BANKA PËR BIZNES SH.A.

Financial Statements prepared in accordance with

Rules and Regulations of the Central Bank of Kosovo

FOR THE YEAR ENDED 31 DECEMBER 2016

WITH INDEPENDENT AUDITORS' REPORT THEREON

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka për Biznes Sh.a

Opinion

We have audited the financial statements of Banka për Biznes Sh.a ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Rules and Regulation of the Central Bank of Kosovo.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of accounting and restriction on use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Bank in complying with the financial reporting requirements of the "Rules and Regulations" referred to above. As a result, the financial statements may not be suitable for another purpose. Our auditor's report is intended solely for the information and use of the Bank and Central Bank of Kosovo and should not be used by parties other than the Central Bank of Kosovo. Our opinion is not modified in respect of this matter.

Other matters

Financial statements of the Bank for the year ended 31 December 2015 have been audited by another auditor who issued an unmodified opinion on 31 March 2016.

The Bank prepares a separate set of financial statements for the year ended December 31, 2016 in accordance with International Financial Reporting Standards on which we issue a separate auditor's report to the shareholders of the Bank. We issued an unmodified opinion on this separate set of financial statements on April 7st 2017.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Rules and Regulation of the Central Bank of Kosovo, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance of Banka për Biznes Sh.a regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Certified Auditors Kosovo

Ernst & Young Certified Auditors Kosovo sh.p.k.

Pristina, Kosovo
April 7, 2017

In thousands of EUR	**Note**	**2016**	**2015**
Interest income	5	9,821	9,173
Interest expense	5	(1,670)	(1,669)
Net interest income		**8,151**	**7,504**
Fee and commission income	6	2,000	1,848
Fee and commission expense	6	(522)	(414)
Net fee and commission income		**1,478**	**1,434**
Recoveries of loans previously written off		583	534
Net foreign exchange gain		(2)	70
Income from sale of securities		1,878	120
Other operating income		35	100
Total operating income		**12,123**	**9,762**
Impairment losses	13	(1,045)	(1,584)
Net reversal of provisions for guarantees		10	19
Repossessed assets write-downs	16	(529)	(305)
Other provisions		(622)	(642)
Other operating expenses	7	(5,622)	(5,249)
Total operating expenses		**(7,808)**	**(7,761)**
Profit before income tax		**4,315**	**2,001**
Income tax expense	8	(365)	**-**
Net profit for the year		**3,950**	**2,001**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale financial assets)		(14)	(18)
Total comprehensive income for the year		**3,936**	**1,983**

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 45.

In thousands of EUR	**Note**	**2016**	**2015**
Assets			
Cash on hand and at banks	9	12,691	10,623
Balances with Central Bank of Kosovo	10	27,248	22,576
Loans and advances to banks	11	600	960
Available-for-sale financial assets	12	18,267	10,372
Loans and advances to customers	13	101,885	85,975
Other financial assets	14	237	291
Other assets	15	141	122
Repossessed assets	16	898	747
Intangible assets	17	226	147
Property and equipment	18	980	1,041
Total assets		**163,173**	**132,854**
Liabilities			
Due to customers	19	140,598	115,848
Subordinated debt	20	1,845	1,848
Borrowings	20	4,248	3,017
Other liabilities	21	1,346	703
Other provisions	21	404	642
Total liabilities		**148,441**	**122,058**
Equity			
Share capital	22	11,247	11,247
Fair value reserve		(32)	(18)
Accumulated profit / (losses)		3,517	(433)
Total equity		**14,732**	**10,796**
Total liabilities and equity		**163,173**	**132,854**

These financial statements were approved by the management of the Bank on 1 March 2017 and signed on its behalf by:

Arton Celina
Chief Executive Officer

Avni Berisha
Head of Finance Department

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 45.

Banka për Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2016

In thousands of EUR	Share capital	Accumulated (losses)/profit	Fair value reserve	Total
Balance as at 1 January 2015	**11,247**	**(2,434)**	**-**	**8,813**
Transactions with owners of the Bank				
Total comprehensive income for the year				
Profit for the year	**-**	2,001	**-**	**2,001**
Other comprehensive loss (Fair value reserve)	**-**	**-**	(18)	**(18)**
Total comprehensive income /(loss)	-	**2,001**	**(18)**	**1,983**
Balance at 31 December 2015	**11,247**	**(433)**	**(18)**	**10,796**
Balance at 1 January 2016	**11,247**	**(433)**	**(18)**	**10,796**
Transactions with owners of the Bank				
Total comprehensive income for the year				
Profit for the year	**-**	3,950	**-**	**3,950**
Other comprehensive income	**-**	**-**	(14)	**(14)**
Total comprehensive income /(loss)	-	**3,950**	**(14)**	**3,936**
Balance at 31 December 2016	**11,247**	**3,517**	**(32)**	**14,732**

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 45.

