BpB BANKA PËR BIZNES

2014 ANNUAL REPORT

Since the beginning ...
It's part of our success ...
It witnessed the moments of happiness ...
It contributes to the realization of our dreams ...
It's always there ...
Because it is ...

THE BANK OF YOUR COUNTRY

2014 ANNUAL REPORT

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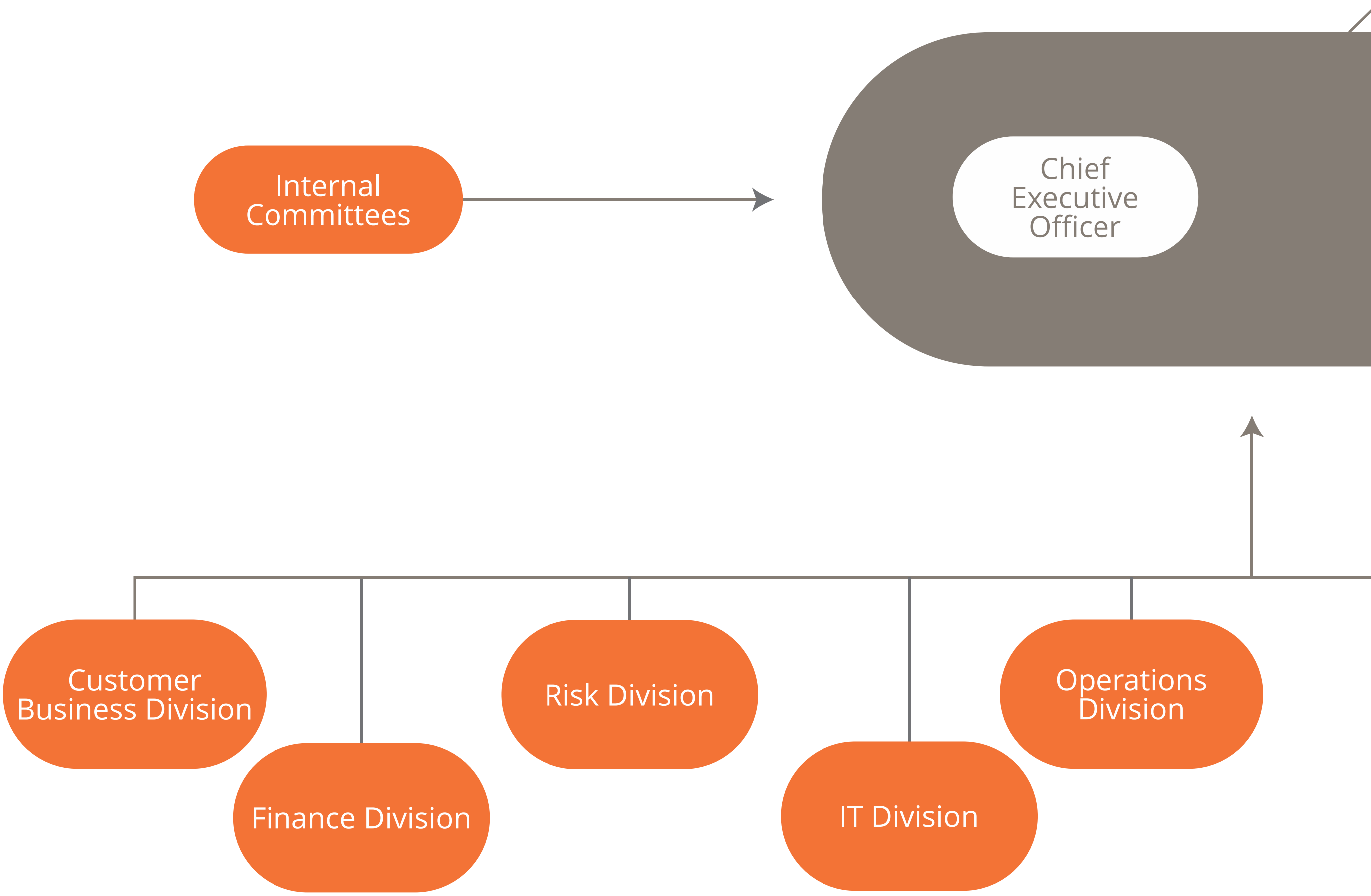
Mission

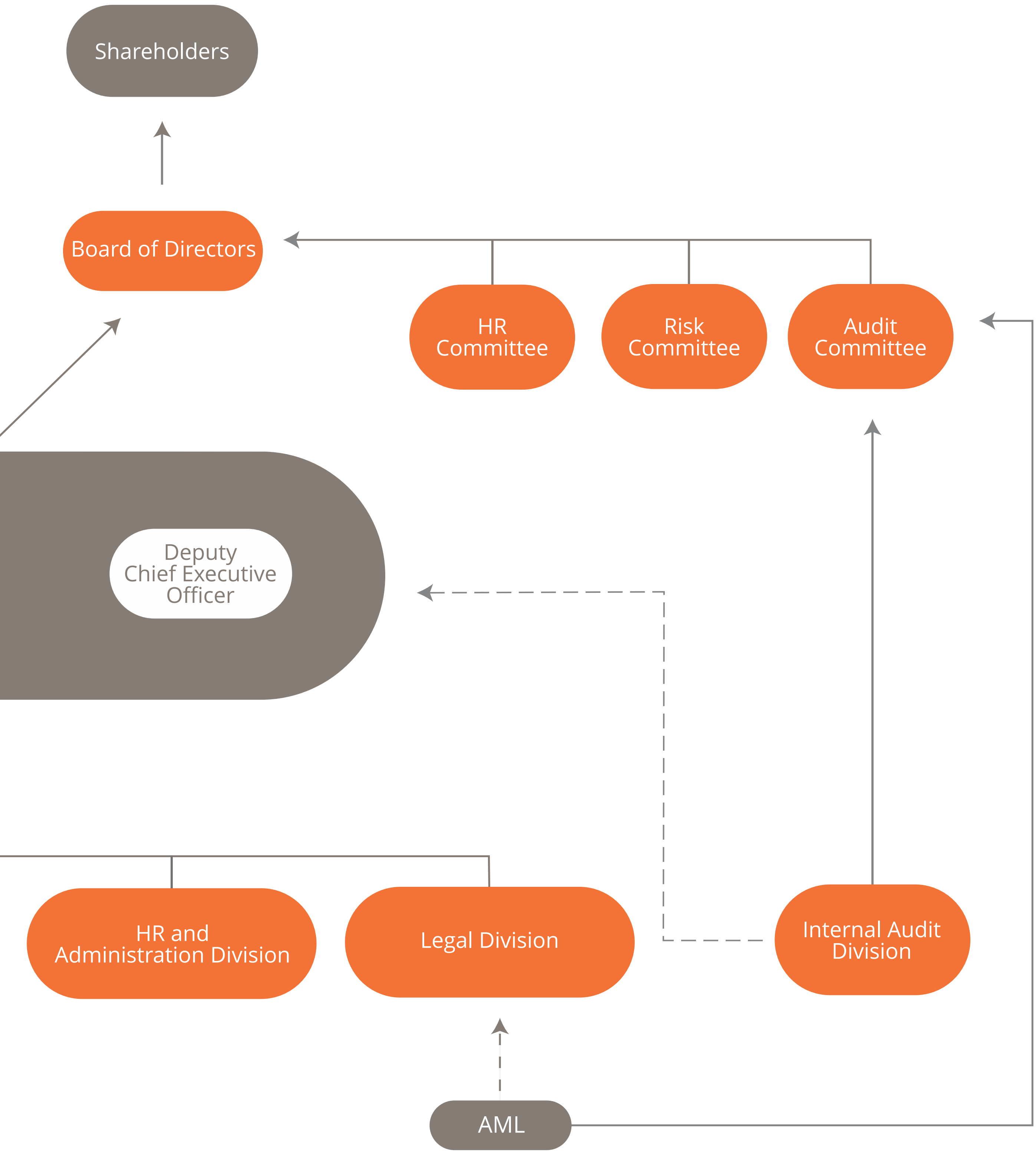
To be a trusted partner of our clients in fulfilling their financial needs and offer them solid support in their general development.

Vision

The vision of Banka për Biznes is sustainable growth with the aim of supporting individuals and businesses in their economic development.

Organizational structure




Shareholders
Board of Directors
HR Committee
Risk Committee
Audit Committee
Deputy Chief Executive Officer
HR and Administration Division
Legal Division
Internal Audit Division
AML

Chairman's Letter

The year 2014 was a challenging one for Banka për Biznes (hereinafter the Bank) on several fronts.

Kosovo has not been immune from the economic downturn and problems facing the European and world economies. The depressed economy in Kosovo has seen a reduction in cash circulation which has put pressure on businesses and their abilities to service their borrowings, and has resulted in the banks exercising more caution in making credit risk decisions.

