,003**
Subordinated debt	-	7	41	-	1,800	**1,848**
Other liabilities	487	-	-	-	-	**487**
Contingent liabilities from guarantees	9,991	-	-	-	-	9,991
Unused credit commitments	6,435	-	-	-	-	6,435
Total	**73,338**	**2,110**	**4,587**	**22,394**	**19,335**	**121,764**
Liquidity gap	**(43,858)**	**6,690**	**7,218**	**(8,866)**	**18,364**	**(20,452)**

(e) Operational risk

Taking into consideration the Bank's business model and the decentralized decision making process within the Bank, operational risk is considered as a very important factor and inclusive part of the overall business management. In this line, and in compliance with Basel II principles, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from certain external events. This definition includes legal risk, but excludes strategic and reputational risk.

The Bank applies a wide range of principles aiming to establish an effective management of its own operations. Operational risk management contains the following basic elements:

- Business model and its related operations are simple. The Bank aims a high level of transparency, diversified operations and sound system of controls.
- Segregation of duties, and application of "four eye" principles when necessary and possible.
- Appropriate documentation of all processes within the Bank. These processes are supported and documented with procedures, manuals and other additional instructions. The same documents are made available to the relevant employees.
- All processes are subject to internal controls at different stages, which are continuously asssesed for effectiveness and efficiency.
- Internal audit function is established and reports to the Audit Committe.
- The recruitment of personnel is based on the required competencies.
- The Bank continuously invests on information technology security.

These principles are compiled by risk management division and approved by the Bank's Management Board and the Board of Directors, and are subject to annual reviews and changes in line with the business development. Operational risk management strategy is supplemented by the operational risk policy. Moreover, the basic principles of operational risk management are reflected in details in the procedure for identification, assessment, and treatment of operational events as an integral part of the operational risk management.

The Bank has established the risk management division and operational risk sector. Moreover, the Bank has developed an operational risk database where all risky events/incidents are registered. This enables the reporting of incidents to operational risk management committee, Management Board and Board of Directors on regular basis.

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26. Financial risk management (continued)

(e) Operational risk (continued)

The internal control system is established based on the 'four eyes' principle where it is possible, and enables the segregation of functions and duties within the Bank. In addition, all Bank's sectors and units perform routine control with the purpose of ensuring that daily operations are correctly done by the respective employees. Furthermore, during 2015 the Bank has structured the internal controlling unit, aiming to avoid and minimize the number of events/incidents assosicated with operational risk. In this regard a number of key risk indicators has been determined that are monitored on regular periods.

(f) Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Bank's overall strategy remains unchanged from 2014.

The equity structure of the Bank comprises share capital, reserves and retained earnings. 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 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.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, off balance-sheet items and other risks, expressed as a percentage. The minimum required Capital Adequacy Ratio is 8% for Tier 1 capital and 12% for total own funds.

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Six categories of risk weights (0%, 20%, 50%, 75%, 100%, 150%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital (Tier 1) equal to 8% of the carrying amount. Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

	2015	**2014**
Total risk weighted assets	82,753	71,138
Total risk weighted off balance exposures	2,076	2,531
Total risk weighted assets for operational risk	9,600	9,600
Total	**94,429**	**83,269**
Regulatory capital (Total Capital)	12,848	11,148
Capital adequacy ratio (Total Capital)	**13.61%**	**13.39%**

Banka per Biznes Sh.a.
Notes to the financial statements
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27. Related party transactions

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not the merely to the legal form.

A summary of related party balances at the end of year are as follows:

		31 December 2015		31 December 2014
Assets:				
Loans outstanding at end of year with shareholders and key management	CBK Rating*		CBK Rating*	
Enrad-Ex Newco Jugo Term	A	1,561	A	1,488
Eng Office	A	660	A	470
Ismet Sylejmani (Vatani shpk)	A	52	A	104
Uniprojekt	A	252	A	237
Naser Aliu-Uniprojekt	A	12	A	-
Besnik Vrella- Uniprojekt	A	14	A	-
Sokol Krasniqi	A	6	A	-
Brymako	C	28	A	36
Ahmet Arifi	A	27	A	-
Naim Abazi (Medianam shpk)	B	180	B	192
Flamur Bryma	A	30	A	-
DMTH sh.p.k	A	11	A	-
Other shareholders and management	A	130	A	158
Total		**2,963**		**2,649**
Guarantees and letters of credit with shareholders		21		-
Loans and advances to Banka Di Cividale		-		435

*) A: Standard category
B: Watch category
C: Substandard category

	2015	**2014**
Loans to shareholders, gross	2,827	2,491
Allowance for impairment	(63)	(53)
Total Loans to shareholders, net	**2,764**	**2,438**
Cash collateral	**(2,032)**	**(2,007)**
Net exposure to shareholders	**734**	**986**

	2015	**2014**
Loans to management and BoD members, gross	136	158
Allowance for impairment	-	(1)
Loans to management, net	**136**	**157**
Cash collateral	**(57)**	**(57)**
Net exposure to shareholders	**79**	**100**

Real Estate collateral for credit exposures with management is EUR 41 thousand (2014: EUR 41 thousand).

Banka per Biznes Sh.a.
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27. Related party transactions (continued)

	31 December 2015	31 December 2014
Liabilities:		
Customer accounts with shareholders		
Mjedi Rexhepi	308	-
Newco Jugo Term	30	1,528
Rrustem Aliaj	39	-
Besnik Vrella- Uniprojekt	2	-
Ahmet Arifi	2	-
DMTH sh.p.k	34	-
Nazmi Viça	3	-
ENG Office	-	470
Other shareholders and management	1	115
Total	**419**	**2,113**
Borrowing from EBRD	1,000	1,000
	1,419	**3,113**

Following are the transactions made with related parties during the year.

	2015	2014
Income		
Interest income from loans and advanes	210	207
Total interest income	**210**	**207**
Expenses		
Interest expenses for subordinated debt from EBRD	100	103
Key management compensation	318	290
Board of directors compensation	43	23
Total expenses	**461**	**416**

28. Subsequent events

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