Banka për Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2016

In thousands of EUR	**Note**	**2016**	**2015**
Cash flows from operating activities			
Profit for the year before tax		4,315	2,001
Non-cash items in the financial statements:			
Depreciation	18	321	281
Amortization	17	77	87
Gain from disposal of property and equipment		(21)	(30)
Impairment losses from loans	13	1,045	1,584
Write down of repossessed assets	16	529	305
Other provisions		395	-
Gain from sale of AFS		(1,878)	-
Interest expense	5	1,670	1,669
Interest income	5	(9,821)	(9,173)
		(3,368)	**(3,276)**
Changes in:			
Loans and advances to banks	11	360	251
Loans and advances to customers	13	(16,524)	(13,599)
Restricted balances with the CBK	10	(3,248)	(1,066)
Other assets	15	(19)	127
Other financial assets	14	54	168
Repossessed assets	16	-	(209)
Due to customers	19	24,723	13,049
Other liabilities and provisions	21	643	858
Interest received		9,967	9,142
Interest paid		(1,684)	(1,873)
Income tax paid		(290)	-
Net cash used in operating activities		**10,614**	**3,572**
Cash flows from investing activities			
Investments in available-for-sale investments	12	(7,927)	(10,390)
Proceeds from held-to-maturity investments		-	7,242
Purchase of property and equipment	18	(276)	(711)
Purchase of intangible assets	17	(156)	(89)
Proceeds from sale of property and equipment		37	61
Net cash from investing activities		**(8,322)**	**(3,887)**
Cash flows from financing activities			
Repayments of borrowings		(800)	**-**
Receipts from borrowings	20	2,000	3,017
Net cash used in financing activities		**1,200**	**3,017**
Net increase in cash and cash equivalents		**3,492**	**2,702**
Cash and cash equivalents at beginning of the year	9	**24,154**	**21,452**
Cash and cash equivalents at the end of the year	9	**27,646**	**24,154**

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 45.

1. INTRODUCTION

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

Based on the decision of the Board of Directors dated 28 February 2005, and the final approval from the Central Bank of Kosovo ("CBK") dated 22 March 2005, the Bank changed its name to Banka per Biznes (the "Bank"). In 2006, the Bank was registered as a joint stock company ("Sh.a"). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 26 branches located throughout Kosovo (2015: 26).

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements are prepared in accordance with Article 53 of the Law No. 04/L- 093, dated 11 May 2012, "Law on banks, microfinance institutions and non-bank financial institutions".

These financial statements are prepared for regulatory purposes and reflect the accounting rules and regulations of the Central Bank of the Republic of Kosovo ("CBK Rules"). The CBK Rules are based on the relevant legal decision defining the mandatory application of International Financial Reporting Standards ("IFRS") in Kosovo, but CBK rules also specifically require the application of certain accounting treatments which are not in accordance with the specific requirements of IFRS. Consequently, these financial statements should be read as being prepared in accordance with the accounting standards and regulations prevailing in the Territory of Kosovo as disclosed in the significant accounting policies set out in Note 3 below.

b) Basis of preparation

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

c) Functional and presentation currency

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

d) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 4, 5 and 26.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

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

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

b) Fees and commissions

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

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

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

c) Lease payments

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

d) Tax expense

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

(i)Current tax

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

(ii) Deferred tax

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

(ii)Deferred tax (continued)

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

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

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

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

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

(iii)Tax exposures

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

e) Foreign currency transactions

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

The foreign currency gain or loss on monetary items is the difference between amortized costs in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

f) Financial assets and financial liabilities

(i)Recognition

The Bank initially recognises loans and advances, held-to-maturity and available-for-sale investments, deposits, borrowings and subordinated debt on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(ii) Classification

Financial assets

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

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

Financial liabilities

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

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

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

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

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

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

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

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

(vii) Identification and measurement of impairment

Impairment of loans and advances

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

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

Provisions for loan losses are created pursuant to the Regulation “Credit Risk Management”, which was approved by CBK on 26 April 2013. The regulation requires the Bank to classify exposures into five risk categories. The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. Loans and advances that are specifically impaired include significant exposures of more than EUR 50,000. Loans and advances that are not specifically impaired are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(vii) Fair value measurement (continued)

Provisions created for possible losses on loans classified as standard and watch are classified as general provisions. In accordance with the internal provisioning policies of the Bank the rate that is applied for the standard and watch categories is 0.82% (2015: 1.06%). For each risk category, the following minimum rates of specific provision are applied:

Category	**Minimum provision rate**
Substandard	20%
Doubtful	50%
Loss	100%

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

Impairment of available-for-sale financial assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized through OCI.