Richard Beasley was appointed Chief Executive Officer in March 2014. He inherited a Bank that was under performing by most measures and has spent much of the year ensuring that some long standing non-performing loans are provisioned appropriately. The senior management have focused on recovering non-performing loans, and reducing costs by freezing salaries, closing unprofitable outlets, re-negotiating rents and re-pricing products and services.

The shareholders respected the Central Bank regulations on rotating Board members and in April three stood down. Unfortunately since then it has been a challenge to identify suitably qualified individuals to take up these vacant Board positions and whilst the Board has continued to meet it has not been quorate, and has been without an appointed Chairman. I am pleased to report that the fifth member of the Board was approved by the Central Bank in February 2015 and the Board elected me as Chairman.

The Bank is now focusing on personal customers, and small and medium businesses. The loan portfolio has grown significantly and is less reliant on just a few large customers. This should ensure that the Bank is less exposed to major risks in the future.

As a result of the measures outlined above the Bank has produced an IFRS net profit after tax of 1.5 million euro. This turn around in the Bank's fortunes is to be welcomed and the Bank is now in a good position to enter 2015 with a stronger balance sheet and many measures put in place to improve its performance further.

There has been a good response from the staff to the changes, some of them causing hardship, but the staff have been kept informed at all stages, and through the newly established Management Committee they have been involved in all the decisions taken.

On behalf of the Board I would like to thank both the Management and staff for their loyalty and focus on seeing these changes through.

I believe that the bank is well placed to develop further in 2015 and I look forward to reporting even better results to the shareholders next year.

Oliver Whittle
Chairman of the Board

CEO's letter

During 2014 banks in Kosovo continued to focus on loans to the business sector; the trade sector dominated while the manufacturing and construction sectors declined. Production activity remains stagnant and in most areas of the country property prices and rents were either unchanged or showed declines. However, there were significant increases in lending to the agriculture sector; to meet this demand, the bank, has dedicated client relationship advisors throughout its network who work specifically to meet the needs of clients involved in food production and processing.

The year under review was one of significant change for our bank. During the first quarter the bank closed 30 per cent of its branch network. However, the branches in question tended to be in remote locations and they were primarily offering payment services. The small number of clients who were impacted were either accommodated at nearby branches or they switched to one of the bank's electronic payment solutions. Some redundancies were inevitable during the restructuring but many staff were redeployed elsewhere in the network.

The bank continued its policy of improving risk management capabilities. During 2014, the credit administration and credit approval processes were gradually moved to the head office. This realignment had the twin benefits of reducing operational risk and freeing branch staff from administrative duties, so they're able to spend more time dealing with the needs of clients.

After a decline in 2013, the loan portfolio of the bank grew in 2014. Deposits entrusted to the bank also grew and reached a level of 103 million euro by the end of the year. Even though the credit portfolio is growing, the non-performing loan ratio was 8.3 per cent at year end, which is in line with the local market average. This result was achieved by a prudent credit risk management environment that emphasizes credit worthiness assessment and analysis.

The Board of the bank set several financial targets for 2014, including one for net profit. I am pleased to report that the target for net profit was exceeded, the outcome representing a return on average equity of 16.9 per cent for 2014, a significant improvement on the results for recent years.

I would like to conclude by thanking all those who helped make 2014 such a successful year: to my colleagues for their continuing hard work and dedication, to the Board members for their guidance and understanding and to the shareholders for their ongoing commitment and support. Last, but not least, my thanks go to our customers for the trust and loyalty they continue to show towards the bank.

Richard Beasley

Chief Executive Officer

BpB in numbers

*in thousands, where applicable

31 December 2013

31 December 2014

5.30% 7.10%

77% 58%

0.30% 16.90%


Return on average assets
0.02%
1.32%


Net profit
22
1,512


Net interest income
5,065
6,457


Net fee and commission income
1,398
1,600


Gross income
6,927
8,616


Operating expenses
5,034
4,793

Macroeconomic Overview 2014

During 2014, although not at the expected or wanted level, global economic activity showed marginal improvements. On the downside, there were distinct differences between regions. While some world economies improved at a faster pace, there were regions that just avoided recession.

The Eurozone, despite a continuous decrease of the interest rates by the European Central Bank, witnessed a decrease in demand and the inflation rate, which in turn increased concerns about possible deflation. The Balkans witnessed an incremental economic growth. The region's economy grew by 1.8 percent which is a significant difference from the previous year (2013) when it improved by 2.5 percent. A shared characteristic within the Balkan countries remain the high current account deficit, which grew further during 2014. In the world economy, countries in the Balkans are still importing countries and there are many production improvements needed to enhance the exports, which will decrease the current account deficit.

Fiscal policies aimed at improving government budget balances in Balkan countries showed positive results, but public (government) debts remain high. The banking sector in the Balkans was characterized by an increased in savings and mixed results in lending. While almost all countries reported growth of deposits, lending has decreased in some, while slightly increasing in other Balkan countries.

According to Kosovo's Central Bank, the country recorded one of the highest growth rates in the region, amounting to an increase of GDP by 3 percent. The economic growth was attributed to increased consumption, while lack of investment and net exports were the reasons why the economy did not improve at a higher rate than the one achieved. The increase in consumption was due to increased remittances and an increased number of consumer loans borrowed by the population. The year 2014 also saw an increase in exports but due to a very high levels of imports, the negative trade balance was still hampering the economy.

Financial Developments

Financial Indicators

During 2014 the bank had a net interest income of 6.5 million euro. This category of income represented about 75 percent of the bank's total operational income and compared to the previous year it grew by 1.4 million Euro or 27 percent. Interest expenses for 2014 were around 2.5 million Euro (2013: 4.0 million euro).

Net income from fees and charges were 1.6 million euro showing an increase of over 14 percent compared to 2013. Though gross income from fees and charges increased by 21 percent, related expenses also increased by about 60 percent.

Loan loss provisions for loans and other assets grew by about 0.5 million euro to 2.3 million euro (2013: 1.8 million euro). The major part (0.4 million euro) was dedicated for loans while the remainder of 0.1 million euro was for other assets.

The year under review was distinguished by savings on the bank's operational expenses. Compared to the previous year, operational expenses were lower by about 0.2 million euro, representing a decrease of 4.8 percent. The ratio of operational costs to operational income was 58 percent down from 77 percent in 2013.

During 2014, bank achieved a net profit of 1.5 million euro and also increased its capital from 8.2 million euro as it was in 2013 to 9.7 million euro in 2014. The average return on equity reached 16.9 percent from 0.3 percent in the previous year.

During 2014 the bank continued to increase stability by focusing on longer-term deposits as well as diversifying their structure by moving from deposits of greater value from institutions to deposits with smaller values from individuals and small businesses. Deposits from individuals and small businesses are considered more sustainable and stable.


BpB

Customer Business

Customer Business

During 2014, Customer Business Division grew compared to the previous year. In particular, the credit portfolio grew by 10 per cent.

Dividing clients into three main segments and then into sub-segments had a positive impact in achieving the business plan. This segmentation helped in focusing the personnel on targeted groups as well as in devising specific campaigns in order to reach those groups.

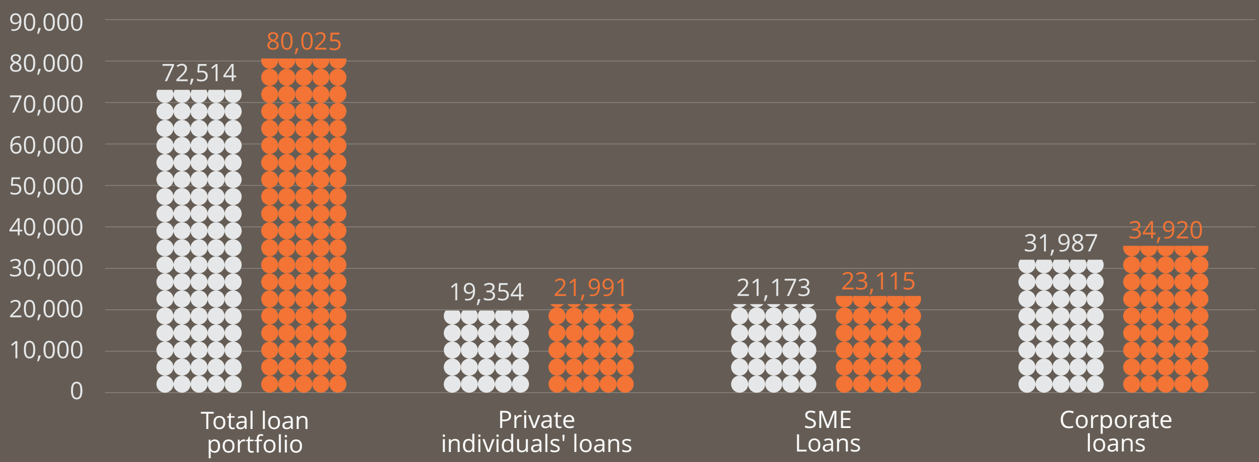
The bank has managed to increase the client base primarily with private individual and small and medium enterprises, which were and remain the bank's focus. However, in 2014 there have also been improvements in services that were offered to corporate clients.