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 amortized cost in the statement of financial position.

h) Investments held-to-maturity

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Investments held-to-maturity(continued)

sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and

sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could have been reasonably anticipated

i) Available-for-sale financial assets

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

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss (see (f)(vii)).

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

j) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks and to customers are classified as loans and receivables.

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

k) Deposits, borrowings and subordinated debt

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

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

l) Repossessed assets

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

m) Property and equipment

(i) Recognition and measurement

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Property and equipment (continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

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

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

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

n) Intangible assets

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

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

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

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

o) Impairment of non-financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

q) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

r) Financial guarantees and loan commitments

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

s) Dividends

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

t) Equity reserves

The reserves recorded in equity (OCI) on the Bank's statement of financial position include:

- Available-for-sale reserve, which comprises changes in fair value of available-for-sale investments;
- Other capital reserve, which comprises difference between accumulated losses in accordance with IFRS and CBK;
- Revaluation reserve, which comprises on repossessed collateral recognized in Property and equipment from Bank.

4. USE OF ESTIMATES AND JUDGMENTS

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

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

a) *Impairment*

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

The Bank reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

b) Net realizable value of repossessed assets

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

The Bank does not present repossessed property in the statement of financial position for periods longer than 5 years. The fair values of the Bank's repossessed assets are categorized into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

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

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

(Amounts in thousands of EUR, unless otherwise stated)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Determining fair values

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

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

· Level 1: Quoted market price in an active market for an identical instrument.

· Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

The estimation of the fair value is disclosed below in Note d).

d) Disclosure and estimation of fair value

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

Financial instruments – fair value hierarchy

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

	2016		2015	
	Carrying value	**Fair value Level 2**	**Carrying value**	**Fair value Level 2**
Financial assets measured at fair value				
Available-for-sale	18,267	18,267	10,372	10,372
Financial assets not measured at fair value				
Cash on hand and at banks	39,939	39,939	33,199	33,199
Loans and advances to banks	600	600	960	960
Held-to-maturity investments	-	-	-	-
Loans and advances to customers	101,885	100,754	85,975	88,924
Other financial asset	237	237	291	291
Financial liabilities not measured at fair value				
Due to customers	140,598	141,101	115,848	116,330
Subordinated debt	1,845	1,839	1,848	1,842
Borrowings	4,248	3,620	3,017	2,571
Other financial liabilities	1,346	1,346	651	651

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

Financial instruments – fair value hierarchy (continued)

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.

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

Balances with banks

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

Treasury Bills

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

Bonds

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

Loans and advances to customers

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

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

Due to customers, borrowings and subordinated debt

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

(Amounts in thousands of EUR, unless otherwise stated)

5. NET INTEREST INCOME

Net interest income is composed as follows:

	2016	2015
Interest income		
Loans and advances to customers	9,716	9,018
Loans and advances to banks	7	2
Available-for-sale investments	98	153
	9,821	**9,173**
Interest expenses		
Due to customers	(1,347)	(1,466)
Subordinated debt	(203)	(186)
Borrowings	(120)	(17)
	(1,670)	**(1,669)**
Net interest income	**8,151**	**7,504**

6. NET FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income		
Payment transfers and transactions	1,525	1,485
Account maintenance fees	433	321
Other fees and commissions	42	42
Total fee and commission income	**2,000**	**1,848**
Fees and commissions on bank accounts	(422)	(323)
Fees and commissions on social aid distribution	(49)	(69)
Other fees and commissions	(51)	(22)
Total fee and commission expense	**(522)**	**(414)**
Net fee and commission income	**1,478**	**1,434**

(Amounts in thousands of EUR, unless otherwise stated)

7. OTHER OPERATING EXPENSES

	2016	**2015**
Personnel expenses (see below)	2,717	2,388
Rent	623	667
Depreciation and Amortization	398	368
Insurance and security	290	303
Utilities and fuel	168	162
Repairs and maintenance	148	152
Communications	137	135
Consultancy	74	87
Legal expense	196	131
Card issuance costs	190	131
Advertising and marketing expenses	161	170
Cleaning expenses	42	39
Office materials	54	49
Board member remuneration	42	42
Travel	15	12
Other expenses	367	413
Total	**5,622**	**5,249**

The number of employees as at 31 December 2016 is 327 (31 December 2015: 288).