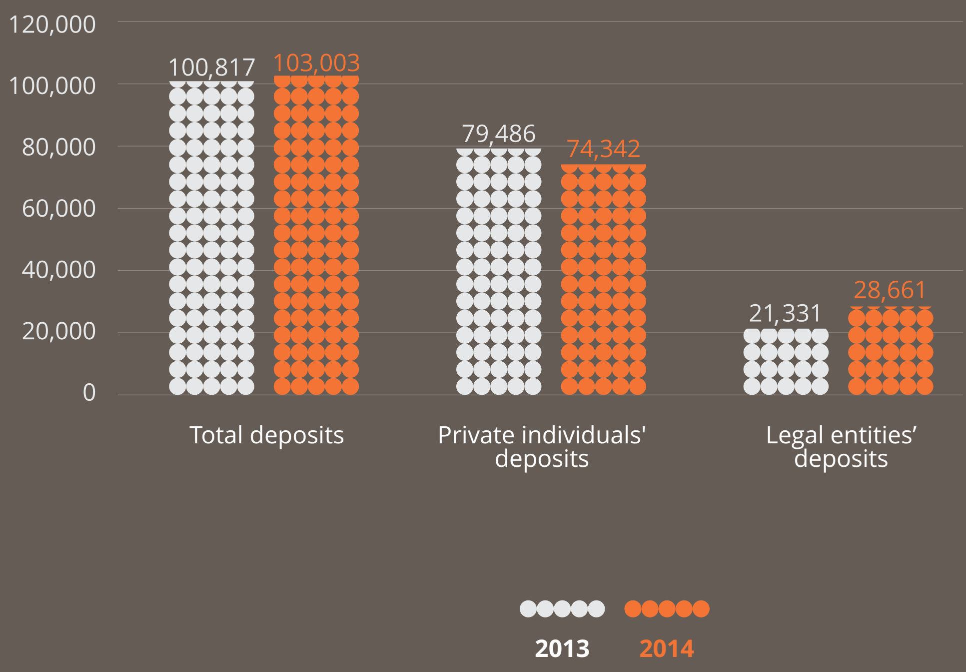
In 2014, the bank has also started financing the agriculture sector which, in the future, is set to become one of the bank's pillars of focus.

In accordance with the changes made in various products and services, training courses and workshops have been conducted with branch staff, so that they provide the best possible information and services to clients. Improving customer service remains among the top priorities of the bank.

During 2014 the bank also improved the quality of its electronic services. More features were added, thus making this service better for the clients.

*in thousands, where applicable






BpB

Branch Network

The bank has a considerable number of branches and sub-branches where clients can be served. The current number of branches enables clients to have quick and easy access to all banking products. The year under review saw a restructuring of branches and sub-branches. A Call Centre has been established during this year and it serves two purposes. Firstly, as a contact point for clients to reach the bank and secondly, as a way for the bank to set up contact with new clients.

In 2014 the bank has continued with its process of redesigning its branches and this development will be sustained next year as well with the goal of standardizing the bank's network of branches.

Information Technology

Information Technology

During 2014 the bank has implemented several major projects in the field of information technology. Some that worth mentioning are: moving from the physical platform to a virtual one, moving from a Windows Server 2012 platform, migration of all PCs to Windows 8, improvement of the internal computer network administration for branch intercommunication with the centre.

Some of the virtual platform features are:

- The virtual system is also called Green IT due to the energy saving feature;
- The ability of recovering bank services, in case of a disaster in a very short time given that with the virtual system all servers are stored as images and saved as a single file.

The improvement of the internal computer network is attained by including sophisticated tools into computer network thus increasing the level of security in using the most recently available secure algorithms and protocols.

With these improvements in the field of information technology clients of the bank benefit from faster and higher quality services. Moreover, these improvements enable the bank to be on the same level with the recent information technology trends.

Operations

National and International Payments

During 2014, the bank continued to provide its clients with internal and international payments in a secure, fast and efficient manner.

Attaining membership in SWIFT has greatly contributed to a more efficient execution of international inflow and outflow of payments as this has enabled easier communication and payment traffic. The bank's network and technological infrastructure has enabled clients to easily initiate international payments and thus saving time and costs.

Apart from offering these services the bank has also increased the level of initiating e-banking payments as this tool is being increasingly utilized by our clients, 24 hours a day, 7 days a week.

Documentary Business

Documentary business has been stable during 2014. In order to improve work quality and meet legal requirements and regulations during 2014, the bank has reviewed all policies and procedures of operations in compliance with legal provisions and regulations of the Central Bank of Kosovo. The legal infrastructure has enabled the bank to act efficiently and to increase the responsibility of the operations staff. Moreover, the bank has continued with personnel training in relation to documentary business.

Treasury

In 2014 the bank has continued with managing cash, respecting limits, FX activities, as well as bond activities. The bank remains active in bidding at each auction of Government Bonds and Securities and has maintained a stable portfolio during the entire year. The largest part of Governmental Bonds and Securities investments are held in short-term maturities of 3 to 6 months.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Credit Administration

With the goal of improving the work and process of the Operations Division, the bank has established a separate sector which handles loan administering. This sector has supported and facilitated the work of loan officers and at the same time has monitored their work so they can be more effective and offer better and safer services for the clients. Upon the establishment of this sector, the bank has had a more expeditious loan disbursement for clients, there has been better control, in particular this sector has affected strict implementation of policies and procedures.

Risk Management

Credit Risk Management

Classic loan risk is the most significant risk faced by the bank. During 2014 the bank has made important steps in improving many of the processes in managing credit risk such as:

- The centralization of the process of reviewing the largest part of loan requests, including the centralization of the loan disbursement process;
- The growth and quality increase of monitoring and controls;
- Advancing the process of loan application assessment;
- Significant improvement of legal and procedural infrastructure in numerous activities;
- Significant improvement in loan portfolio quality;
- Numerous and intensive activities in improving the process of collecting bad debts and preventing new cases.

The main strategic goal of the bank is to continue its sustainable and qualitative growth by gradually increasing the current market share.

The bank's management is and will be focused in improving the quality and the increase of loan portfolio with diversified loan risk, always taking into consideration the cost of the activity.

Liquidity Risk Management

Management of this type of risk is performed with an advanced infrastructure of effective policies and procedures. This entire infrastructure is established in compliance with requirements of the supervisory and regulatory authority.

Diversification of the bank's loan portfolio and its quality growth during recent years has enabled it to have predictable cash inflows. The clients' deposits portfolio is diversified into a large number of depositors with relatively small amounts. On a regular basis the bank monitors the liquidity coefficients and indicators determined in advance.

Within the process of liquidity risk management, stress tests of liquidity are established based on predetermined methodologies and scenarios from the bank, tests which help the bank in analyzing its position in cases of potential internal or external shifts.

During 2014 the bank has been characterized by a satisfactory level of liquidity accompanied with a high level of its liquid assets.

Currency and Interest Rate Risk Management

Foreign Currency Risk is managed in compliance with the policy on foreign currency that follows the requirements of Central Bank of Kosovo regulations on the risk from foreign currency activity.

The bank has a low level of exposure to foreign currency as it does not keep open positions in a speculative manner.

Currency positions are managed on daily basis and foreign currency exchange rates are monitored continuously. The bank has established the permissible limits for this risk which are always in compliance with internal and external criteria.

In 2014 the bank's predetermined internal limits to manage this type of risk have never been exceeded.

Operational and Fraud Risk Management

Operational risk is defined as the risk resulting from failure or inadequacy of internal processes in the bank, people or systems or external events.

The bank relies on sound practices for the management and supervision of operational risk, proposed by the Basel Committee on Banking Supervision.

In this aspect, the bank's objectives and approach to operational risk are:

• To understand the main operational risk indicators;
• To control and manage any critical incident as soon as possible;
• To prevent losses resulting from operational risk.

During 2014 the bank has made important steps in improving many of the processes in managing operational risk, such as:

- Implementing controls in various operational activities;
- Building the infrastructure for identification, recording and managing operational losses;
- Training and increasing responsibility of the staff on reporting events which contain operational risk.

The bank continuously invests in attaining the highest standards of security as far as information technology is concerned. Moreover, the bank has prepared a plan for the training of the staff on all banking activities by impacting the prevention of possible risks.

Human Resources


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BpB

Human Resources Strategy

One of the main objectives of the bank in 2014 was personnel development.

The bank has a professional responsibility toward its personnel and this is proven with the ongoing investments in developing professional capacities for all employees. Moreover, this professional development of personnel helps to maintain communications with clients in a correct and effective manner, thus helping to attain positive results.

One of the initiatives that the bank has undertaken in 2014 is organizing training with existing management capacities in order to improve personnel knowledge over a wide spectrum of the bank's products. and services. During this year almost all the personnel who are engaged in branch operations has gone through the training stage mentioned above.

Furthermore, apart from the professional development through internal trainings in 2014, the bank has also arranged external trainings which were organized by other business partners who helped capacity building at the central level.

Organizing focus groups within the bank has greatly helped in promoting open communications and transparent interactions which have helped in enriching processes within the human resources sector so it may be as close as possible to institutional requirements.

With great diligence and commitment, the bank will continue implementing and organizing various training opportunities within the institution as well as with its business partners.

Corporate Social Responsibility

Corporate Social Responsibility is a duty of each business to act ethically by contributing to the development of the society and by improving the quality of life of employees, the local community and of society in general.

Among the bank's priorities is social responsibility by offering modest assistance for the community.

Supported Projects

Distributing balls to schools in Kosovo

Taking into account that the education and health of children is of high importance, the bank has organized the distribution of balls to all elementary and high schools with the support of each municipality, the Ministry of Culture, Youth and Sports, International Relief and Development (IRD) and Sport Sans Frontiers (SSF).

One to One Children's Fund

As part of the ongoing support for children, in 2014 the bank has assisted Pema centre. This centre provides care for children with disabilities. The bank has helped in improving the infrastructure of this centre so that children who attend this institution can have the best possible conditions.

Banka për Biznes sh.a

Independent Auditor's Report and Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December, 2014

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Independent Auditors' Report

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

Prishtina, 30 March 2015

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 2014, 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 2014, 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 Sh.p.k, Kosovo Branch
14, Sulejman Vokshi Street
Prishtina, Kosovo

Banka per Biznes Sh.a.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended December 31, 2014

In thousands of EUR	**Note**	**For the year ended December 31, 2014**	**For the year ended December 31, 2013**
Interest income		9,013	9,102
Interest expense		(2,556)	(4,037)
Net interest income	**6**	**6,457**	**5,065**
Fee and commission income		1,999	1,647
Fee and commission expense		(399)	(249)
Fee and commission income, net	**7**	**1,600**	**1,398**
Collected loans previously written off		465	352
Net foreign exchange gain		25	10
Other operating income		69	102
Total operating income		**8,616**	**6,927**
Loan loss provision	**14**	(2,059)	(1,593)
Reversal/(Charge) from provision for receivables from guarantees	**16**	10	(123)
Provision for letter of guarantees issued by the Bank		(4)	(16)
Provision for non-current assets held for sale	**15**	(241)	(51)
Other operating expenses	**8**	(4,793)	(5,034)
Total operating expenses		**(7,087)**	**(6,817)**
Profit before income tax		**1,529**	**110**
Income tax benefit/(expense)	**9**	**(17)**	**(88)**
Net profit for the year		**1,512**	**22**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**1,512**	**22**

Banka per Biznes Sh.a.
Statement of Financial Position
As at December 31, 2014

In thousands of EUR	Note	As at December 31, 2014	As at December 31, 2013
Assets			
Cash on hand and at banks	10	7,881	7,947
Balances with Central Bank of Kosovo	11	20,891	16,973
Loans and advances to banks	12	1,870	2,146
Held to maturity investments	13	7,242	16,048
Loans and advances to customers	14	74,979	68,116
Non-current assets held for sale	15	843	1,230
Other assets	16	708	117
Intangible assets	17	145	247
Property and equipment	18	642	658
Total assets		**115,201**	**113,482**
Liabilities			
Deposits from customers	19	103,003	100,817
Borrowings	20	1,800	1,800
Deferred tax liabilities	9	105	88
Other liabilities	21	535	2,627
Total liabilities		**105,443**	**105,332**
Equity			
Share capital	22	11,247	11,247
Other capital reserve	22	857	857
Revaluation reserve	22	96	-
Accumulated losses		(2,442)	(3,954)
Total equity		**9,758**	**8,150**
Total liabilities and equity		**115,201**	**113,482**

These financial statements were approved by the management of the Bank on March 30, 2015 and signed on its behalf by:

Richard Beasley

Richard Beasley
Chief Executive Officer

Avni Berisha
Head of Finance Division

Banka per Biznes Sh.a.
Statement of Changes in Equity

In thousands of EUR	Share capital	Other capital reserve	Revaluation reserve	Accumulated losses	Total
Balance as at January 1, 2014	**11,247**	**857**	**-**	**(3,954)**	**8,150**
Contributions and distributions					
Revalutation reserve	-	-	96	-	**96**
Profit for the year	-	-	-	1,512	1,512
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**1,512**	**1,512**
As at December 31, 2014	**11,247**	**857**	**96**	**(2,442)**	**9,758**
Balance as at January 1, 2013	**11,247**	**857**	**-**	**(3,976)**	**8,128**
Contributions and distributions					
Profit for the year	-	-	-	22	22
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**22**	**22**
As at December 31, 2013	**11,247**	**857**	**-**	**(3,954)**	**8,150**

Banka per Biznes Sh.a.
Statement of Cash Flows
For the year ended December 31, 2014

In thousands of EUR	**Notes**	**2014**	**2013**
Cash flows from operating activities			
Profit before income tax		1,529	110
Non-cash items in the financial statements:			
Depreciation	**18**	267	374
Amortisation	**17**	109	39
Loss from disposal/write off of PPE		(82)	(186)
Foreign exchange gain		(25)	(10)
Loan loss provision	**14**	2,059	1,593
Provision for receivables from guarantees	**16**	(10)	123
Provision for letter of guarantees issued by the Bank	**21**	4	16
Provision for assets held for sale	**15**	241	51
Net interest income from customers and banks	**6**	(6,457)	(5,065)
		(2,365)	**(2,955)**
Changes in:			
Loans and advances to banks	**12**	(384)	1,512
Loans and advances to customers	**14**	7,511	8,103
Loans written off	**14**	(1,442)	(5,232)
Restricted balance with CBK	**11**	(221)	618
Other assets	**16**	(591)	(62)
Non- current assets held for sale, net	**15**	166	(256)
Deposits from customers, net	**19**	2,186	(8,770)
Other liabilities	**21**	(2,091)	2,038
Interest received		9,013	9,102
Interest paid		(2,556)	(4,037)
Net cash (used in)/from operating activities		**(5,796)**	**61**
Cash flows from investing activities			
Net redemption/(Purchase) of held to maturity investments	**13**	8,806	(645)
Purchase of property and equipment	**18**	(159)	(264)
Purchase of intangible assets	**17**	(7)	(56)
Proceeds from sale of property and equipment		127	161
Net cash from/(used in) investing activities		**8,767**	**(804)**
Cash flows from financing activities			
Repayments of borrowings	**20**	-	(4,286)
Receipts from new borrowings	**20**	-	1,800
Net cash used in financing activities		**-**	**(2,486)**
Net increase/(decrease) in cash and cash equivalents		**2,971**	**(3,229)**
Cash and cash equivalents at beginning of the year	**23**	**18,911**	**22,140**
Cash and cash equivalents at the end of the year	**23**	**21,882**	**18,911**

Banka per Biznes Sh.a.
Notes to the financial statements
For the year ended December 31, 2014
(Amounts in thousands of EUR, unless otherwise stated)

1. Introduction

In accordance with Central Bank of Kosovo ("CBK") regulations, the Bank for Private Business Sh.a ("BPB") obtained a license for banking activities on March 29, 2001 and commenced operations on April 24, 2001. Upon the decision of the Board of Directors dated February 28, 2005 and the final approval from CBK dated March 22, 2005, BPB changed its name from the Bank for Private Business ("BPB") to the Banka per Biznes (the "Bank"). As at December 31, 2006, the Bank was registered as a joint stock company ("Sh.a") under the Kosovo Ministry of Trade and Industry. 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 20 (twenty) sub-branches located throughout Kosovo (2013:32).

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain properties that are measured at revalued amounts or fair values, as explained in the accounting policies below.

(c) Functional and presentation currency

The Bank's functional currency used in preparing the financial statements is EUR as it is the currency of the primary economic environment in which the Bank operates and it reflects the economic substance of the underlying events. All amounts have been rounded to the nearest thousand unless otherwise stated.

(d) Use of judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 4.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the 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.

Banka per Biznes Sh.a.
Notes to the financial statements
For the year ended December 31, 2014
(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(a) Foreign currency transactions (continued)

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. Foreign currency differences arising on retranslation are recognised in profit or loss.

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 December 31, 2014 and 2013 are as follows:

CURRENCY	2014 EUR	2013 EUR
1 USD	0.8237	0.7251
1 CHF	0.8317	0.8145
1 GBP	1.2839	1.1994

(b) Interest

Interest income and expense are recognized in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(c) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission income, including account servicing fees, fund transfer fees, and sales commission and placement fees are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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3. Significant accounting policies (continued)

(e) Tax expense

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity or in other comprehensive income.