Personnel expenses are details as follows:

	2016	**2015**
Wages and salaries	2,323	2,111
Pension contribution	119	104
Fringe benefits	250	163
Other compensations	25	10
Total	**2,717**	**2,388**

(Amounts in thousands of EUR, unless otherwise stated)

8. INCOME TAXES

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

Profit before tax	**Effective Tax rate**	**2016 4,315**	**Effective Tax rate**	**2015 2,001**
Tax calculated at 10%	10%	432	10%	200
Tax effect of non-deductible expenses	0.05%	1	0.05%	1
Tax effect of the accrued interest on term deposits	(1.00%)	20	(1.00%)	(20)
Utilisation of tax loss carried forward	(9.05%)	(88)	(9.05%)	(181)
Income tax expense		**365**	**-**	**-**

Deferred tax is calculated based on the enacted tax rate of 10%. Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable. As at 31 December 2016, a net deferred tax asset of EUR NIL thousand (2015: EUR 87 thousand) has not been recognized due to the uncertainty that sufficient taxable profits will be available to allow the benefit of that deferred tax asset to be utilized.

	2016	**2015**
Liability at the beginning	-	-
Additions during the year	365	-
Payments during the year	(290)	-
Liability at the end	**75**	**-**

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

Income tax is assessed at the rate of 10% (2015: 10%) of taxable income. The following represents a reconciliation of the accounting profit to the income tax:

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Tax losses unrecognized (utilized) during the year	167	1,160	2,232	(87)	(789)	(1,814)	(433)
Tax losses carried forward	167	1,327	3,559	3,472	2,683	869	-

	2015	**Movement during 2016**	**2016**
Tax losses carried forward	(869)	-	-
Deferred tax asset at 10%	87	(87)	-
Less: unrecognized tax losses	(87)	87	-
Deferred tax asset at the end of the year	-	-	-

(Amounts in thousands of EUR, unless otherwise stated)

9. CASH ON HAND AND AT BANKS

	2016	2015
Cash on hand	5,743	6,335
Cash at banks	6,948	4,288
Total	**12,691**	**10,623**

Cash and cash equivalents consist of the following:

	2016	2015
Cash on hand and at banks	12,691	10,623
Unrestricted balances with CBK (note 10)	14,955	13,531
Total	**27,646**	**24,154**

10. BALANCES WITH CENTRAL BANK OF KOSOVO

	2016	2015
Statutory reserves	12,293	9,045
Current accounts	14,955	13,531
Total	**27,248**	**22,576**

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

11. LOANS AND ADVANCES TO BANKS

	2016	2015
Blocked accounts:		
Raiffeisen Bank International	600	960
Total	**600**	**960**

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

12. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
Treasury Bills	10,720	5,334
Government Bonds	7,547	5,038
Total	**18,267**	**10,372**

During the year 2016 Bank has sold approximately 14 financial instruments. Financial instruments all were sold with higher price compared to purchase price. The only buyer of financial instruments was Central Bank of Kosovo. Gain was recognized through profit and loss in amount of EUR 1,878 thousand.

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

(Amounts in thousands of EUR, unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS

	2016	2015
Loans and advances to customers	107,905	91,380
Accrued interest	561	534
Deferred disbursement fees	(649)	(474)
Total	**107,817**	**91,440**
Allowance for impairment losses on loans and advances to customers	(5,932)	(5,465)
Loans and advances to customers, net	**101,885**	**85,975**

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

	2016	2015
At January 1	5,465	6,125
Loan loss provision	1,045	1,584
Loans written off	(578)	(2,244)
At December 31	**5,932**	**5,465**

The Bank exceeded the limit 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 31 December 2014, for which the Bank obtained approval from CBK up to 30 June 2015. The Bank did not exceed such limits at 31 December 2016 and 2015.

The Bank manages individual counterparty exposures in order to be compliant with the rules of the Central Bank that require individual counterparty exposures not to exceed 15% of Tier I Capital (or EUR 14,512k).

As at 31 December 2016 there are no counterparty exposures above 15% of the limit. In addition, the cumulative exposure of the top 10 clients of the bank is EUR 9,757k (2015: EUR 9,612k).

A reconciliation of the allowance for impairment losses for loans and advances, by class, is, as follows:

	2016			2015		
	Non-Retail	**Retail**	**Total**	**Non-retail**	**Retail**	**Total**
At 1 January 2016	**4,895**	**570**	**5,465**	**5,619**	**506**	**6,125**
Charge for the year	872	173	1,045	1,520	64	1,584
Amounts written off	(578)	-	(578)	(2,244)	-	(2,244)
At 31 December 2016	**5,189**	**743**	**5,932**	**4,895**	**570**	**5,465**

14. OTHER FINANCIAL ASSETS

	2016	2015
Receivables from customers	14	133
Accrued income from banking services	84	67
Accrued fees and commissions	55	84
Receivables from guarantees	70	-
Other receivables	14	7
Total	**237**	**291**

15. OTHER ASSETS

	2016	2015
Prepaid expenses	141	122
Total	**141**	**122**

(Amounts in thousands of EUR, unless otherwise stated)

16. REPOSSESSED ASSETS

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

	2016	2015
Residential real estate	572	572
Commercial real estate	1,688	1,008
Total	**2,260**	**1,580**
Less: write-down	(1,362)	(833)
Net carrying value	**898**	**747**