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.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, held to maturity investments, deposits and borrowings, on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

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

- Loans and receivables;
- Held to maturity;

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

(iii) Derecognition

Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

(iv) Offsetting

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

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 to customers

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

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

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

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

Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

The loans and advances to customers 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.

(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.

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3. Significant accounting policies (continued)

(h) Mandatory liquidity reserves

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

(i) Investments held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.
Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

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

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

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

(k) Deposits and borrowings

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

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

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

(l) Property and equipment

Items of property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any.

Historical cost includes expenditures that are 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.

3. Significant accounting policies (continued)

(l) Property and equipment (continued)

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.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

The carrying values of property and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property and equipment is the higher of fair value less costs to sell and value in use. In assessing the 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 assets.

Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as per rates given below:

- Buildings - 20 years
- Leasehold improvements - 5 years / contract period
- Computer and related equipment - 5 years
- Motor vehicles - 5 years
- Furniture, fixtures and equipment - 5 years

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

(m) Intangible assets

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are entirely comprised of computer software which is amortized using the straight-line method over their estimated useful life of five years.

(n) Non-current assets held for sale

Non-current assets held for sale are comprised of the properties where the Bank has taken the title/ownership in satisfaction of the outstanding debts owed to the Bank. The fair value of these assets at initial recognition is determined by the Bank's internal valuers and subsequently by independent property valuers. These assets are subsequently discounted depending on their location, maintenance, age and condition to reflect delays in likely settlement and the length of time the Bank has held the assets.

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3. Significant accounting policies (continued)

(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 or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised are allocated on a *pro rata* basis.

(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 recognized as finance cost.

(q) Employee benefits

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. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred.

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.

(s) Share capital

(i) Dividends

Dividends are recognised as a liability in the period in which they are declared.

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3. Significant accounting policies (continued)

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been early 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.

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 2017, 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:

- Defined Benefit Plans: Employee Contribution (Amendments to IAS 19)
- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisition of Interest in Joint Operations (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)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

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4. Use of estimates and judgments

Management discussed with the Board of Directors the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

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

Key sources of estimation uncertainty

Allowance for credit losses

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

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances to customers with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

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

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

Determining fair values

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

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4. Use of estimates and judgments (continued)

Determining fair values (continued)

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

	2014		2013	
Assets	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loans and advances to banks	1,870	1,870	2,146	2,146
Loans and advances to customers	74,979	73,222	68,116	67,415
Held to maturity investments	7,242	7,242	16,048	16,048
	84,091	**82,834**	**86,310**	**85,609**
Liabilities				
Deposits from customers	103,003	103,371	100,817	101,176
Borrowings	1,800	1,534	1,800	1,534
	104,803	**104,905**	**102,617**	**102,710**

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

5. Comparatives
The comparative information is presented consistently applying the Bank's accounting policies.

6. Net interest income
Net interest income is composed as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Interest income:		
Loans and advances to customers	8,917	8,864
Loans and advances to banks	5	11
Held to maturity investments	91	227
	9,013	**9,102**
Interest expenses:		
Deposits from customers	(2,373)	(3,824)
Borrowings	(183)	(213)
	(2,556)	(4,037)
Net interest income	**6,457**	**5,065**

7. Fee and commission income, net

Fee and commission income amounting to EUR 1,999 thousand for 2014 (2013: EUR 1,647 thousand) represents income generated from the banking services offered to clients and refers to money transfer and other banking service fees. Fees and commissions expenses amounting to EUR 399 thousand for 2014 (2013: EUR 249 thousand) refer to banking services provided by correspondent banks.

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8. Other operating expenses
Operating expenses are composed as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Personnel expenses	2,173	2,172
Rent	718	797
Depreciation and Amortisation	376	413
Insurance and security	324	411
Utilities and fuel	171	184
Repairs and maintenance	148	131
Communications	141	171
Consultancy	111	104
Card processing expenses	104	109
Advertising and marketing expenses	91	93
Cleaning expenses	54	68
Office materials	51	55
Board member remuneration	23	24
Travel	8	18
Other expenses	300	284
Total	**4,793**	**5,034**

The number of employees as at December 31, 2014 is 276 (December 31, 2013: 279).

9. Income tax expense and deferred tax
The income tax charge is comprised as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Current income tax	-	-
Deferred tax expense	17	88
	17	**88**

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

	For the year ended December 31, 2014	For the year ended December 31, 2013
Profit before tax	**1,529**	**110**
Tax calculated at tax rate 10%	152	11
Expenses not deductible for tax purposes	3	90
Tax losses not recognised	-	-
Utilization of previously unrecognised tax losses	(60)	(13)
Other temporary differences not recognised	(79)	-
Tax charge	**17**	**88**
Effective tax rate	**1%**	**80%**

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9. Income tax expense and deferred tax (continued)

Deferred tax is calculated based on the enacted tax rate of 10%. Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. As at December 31, 2014, a net deferred tax asset in the amount of EUR 270 thousand has not been recorded for the net deductible temporary differences due to uncertainty that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilized.

	2010	2011	2012	2013	2014	Total
Tax (losses)/profit carried forward	(167)	(1,160)	(2,232)	67	789	(2,703)

Deferred tax calculations	31-Dec-13	Movement during 2014	31-Dec-14
Tax effect of deductible			
Temporary differences			
Tax losses carried forward	(3,492)	789	(2,703)
Gross deferred tax asset (10%)	349	(79)	270
Less: non-recognised deferred tax asset	(349)	79	(270)
Net deferred tax asset	-	-	-

As per Kosovo tax law, tax losses can be carried forward and offset against future income for up to 7 successive tax periods.

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

	December 31, 2014	December 31, 2013
Liability at 1 January	88	-
Expense	17	88
Liability at the end of the year	**105**	**88**

Deferred income tax liabilities are attributable to the following items:

	December 31, 2014	December 31, 2013
Allowance for loan impairment	105	88
	105	**88**

10. Cash on hand and at banks

Cash on hand and at banks is composed as follows:

	December 31, 2014	December 31, 2013
Cash on hand	5,421	5,502
Cash at banks	2,460	2,445
Total	**7,881**	**7,947**

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10. Cash on hand and at banks (continued)
Cash at banks is composed of current accounts and can be detailed as follows:

	December 31, 2014	December 31, 2013
Domestic banks		
NLB Prishtina	(64)	1
Banka Kombëtare Tregtare	3	3
Banka Ekonomike	2	1
Raiffeisen Bank Kosovo	1	1
Non-domestic banks		
Raiffeisen Bank International	168	393
Bank Austria Creditanstalt	953	1,035
Union Bank Tirana	20	11
Deutsche Bank AG	1,093	899
Komercijalna Banka	18	7
Banka Di Cividale S.P.A	82	13
NLB Slovenia	8	81
KBC	170	-
Uni Banca Italia	6	-
Total	**2,460**	**2,445**

11. Balances with Central Bank of Kosovo
Balances with Central Bank of the Republic of Kosovo are composed as follows:

	December 31, 2014	December 31, 2013
Obligatory reserve	7,979	7,758
Other amounts at CBK	12,912	9,215
Total	**20,891**	**16,973**

Balance with Central Bank of Republic of Kosovo ("CBK") of EUR 20,891 thousand as at December 31, 2014 (December 31, 2013: EUR 16,973 thousand) represents the reserve maintained with CBK including the minimum mandatory reserve to be maintained under the CBK regulations. During the year 2014 and 2013 Central Bank of Kosovo did not pay any interest on minimum liquidity reserve.

12. Loans and advances to banks
Loans and advances to banks are composed as follows:

	December 31, 2014	December 31, 2013
Deposit accounts		
Landes Bank		
USD	659	906
NLB Slovenia		
EUR	-	100
Union Bank Tirana		
USD	-	73
Total deposits	**659**	**1,079**
Blocked accounts	1,211	1,067
Total	**1,870**	**2,146**

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The deposit with Landes Bank of USD 800 thousand has a contractual maturity of 30 days and earns interest rate of 0.15% per annum.

Blocked accounts at banks

As at December 31, 2014 the blocked accounts balance is composed of deposits in Banca di Cividale blocked for guarantees amounting to EUR 435 thousand (December 31, 2013: EUR 517 thousand) and deposits in Raiffeisen Bank International blocked for guarantees amounting to EUR 776 thousand (December 31, 2013; EUR 550 thousand).

As at December 31, 2014 the Bank was in compliance with all limits set by CBK for maximum exposure in relation to tier one capital to a single bank (2013: exceeded the limits with Deutsche Bank AG and Raiffeisen Bank International AG).

13. Held to maturity investments

Held to maturity investments include investments that the Bank has made in Kosovo Government Treasury Bills. The balances of held to maturity investments were as follows:

Balance as at December 31, 2014

Financial institution	Currency	Type	Maturity	Interest rate	Paid amount	Accrued interest	Total
Cental Bank of Kosovo	EUR	T. Bills	19-Aug-2015	1.9%	294	2	296
Cental Bank of Kosovo	EUR	T. Bills	19-Aug-2015	1.7%	295	2	297
Cental Bank of Kosovo	EUR	T. Bills	19-Aug-2015	1.5%	295	2	297
Cental Bank of Kosovo	EUR	T. Bills	19-Aug-2015	2.0%	98	1	99
Cental Bank of Kosovo	EUR	T. Bills	23-Jan-2015	1.4%	199	1	200
Cental Bank of Kosovo	EUR	T. Bills	19-May-2015	2.0%	495	1	496
Cental Bank of Kosovo	EUR	T. Bills	19-May-2015	2.1%	495	1	496
Cental Bank of Kosovo	EUR	T. Bills	19-May-2015	2.1%	495	1	496
Cental Bank of Kosovo	EUR	T. Bills	19-May-2015	2.2%	495	1	496
Cental Bank of Kosovo	EUR	T. Bills	19-May-2015	2.1%	99	1	100
Cental Bank of Kosovo	EUR	T. Bills	09-Dec-2015	2.2%	98	-	98
Cental Bank of Kosovo	EUR	T. Bills	11-Feb-2015	1.4%	99	1	100
Cental Bank of Kosovo	EUR	T. Bills	22-Apr-2015	1.3%	99	1	100
Cental Bank of Kosovo	EUR	T. Bills	17-Jun-2015	1.3%	99	1	100
Cental Bank of Kosovo	EUR	T. Bills	21-Oct-2015	1.9%	490	1	491
Cental Bank of Kosovo	EUR	T. Bills	21-Oct-2015	2.0%	490	2	492
Cental Bank of Kosovo	EUR	T. Bills	21-Oct-2015	2.2%	98	1	99
Cental Bank of Kosovo	EUR	T. Bills	14-Jan-2015	0.8%	100	-	100
Cental Bank of Kosovo	EUR	T. Bills	18-Mar-2015	2.0%	495	2	497
Cental Bank of Kosovo	EUR	T. Bills	18-Mar-2015	1.9%	495	3	498
Cental Bank of Kosovo	EUR	T. Bills	18-Mar-2015	1.8%	495	3	498
Cental Bank of Kosovo	EUR	T. Bills	18-Mar-2015	1.7%	495	2	497
Cental Bank of Kosovo	EUR	T. Bills	18-Mar-2015	1.8%	99	-	99
Ministry of Economy and Finance	EUR	G. Bonds	31-Mar-2016	2.4%	50	-	50
Ministry of Economy and Finance	EUR	G. Bonds	30-Jun-2016	2.6%	50	-	50
Ministry of Economy and Finance	EUR	G. Bonds	30-Sep-2016	2.9%	100	-	100
Ministry of Economy and Finance	EUR	G. Bonds	30-Sep-2016	2.9%	50	-	50
Ministry of Economy and Finance	EUR	G. Bonds	27-Nov-2016	2.9%	50	-	50
Total					**7,212**	**30**	**7,242**

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13. Held to maturity investments (Continued)

Balance as at December 31, 2013

Financial institution	Currency	Type	Maturity	Interest rate	Paid amount	Accrued interest	Total
Cental Bank of Kosovo	EUR	T. Bills	23- Apr- 2014	2.26%	78	1	79
Cental Bank of Kosovo	EUR	T. Bills	22- Jan- 2014	1.54%	4,168	29	4,197
Cental Bank of Kosovo	EUR	T. Bills	19-Feb-2014	1.49%	2,134	12	2,146
Cental Bank of Kosovo	EUR	T. Bills	19-Mar-2014	1.24%	3,528	5	3,533
Cental Bank of Kosovo	EUR	T. Bills	15-Jan-2014	0.46%	5,584	13	5,597
Cental Bank of Kosovo	EUR	T. Bills	21-May-2014	1.20%	98	-	98
Cental Bank of Kosovo	EUR	T. Bills	12-Feb-2014	0.49%	250	-	250
Cental Bank of Kosovo	EUR	T. Bills	21-May-2014	1.20%	99	1	100
Cental Bank of Kosovo	EUR	T. Bills	10-Dec-2014	1.72%	48	-	48
Total					**15,987**	**61**	**16,048**

14. Loans and advances to customers

Loans and advances to customers are composed as follows:

	December 31, 2014	December 31, 2013
Loans and advances to customers	80,025	72,514
Allowance for impairment losses on loans and advances to customers	(5,075)	(4,458)
	74,950	**68,056**
Accrued interest	549	551
Deferred application fees	(520)	(491)
Loans and advances to customers, net	**74,979**	**68,116**

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

	2014	2013
At January 1	4,458	8,097
Loan loss provision	2,059	1,593
Loans written off	(1,442)	(5,232)
At December 31	**5,075**	**4,458**

As at December 31, 2014 and 2013 the Bank was in compliance with the CBK requirements regarding capital adequacy (the minimum ratio of 12% of risk weighted assets-RWA to total capital and 8% to Tier 1 capital). As at December 31, 2014 the Bank was in compliance with the CBK requirements regarding leverage ratio (Total Equity/Total Assets), (December 31, 2013 not in compliance).

The Bank Bank exceeded the limits set by CBK for maximum exposure in relation to tier one capital to a single or group of connected customers and related parties for one case as at December 31, 2014, for which the Bank obtained approval from CBK up to June 30, 2015.

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15. Non-current assets held for sale

Non-current assets held for sale are comprised of the properties where the Bank has taken the title/ownership in satisfaction of the outstanding debts owed to the Bank. As at December 31, 2014 and 2013 the Bank had in possession the following non-current assets held for sale:

	December 31, 2014	**December 31, 2013**
Residential real estate	371	373
Commercial real estate	1,000	1,164
Total	**1,371**	**1,537**
Less: Allowance for impairment	(528)	(307)
Net carrying value	**843**	**1,230**

Movements in the allowance for impairment on non-current assets held for sale is as follows:

	2014	**2013**
At January 1	307	256
Allowance for impairment during the year	241	51
Reverse on disposal	(20)	-
At December 31	**528**	**307**

16. Other assets

	December 31, 2014	**December 31, 2013**
Prepaid expenses	524	117
Shares of the Bank held for sale (note 22)	184	-
Receivables from guarantees paid by the bank	113	123
Provision for guarantees paid by the bank	(113)	(123)
Total	**708**	**117**

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17. Intangible assets

The movements in intangible assets are as follows:

	Software
Cost	
Balance at January 1, 2013	829
Additions during the year	56
Transferred to tangible assets	(70)
Disposals during the year	(17)
Balance at December 31, 2013	**798**
Additions during the year	7
Transferred to tangible assets	-
Disposals during the year	-
Balance at December 31, 2014	**805**
Accumulated amortisation	
Balance at January 1, 2013	519
Charge for the year	109
Transferred to tangible assets	(70)
Disposal for the year	(7)
Balance at December 31, 2013	**551**
Charge for the year	109
Transferred to tangible assets	-
Disposal for the year	-
Balance at December 31, 2014	**660**
Net carrying amount	
Balance at December 31, 2013	**247**
Balance at December 31, 2014	**145**

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18. Property and equipment

The movements in property and equipment are as follows:

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
Balance at January 1, 2013	**22**	**607**	**577**	**1,719**	**504**	**3,429**
Additions during the year	-	94	49	102	19	264
Transferred from intangible assets	-	-	-	70	-	70
Disposals/write offs during the year	-	(65)	(16)	(695)	(8)	(784)
Balance at December 31, 2013	**22**	**636**	**610**	**1,196**	**515**	**2,979**
Additions during the year	**96**	29	9	108	16	**258**
Disposals/write offs during the year	-	(55)	(45)	(123)	(39)	**(262)**
Balance at December 31, 2014	**118**	**610**	**574**	**1,181**	**492**	**2,975**
Accumulated depreciation						
Balance at January 1, 2013	**22**	**538**	**445**	**1,309**	**231**	**2,545**
Charge for the year	-	45	58	120	78	301
Transferred from intangible assets	-	-	-	70	-	70
Disposals/write offs for the year	-	(63)	(16)	(514)	(2)	(595)
Balance at December 31, 2013	**22**	**520**	**487**	**985**	**307**	**2,321**
Charge for the year	-	42	52	97	76	**267**
Disposals/write offs for the year	-	(55)	(44)	(120)	(36)	**(255)**
Balance at December 31, 2014	**22**	**507**	**495**	**962**	**347**	**2,333**
Carrying amounts						
Balance at December 31, 2013	**-**	**116**	**123**	**211**	**208**	**658**
Balance at December 31, 2014	**96**	**103**	**79**	**219**	**145**	**642**

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18. Property and equipment (continued)

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

Included in Property and equipment as of December 31, 2014 are buildings amounting to EUR 96 thousand (2013: nil) which have been obtained from repossessed collateral and which management intends to use in its day to day activities. The asset is recognized at cost less accumulated depreciation as of December 31, 2014, with a corresponding credit in equity in revaluation reserve as explained in note 22.