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

Movements in the values written down are as follows:

	2016	2015
At January 1	833	528
Charge for the year	529	305
Reversal on disposal	-	-
At December 31	**1,362**	**833**

17. INTANGIBLE ASSETS

Software	
Cost	
At 1 January 2015	**805**
Additions	89
At 31 December 2015	**894**
Additions	156
At 31 December 2016	**1,050**
Accumulated amortization	
At 1 January 2015	**660**
Charge for the year	87
At 31 December 2015	**747**
Charge for the year	77
At 31 December 2016	**824**
Net carrying amount	
At 31 December 2016	**147**
At 31 December 2016	**226**

(Amounts in thousands of EUR, unless otherwise stated)

18. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2015	**109**	**610**	**574**	**1,181**	**489**	**2,963**
Additions during the year	-	275	101	177	158	711
Disposals during the year	-	(111)	(130)	(178)	(50)	(469)
At 31 December 2015	**109**	**774**	**545**	**1,180**	**597**	**3,205**
Additions during the year	-	71	19	113	73	276
Disposals during the year	(13)	(18)	(79)	(13)	(17)	(140)
At 31 December 2016	**96**	**827**	**485**	**1280**	**653**	**3,341**
Accumulated depreciation						
At 1 January 2015	**13**	**507**	**495**	**962**	**344**	**2,321**
Charge for the year	2	62	75	84	58	281
Disposals for the year	-	(108)	(129)	(173)	(28)	(438)
At 31 December 2015	**15**	**461**	**441**	**873**	**374**	**2,164**
Charge for the year	2	90	42	94	93	321
Disposals for the year	(13)	(16)	(21)	(24)	(50)	(124)
At 31 December 2016	**4**	**535**	**462**	**943**	**417**	**2,361**
Carrying amounts						
At 31 December 2015	94	313	104	307	223	1,041
At 31 December 2016	**92**	**292**	**23**	**337**	**236**	**980**

As at 31 December 2016 and 2015, the Bank does not have any property pledged as collateral.

Included in property and equipment as of 31 December 2016 are buildings with a carrying amount of EUR 92 thousand (2015: EUR 94 thousand) which represent repossessed collaterals and which management is using in its day to day activities.

Below are items of Property and Equipment that are fully depreciated but still in use as at 31 December 2016:

Category	Cost	Accumulated	Net Book
Buildings	9	9	-
Leasehold improvements	420	420	-
Furniture, fixtures and equipment	474	474	-
Computers and related equipment	647	647	-
Vehicles	143	143	-
Software	618	618	-
Total	**2,311**	**2,311**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

19. DUE TO CUSTOMERS

	2016	2015
Current accounts	**60,214**	**50,036**
In EUR	61,863	47,625
In foreign currencies	(1,649)	2,411
Time deposits	**80,384**	**65,812**
In EUR	82,380	65,084
In foreign currencies	(1,996)	728
Total	**140,598**	**115,848**

20. SUBORDINATED DEBT AND BORROWINGS

	2016	2015
Subordinated debt		
EBRD	1,005	1,008
Individuals:		
Valon Budima	420	420
Armend Skeja	420	420
Total	**1,845**	**1,848**

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

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

The subordinated debt from individuals has no specific covenants attached to the agreements. As of 31 December 2016 the Bank is in compliance with financial covenants attached to the agreement with EBRD. As at 31 December 2015 the Bank was not in compliance with the following:

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

Borrowings	2016	2015
Borrowings from EFSE	3,240	3,017
Borrowings from EBRD	1,008	-
Total	**4,248**	**3,017**

During the year 2016, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total of EUR 1,000 thousand. The purpose is to support the private individuals and SME loan portfolio related with energy efficiency programme. The borrowing bears an interest rate of 3.6% annually, and is repayable within five years. The interest is payable on quarterly basis.

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

(Amounts in thousands of EUR, unless otherwise stated)

21. OTHER LIABILITIES AND PROVISIONS

	2016	**2015**
Payments in transit	593	295
Provisions for letters of guarantee issued by the Bank	-	52
Payable on behalf of Ministry of Labour and Social Welfare	450	170
Payable on behalf of Ministry of Economy and Finance	78	25
Due to suppliers	225	161
Total Other Liabilities	**1,346**	**703**
Other provisions (see note below)	404	642
Total	**1,750**	**1,345**

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

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

Following is presented the movement of provision as of 31 December:

	2016	**2015**
At the beginning	642	-
Additions during the year	622	642
Utilized during the year	(860)	-
At the end	**404**	**642**

(Amounts in thousands of EUR, unless otherwise stated)