19. Deposits from customers

Deposits from customers are composed as follows:

	December 31, 2014	December 31, 2013
Current accounts	**43,646**	**32,172**
In EUR	41,955	29,377
In foreign currency	1,691	2,795
Time deposits	**59,357**	**68,645**
In EUR	58,878	67,952
In foreign currency	479	693
Total	**103,003**	**100,817**

Out of the total amount of EUR 103,003 thousand, the amount of EUR 1,150 thousand represents accrued interest as at December 31, 2014 (December 31, 2013: EUR 1,730 thousand).

20. Borrowings

Outstanding borrowings are composed as follows:

	December 31, 2014	December 31, 2013
Subordinated loan from EBRD	1,000	1,000
Subordinated loan from Valon Budima	400	400
Subordinated loan from Armend Skeja	400	400
Total	**1,800**	**1,800**

Subordinated loan agreements 2013

During July 2013 the Bank entered into a subordinated loan agreement with EBRD for EUR 1,000 thousand. The loan bears an interest rate of 10% per annum which is payable on a quarterly basis, and the principal is repayable in one single instalment on July 31, 2019.

This loan along with two other subordinated loans as detailed above is used for the purpose of increasing the Tier II capital and meeting regulatory requirements of the Central Bank of Kosovo.

The Bank has entered into an agreement for the subordinated loan from EBRD to comply with various financial covenants. As at December 31, 2014 the Bank was not in compliance with the following:

- CBK requirements for exposures over 15% for which approval from CBK up to June 30, 2015 was obtained;
- Maintain a ratio of Liquid Assets to Deposits of 75% or more;
- Maintain a negative liquidity Gap Ratio with respect to each maturity Band of not more than 20% all times.

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20. Borrowings (continued)

The other two subordinated loans from individual persons Valon Budima and Armend Skeja bear an annual interest rate of 10%, each payable in one single installment on 26 December 2023, and have no specific covenants attached to the loan agreements.

The implementation of all requirements arising from the Law on Banking and regulations of the Central Bank, will require the Bank to address a range of activities more rigorously, particularly in the areas of lending, operational risk, and liquidity.

21. Other liabilities

Other liabilities as at December 31, 2014 and 2013 are composed as follows:

	December 31, 2014	**December 31, 2013**
Payables on behalf of third parties	212	390
Interest accrued on borrowings	41	42
Provision for letter of guarantees issued by the Bank	71	67
Payable on behalf of Ministry of Labour and Social Welfare	8	1,941
Payable on behalf of Ministry of Economy and Finance	83	77
Due to suppliers	120	110
Total	**535**	**2,627**

Payables on behalf of third parties
These payments relate to payments that remain un-executed as at December 31, 2014 due to a difference between the value date and the transaction date (suspense accounts through the Interbanking Clearing System).

Payable on behalf of Ministry Labour and Social Welfare
The Bank acts as an agent for the transactions performed on behalf of government institutions to third parties (e.g. Ministry of Labour and Social Welfare).

22. 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 should be EUR 7 million. Movement in number of shares is as follow:
Ordinary shares

Number of shares	**2014**	**2013**
On issue as at January 1	28,530	28,530
Additions	-	-
On issue as at December 31	**28,530**	**28,530**

At December 31, 2014 the authorized share capital comprised 28,530 ordinary shares (2013: 28,530). Ordinary shares have a par value of EUR 394.2 (2013: EUR 394.2). All issued shares are fully paid. 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.

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22. Share capital (continued)

A summary of share ownership of the Bank is as follows:

Name of shareholder	**2014 %**	**2014 EUR (‘000)**	**2013 %**	**2013 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
Fikri Taipi	9.91	1,115	9.91	1,115
Mejdi Rexhepi	9.35	1,052	9.35	1,052
Nazmi Viça	8.80	989	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
Getoari sh.p.k	-	-	1.63	184
BPB	1.63	184	-	-
Gazi Trade	-	-	1.61	181
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	3.27	367	1.01	113
Medisan Commerce	-	-	0.65	73
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	0.53	60	0.53	60
Total	**100**	**11,247**	**100**	**11,247**

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 as explained in note 18, 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.

The Bank previously issued a loan to one of its shareholders (“Getoar”) amounting to EUR 1,800 thousand. The loan was secured with shares in the Bank amounting to EUR 183 thousand. The shareholder failed to repay the loan.

The loan was provisioned 100% during 2013 amounting to EUR 1,800 thousand. During 2013 the provision was reversed for the shares pledged as collateral amounting to EUR 183 thousand.

During 2014 after obtaining a court decision for repossessing the shares the management of the Bank have continued to recognize as part of the paid capital and are also treated as held for sale with a corresponding asset disclosed in other assets note 16.

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23. Cash and cash equivalents
Cash and cash equivalents consist of the following:

	December 31, 2014	December 31, 2013
Cash on hand and at banks (refer to note 10)	7,881	7,947
Balances with CBK – unrestricted (refer to note 11)	12,912	9,215
Loans and advances to financial institutions with maturities of 3 months or less	1,089	1,749
Total	**21,882**	**18,911**

24. Trust activities

The Bank performs services on behalf of third parties, which are mainly in the form of payments on behalf of the clients to various institutions. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the statement of financial position.

25. Commitments and contingencies

Commitments and contingencies include guarantees extended to customers. The balance is comprised of the following:

	December 31, 2014	December 31, 2013
Secured by cash deposits	759	1,558
Secured by collateral	2,881	6,556
Total	**3,640**	**8,114**

Legal
The Bank is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on the Bank's results.

Lease commitments

Lease commitments relate to minimum rent expenses to be paid for the rented offices of the Bank. Non-cancellable operating lease rentals are payable as follows:

	December 31, 2014	December 31, 2013
Not later than 1 year	337	388
Total	**337**	**388**

Tax liabilities

For the years ended 31 December 2014 and 2013, the Bank's tax books and records have not been inspected by the local tax authorities. The Bank believes it has followed all tax rules and regulations in calculating tax liabilities, however tax interpretations as per tax authorities may differ from those used by the Bank.

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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. 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.

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26. Financial risk management (continued)

(b) 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.

Management of market risks

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 2014 and 2013 are as follows:

	USD		*EUR*	
Assets	**2014**	**2013**	**2014**	**2013**
Cash and balances with Central Bank	0.0%	0.15%	0.00%	0.62%
Loans to customers	-	-	11.48%	11.20%
Investment securities available for sale	-	-	1.90%	1.17%
Liabilities				
Customer deposits	0.66%	2.32%	2.08%	2.48%
Borrowings	-	-	10.04%	10.04%

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26. Financial risk management (continued)

(b) Market risk (continued)
Exposure to interest rate 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:

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	106	(106)	180	(180)
2013	**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	26	(26)	87	(87)

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.

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

in thousands of EUR	**US Dollar (USD)**		**Swiss Franc (CHF)**		**Great Britain Pound (GBP)**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	0.45	(4.15)	4.25	7.4	1.05	4.15
- 5% of Euro	(0.45)	4.15	(4.25)	(7.4)	(1.05)	(4.15)

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26. Financial risk management (continued)

(b) 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

December 31, 2014	EUR	USD	CHF	GBP	**Total**
Financial Assets					
Cash on hand and at banks	5,377	514	1,839	151	**7,881**
Balances with CBK	20,891	-	-	-	**20,891**
Held to maturity investments	7,242	-	-	-	**7,242**
Loans and advances to banks	1,086	659	125	-	**1,870**
Loans and advances to customers	74,979	-	-	-	**74,979**
Total financial assets	**109,575**	**1,173**	**1,964**	**151**	**112,863**
Financial Liabilities					
Deposits from customers	99,830	1,164	1,879	130	**103,003**
Borrowings	1,800	-	-	-	**1,800**
Other liabilities	535	-	-	-	**535**
Total financial liabilities	**102,165**	**1,164**	**1,879**	**130**	**105,338**
Net foreign currency position	**7,410**	**9**	**85**	**21**	**7,525**

December 31, 2013	EUR	USD	CHF	GBP	**Total**
Financial Assets					
Cash on hand and at banks	5,286	513	2,049	99	**7,947**
Balances with CBK	16,973	-	-	-	**16,973**
Loans and advances to banks	1,168	977	-	1	**2,146**
Loans and advances to customers	68,116	-	-	-	**68,116**
Held to maturity investments	16,048	-	-	-	**16,048**
Total financial assets	**107,591**	**1,490**	**2,049**	**100**	**111,230**
Financial Liabilities					
Deposits from customers	97,326	1,573	1,901	17	**100,817**
Borrowings	1,800	-	-	-	**1,800**
Other liabilities	2,560	-	-	-	**2,560**
Total financial liabilities	**101,686**	**1,573**	**1,901**	**17**	**105,177**
Net foreign currency position	**5,905**	**(83)**	**148**	**83**	**6,053**

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26. Financial risk management (continued)

(c) 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).