22. SHAREHOLDERS' EQUITY AND RESERVES

Share capital

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

At 31 December 2016, the subscribed capital was divided into 28,530 ordinary shares (2015: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

The structure of subscribed capital is as follows:

		2016		**2015**	
	Name of shareholder	**%**	**EUR ('000)**	**%**	**EUR ('000)**
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Rrustem Aliaj	17.27	1,942	17.27	1,942
3	EBRD	10.00	1,125	10.00	1,125
4	Shaqir Palushi	9.91	1,115	-	-
5	John Xhan Taip	-	-	9.91	1,115
6	Mejdi Rexhepi	9.35	1,052	9.35	1,052
7	Nazmi Viça	6.89	775	6.89	775
8	Kareman Limani	4.85	545	4.85	545
9	Banka di Cividale	4.62	520	4.62	520
10	Ahmet Arifi	2.39	269	2.39	269
11	Ismet Sylejmani	1.90	214	1.90	214
12	Rasim Gashi	1.54	173	1.54	173
13	Riza Mikullovci	1.45	163	1.45	163
14	Others	1.26	141	1.26	141
15	DMTH shpk	5.35	601	5.17	581
16	Naser Aliu	0.62	70	0.62	70
17	Besnik Vrella	0.62	70	0.62	70
18	Agim Bilalli	0.62	70	0.62	70
19	Flamur Bryma	0.09	10	0.27	30
	Total	**100.00**	**11,247**	**100.00**	**11,247**

(Amounts in thousands of EUR, unless otherwise stated)

23. COMMITMENTS AND CONTINGENCIES

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

Guarantees extended to customers	**2016**	**2015**
Secured by cash deposits	828	525
Secured by collateral (real estate and movable collateral)	604	1,133
Unsecured	794	996
Less: Provision recognized as liabilities	(58)	(66)
Total	**2,168**	**2,588**

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

Credit commitments	**2016**	**2015**
Approved but not disbursed loans	420	581
Unused overdraft limits approved	4,779	3,896
Unused credit card facilities	416	434
Total	**5,615**	**4,911**

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business at 31 December 2016 and 2015. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for provisions which have been recognized in the profit or loss.

Lease commitments

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

	2016	**2015**
Not later than 1 year	510	482
Later than 1 year and not later than 5 years	113	186
Total	**623**	**668**

24. 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 analyses 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.

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

b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and to other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Management of credit risk

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

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

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

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits prior to facilities being committed to customers.
- Limiting concentrations of exposure to geographies and industries.
- Establishing the Banks' credit risk grading in order to categorize 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.

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Analysis of credit quality

The table below represents a worst case scenario of credit risk exposure of the Bank at 31 December 2016 and 2015, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		Investments (AFS)		Loans and advances to customers		Other financial assets		Financial guarantees	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Maximum exposure to credit risk										
Carrying amount	39,939	33,199	18,267	10,372	101,885	85,975	237	291	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	7,841	7,565
	39,939	**33,199**	**18,267**	**10,372**	**101,885**	**85,975**	**237**	**291**	**7,841**	**7,565**
At amortized cost										
Standard	39,939	33,199	18,267	10,372	98,292	79,547	237	291	-	-
Watch	-	-	-	-	1,640	3,392	-	-	-	-
Substandard	-	-	-	-	2,550	3,237	-	-	-	-
Doubtful	-	-	-	-	2,887	2,990	-	-	-	-
Loss	-	-	-	-	2,448	2,274	-	-	-	-
Total	**39,939**	**33,199**	**18,267**	**10,372**	**107,817**	**91,440**	**237**	**291**	-	-
Allowance for impairment (individual and collective)	-	-	-	-	(5,932)	(5,465)	-	-	-	-
Net carrying amount	**39,939**	**33,199**	**18,267**	**10,372**	**101,885**	**85,975**	**237**	**291**	-	-
Off balance: maximum exposure										
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	5,615	4,911
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	2,226	2,654
Total committed/guaranteed	-	-	-	-	-	-	-	-	**7,841**	**7,565**
Provisions recognized as liabilities	-	-	-	-	-	-	-	-	(58)	(66)
Total exposure	-	-	-	-	-	-	-	-	**7,783**	**7,499**

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Analysis of credit quality (continued)

	2016			2015		
Loans and advances to customers	**Retail**	**Corporate**	**Total Loans**	**Retail**	**Corporate**	**Total Loans**
Total gross amount	43,679	64,138	107,817	26,948	64,492	91,440
Allowance for impairment (individual and collective)	(743)	(5,189)	(5,932)	(570)	(4,895)	(5,465)
Net carrying amount	**42,936**	**58,949**	**101,885**	**26,378**	**59,597**	**85,975**
At amortized cost						
Standard	42,647	55,645	98,292	26,001	53,546	79,547
Watch	214	1,426	1,640	193	3,199	3,392
Substandard	84	2,466	2,550	196	3,041	3,237
Doubtful	197	2,690	2,887	110	2,880	2,990
Loss	537	1,911	2,448	448	1,826	2,274
Total Gross	**43,679**	**64,138**	**107,817**	**26,948**	**64,492**	**91,440**
Less: allowance for individually impaired loans	(92)	(946)	(1,038)	(103)	(3,311)	(3,414)
Less: allowance for collectively impaired loans	(651)	(4,243)	(4,894)	(467)	(1,584)	(2,051)
Total Allowance for impairment	**(743)**	**(5,189)**	**(5,932)**	**(570)**	**(4,895)**	**(5,465)**
Loans with renegotiated terms						
Carrying amount	292	6,227	6,518	351	8,451	8,802
From which: Impaired	135	4,338	4,473	72	5,774	5,846
Allowance for impairment	(90)	(2,945)	(3,035)	(100)	(3,094)	(3,194)
Net carrying amount	**202**	**3,282**	**3,483**	**251**	**5,357**	**5,608**

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Analysis of credit quality (continued)

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded A to E in the Bank's internal credit risk grading system where A is Standard while E is Loss. The provisioning policy for these loans is detailed in Note 3.(f) (vii).

Individual and collective assessment of loan portfolio

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

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 50 thousand (2015: EUR 50 thousand) at least quarterly when individual circumstances demand it.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment) with the decision of the Board of Directors, in accordance with the regulations of Central Bank of Kosovo. The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The total amount written off during 2016 is EUR 578 thousand (2015: EUR 2,244 thousand).

Due from banks

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

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

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

	2016	**2015**
A+ to A-	-	-
BBB+ to B-	600	960
Not rated	-	-
At 31 December	**600**	**960**

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Analysis of credit quality (continued)

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

	Estimated Value of Collateral	
	2016	**2015**
Property	55,400	57,169
Equipment	18,622	18,268
Goods	3,905	4,077
Without collateral	29,889	11,866
Total	**107,816**	**91,380**

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk

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

	Cash and balances with Banks and CBK		Loans and advances to banks		Available-for-sale financial assets		Loans and advances to customers		Other financial assets		Financial guarantees	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Concentration by sector												
Corporate	-	-	-	-	-	-	59,017	59,597	-	-	7,841	7,565
Banks	39,939	33,199	600	960	18,267	10,372	-	-	-	-	-	-
Retail	-	-	-	-	-	-	42,868	26,378	237	291	-	-
Total	**39,939**	**33,199**	**600**	**960**	**18,267**	**10,372**	**101,885**	**85,975**	**237**	**291**	**7,841**	**7,565**
Concentration by location												
EU countries	3,519	3,103	600	960	-	-	-	-	-	-	-	-
Republic of Kosovo	35,426	30,029	-	-	18,267	10,372	101,885	85,975	237	291	7,841	7,565
Other countries	994	67	-	-	-	-	-	-	-	-	-	-
Total	**39,939**	**33,199**	**600**	**960**	**18,267**	**10,372**	**101,885**	**85,975**	**237**	**291**	**7,841**	**7,565**

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

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

Interest rate risk

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

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

Exposure to interest rate risk

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

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

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

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2016 and 2015 are as follows:

	USD		*EUR*	
Assets	**2016**	**2015**	**2016**	**2015**
Cash at banks	0.65%	0.51%	-	-
Loans and advances to banks	-	-	-	-
Loans to customers	-	-	9.29%	10.02%
Available-for-sale financial assets	-	-	1.03%	1.95%
Held-to-maturity investments	-	-	-	-
Liabilities				
Due to customers	0.04%	0.04%	1.39%	1.81%
Subordinated debt	-	-	10.04%	10.04%
Borrowings	0.65%	-	3.50%	3.40%

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

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

2016	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	Increase	Decrease	Increase	Decrease
Estimated Profit (loss) effect	(498)	498	547	(547)

2015	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(354)	354	373	(373)

Effect on other comprehensive income	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	10 bp Increase	10 bp Decrease	10 bp Increase	10 bp Decrease
2016: Estimated Available for sale effect	(28)	28	(28)	28
2016: Total effect on equity	(521)	521	527	(527)

Based on the analysis above if interest rates increses with 10 basis point, fair value decreases with EUR 28 thousand.