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 (2013: EUR 20 thousand) which are to be approved by Risk Division/Credit Committee except PI up to EUR 10 thousand which are approved by the branch.

Credit exposures larger than EUR 50 thousand (2013: EUR 20 thousand) and less than 10% of the Bank's first class equity are approved by the Risk Division/Credit Committee, while exposures over 10% of the Bank capital are to be approved by Board of Directors.

Separate units of the Bank's Risk and Sales Divisions are responsible for 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)

(c) Credit risk (continued)

Exposure to credit risk as at December 31, 2014 and 2013.

	Loans and advances to customers		Held to maturity investments		Loans and advances to banks		Financial guarantees	
	2014	2013	2014	2013	2014	2013	2014	2013
Individual impairment			-	-				
Gross amount	**44,230**	**41,976**	-	-	-	-	-	-
Allowance for impairment	(4,006)	(3,175)	-	-	-	-	-	-
Carrying amount	**40,224**	**38,801**	-	-	-	-	-	-
Collective impairment			-	-	-	-	-	-
Gross amount	**35,825**	**30,598**	**7,242**	**16,048**	**1,870**	**2,146**	**3,640**	**8,114**
Allowance for impairment	(1,070)	(1,283)	-	-	-	-	(84)	(190)
Carrying amount	**34,755**	**29,315**	**7,242**	**16,048**	**1,870**	**2,146**	**3,556**	**7,924**
Total	**74,979**	**68,116**	**7,242**	**16,048**	**1,870**	**2,146**	**3,556**	**7,924**

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 3f (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 managed collectively for internal impairment purpose.

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.

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26. Financial risk management (continued)

(c) Credit risk (continued)

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.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The balance of the allowance is a specific loss component that relates to individually significant exposures.

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.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of assets by risk grade including accrued interest and deferred application fees.

Loans to customers	**December 31,2014**	**December 31,2013**
Neither past due nor impaired	61,174	54,508
Past due and individually tested but not impaired	8,290	10,360
Individually impaired	10,590	7,706
Total	**80,054**	**72,574**
Allowance for impairment	(5,075)	(4,458)
Total Loans, net of impairment	**74,979**	**68,116**

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26. Financial risk management (continued)

(c) Credit risk (continued)

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. 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:

	Loans and advances to customers	
	December 31, 2014	**December 31, 2013**
Property	124,569	97,430
Equipment	85,462	51,340
Goods	18,864	22,358
Total	**228,895**	**171,128**

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:

	Loans and advances to customers		Held to maturity investments		Loans and advances to banks		Financial guarantees	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Concentration by sector								
Corporate	53,537	49,399	-	-	-	-	3,556	7,924
Bank	-	-	7,242	16,048	1,870	2,146	-	-
Retail	21,442	18,717	-	-	-	-	-	-
	74,979	**68,116**	**7,242**	**16,048**	**1,870**	**2,146**	**3,556**	**7,924**
Concentration by location								
EU countries	-	-	-	-	1,870	2,073	1,012	1,529
Republic of Kosovo	74,979	68,116	7,242	16,048	-	-	2,544	6,395
Other countries	-	-	-	-	-	73	-	-
Total	**74,979**	**68,116**	**7,242**	**16,048**	**1,870**	**2,146**	**3,556**	**7,924**

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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 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 deposits, borrowings 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.

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26. Financial risk management (continued)

(d) Liquidity risk (continued)

Management of liquidity risk

Residual contractual maturities of financial assets and liabilities

December 31, 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	7,881	-	-	-	-	**7,881**
Balances with CBK	20,891	-	-	-	-	**20,891**
Loans and advances to banks	999	90	290	491	-	**1,870**
Loans and advances to customers	3,553	9,122	8,313	16,920	37,071	**74,979**
Held to maturity investments	200	2,191	2,282	2,170	399	**7,242**
Total	**33,524**	**11,403**	**10,885**	**19,581**	**37,470**	**112,863**
Financial Liabilities						
Deposits from customers	56,425	2,103	4,546	22,394	17,535	**103,003**
Borrowings	-	-	-	-	1,800	**1,800**
Other liabilities	535	-	-	-	-	**535**
Total	**56,960**	**2,103**	**4,546**	**22,394**	**19,335**	**105,338**
Liquidity gap	**(23,436)**	**9,300**	**6,339**	**(2,813)**	**18,135**	**7,525**

December 31, 2013	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	7,947	-	-	-	-	**7,947**
Balances with CBK	16,973	-	-	-	-	**16,973**
Loans and advances to banks	458	486	25	1,146	31	**2,146**
Loans and advances to customers	4,680	8,406	8,227	14,011	32,792	**68,116**
Held to maturity investments	9,792	5,929	179	148	-	**16,048**
Total	**39,850**	**14,821**	**8,431**	**15,305**	**32,823**	**111,230**
Financial Liabilities						
Deposits from customers	41,401	3,989	8,308	24,748	22,371	**100,817**
Borrowings	-	-	-	-	1,800	**1,800**
Other liabilities	2,560	-	-	-	-	**2,560**
Total	**43,961**	**3,989**	**8,308**	**24,748**	**24,171**	**105,177**
Liquidity gap	**(4,111)**	**10,832**	**123**	**(9,443)**	**8,652**	**6,053**

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26. Financial risk management (continued)
(d) Liquidity risk (continued)

The previous table shows the undiscounted cash flows of the Bank’s financial liabilities and unrecognised loan commitments 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 deposits from customers are expected to maintain a stable or increasing balance.

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, applying the best banking practices. 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 a stable capital and liquidity position.

(e) 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. Interest rates applicable to financial assets and liabilities are disclosed in relevant note to these financial statements.

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.

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26. Financial risk management (continued)

(e) Interest rate risk (continued)

Following table shows the interest bearing and non-interest bearing financial instruments.

	December 31, 2014			December 31, 2013		
	Interest bearing	**Non – interest**	**Total**	**Interest bearing**	**Non – interest**	**Total**
Financial Assets						
Cash on hand and at banks	-	7,881	**7,881**	-	7,947	**7,947**
Balances with CBK	-	20,891	**20,891**	-	16,973	**16,973**
Loans and advances to banks	1,870	-	**1,870**	2,146	-	**2,146**
Held to maturity investments	7,242	-	**7,242**	16,048	-	**16,048**
Loans to customers	74,979	-	**74,979**	68,116	-	**68,116**
Total financial assets	**84,091**	**28,772**	**112,863**	**86,310**	**24,920**	**111,230**
Financial Liabilities						
Due to customers	59,357	43,646	**103,003**	68,645	32,172	**100,817**
Other Liabilities	-	535	**535**	-	2,560	**2,560**
Borrowings	1,800	-	**1,800**	1,800	-	**1,800**
Total financial liabilities	**61,157**	**44,181**	**105,338**	**70,445**	**34,732**	**105,177**
Net interest risk	**22,934**	**(15,409)**	**7,525**	**15,865**	**(9,812)**	**6,053**

(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 2013.

The equity structure of the Bank comprises issued capital, general risk reserve and retained earnings.

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.

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26. Financial risk management (continued)

(f) Capital risk management (continued)

	December 31, 2014	December 31, 2013
Total risk weighted assets	71,138	63,112
Total risk weighted off balance exposures	2,531	4,447
Total risk weighted assets for operational risk	9,600	9,259
Total	**83,269**	**76,818**
Regulatory capital (Total Capital)	11,148	9,937
Capital adequacy ratio (Total Capital)	**13.39%**	**12.94%**

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 (refer to Note 14 Loans and advances to customers for more details on capital adequacy and other CBK requirements).

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

Gearing ratio

The Bank's risk management committee reviews the capital structure on a continuously basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital.

27. Related party transactions

A party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with the entity, the party has an interest in the entity that gives it significant influence over the entity, the party has joint control over the entity, the party is an associate or the party is a member of the key management personnel of the entity or its parent.

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

	December 31, 2014	December 31, 2013
Assets:		
Loans outstanding at end of year with shareholders and key management		
Newco Jugo Term	1,488	2,058
ENG Office	470	470
Getoari	-	184
Other shareholders and management	262	821
Total	**2,220**	**3,533**
Guarantees and letters of credit with shareholders	-	67
Loans and advances to Banka Di Cividale	435	517

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27. Related party transactions (continued)

	December 31, 2014	December 31, 2013
Liabilities:		
Customer accounts with shareholders		
Newco Jugo Term	1,528	1,570
Nazmi Viça	-	392
ENG Office	470	470
Other shareholders and management	115	548
Total	**2,113**	**2,980**
Borrowing from EBRD	1,000	1,000

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

	For the year ended December 31, 2014	For the year ended December 31, 2013
Revenues:		
Interest income	203	258
Fee and commission income	4	15
Total revenues	**207**	**273**
Expenses:		
Interest expenses for borrowings from EBRD	103	200
Key management compensation	290	218
Board of directors compensation	23	24
Total expenses	**416**	**442**

28. Subsequent events

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

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