The effect of interest rate risk on equity is similar to that on Profit and Loss

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

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

31 December 2016		**Up to 1 month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets							
Cash on hand and at banks							
Non-interest bearing		12,691	-	-	-	-	**12,691**
Balances with CBK							
Non-interest bearing		27,248	-	-	-	-	**27,248**
Loans and advances to banks							
Interest bearing	*Fixed*	-	350	-	200	50	**600**
Investment securities							
Interest bearing	*Fixed*	-	70	3,743	7,128	7,326	**18,267**
Loans to customers							
Interest bearing	*Fixed*	4,211	6,586	8,645	17,400	65,043	**101,885**
Other financial assets							
Non-interest bearing		237	-	-	-	-	**237**
Total		**44,387**	**7,006**	**12,388**	**24,728**	**72,419**	**160,928**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	16,371	3,424	10,512	37,520	12,557	**80,384**
Non-interest bearing		60,214	-	-	-	-	**60,214**
Subordinated debt							
Interest bearing	*Fixed*	-	4	41	-	1,800	**1,845**
Borrowings							
Interest bearing	*Variable*	-	45	48	800	3,355	**4,248**
Other liabilities							
Non-interest bearing		1,346	-	-	-	-	**1,346**
Total		**77,931**	**3,473**	**10,601**	**38,320**	**17,712**	**148,037**
Gap		**(33,544)**	**3,533**	**1,787**	**(13,592)**	**54,707**	**12,891**
Cumulative gap		**(33,544)**	**(30,011)**	**(28,224)**	**(41,816)**	**12,891**	

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

31 December 2015		**Up to 1 month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets							
Cash on hand and at banks							
Non-interest bearing		10,623	-	-	-	-	**10,623**
Balances with CBK							
Non-interest bearing		22,576	-	-	-	-	**22,576**
Loans and advances to banks							
Interest bearing	*Fixed*	100	306	-	454	100	**960**
Investment securities							
Interest bearing	*Fixed*	1,750	649	2,938	300	4,735	**10,372**
Loans to customers							
Interest bearing	*Fixed*	4,382	5,932	8,496	15,570	51,595	**85,975**
Other financial assets							
Non-interest bearing		291	-	-	-	-	**291**
Total		**39,722**	**6,887**	**11,434**	**16,324**	**56,430**	**130,797**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	14,804	4,629	3,626	28,047	14,706	**65,812**
Non-interest bearing		50,036	-	-	-	-	**50,036**
Subordinated debt							
Interest bearing	*Fixed*	-	7	41	-	1,800	**1,848**
Borrowings							
Interest bearing	*Variable*	-	17	-	400	2,600	**3,017**
Other liabilities							
Non-interest bearing		651	-	-	-	-	**651**
Total		**65,491**	**4,653**	**3,667**	**28,447**	**19,106**	**121,364**
Gap		**(25,769)**	**2,234**	**7,767**	**(12,123)**	**37,324**	**9,433**
Cumulative gap		**(25,769)**	**(23,535)**	**(15,768)**	**(27,891)**	**9,433**	

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Market risk (continued)

Exposure to currency risk

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

The foreign currencies the Bank deals with are predominantly United States Dollars (USD), Swiss Franc (CHF) and Great Britain Pounds (GBP). The rates used for translation as at 31 December 2016 and 2015 are as follows:

	2016	2015
CURRENCY	**EUR**	**EUR**
1 USD	0.9487	0.9185
1 CHF	0.9312	0.9229
1 GBP	1.1680	1.3625

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

in thousands of EUR	**USD**		**CHF**		**GBP**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Sensitivity rates	5%	5%		5%		5%
Profit or loss						
+5% of Euro	37.5	11.7	48.65	(2.65)	4.65	1.45
- 5% of Euro	(37.5)	(11.7)	(48.65)	2.65	(4.65)	(1.45)

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

All amounts are translated in thousands of EUR

31 December 2016	EUR	USD	CHF	GBP	**Total**
Financial Assets					
Cash on hand and at banks	7,225	1,785	3,565	116	**12,691**
Balances with CBK	27,248	-	-	-	**27,248**
Loans and advances to banks	600	-	-	-	**600**
Available for sale investments	18,267	-	-	-	**18,267**
Loans and advances to customers	101,885	-	-	-	**101,885**
Other financial assets	237	-	-	-	**237**
Total financial assets	**155,462**	**1,785**	**3,565**	**116**	**160,928**
Financial Liabilities					
Due to customers	136,953	1,030	2,592	23	**140,598**
Subordinated debt	1,845	-	-	-	**1,845**
Other liabilities	4,248	-	-	-	**4,248**
Total financial liabilities	1,346	-	-	-	**1,346**
Net foreign currency position	**144,392**	**1,030**	**2,592**	**23**	**148,037**
Net foreign currency position	**11,070**	**755**	**973**	**93**	**12,891**

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Market risk (continued)

Exposure to currency risk (continued)

All amounts are translated in thousands of EUR

31 December 2015	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial Assets					
Cash on hand and at banks	7,400	1,202	1,730	291	**10,623**
Balances with CBK	22,576	-	-	-	**22,576**
Loans and advances to banks	960	-	-	-	**960**
Available-for-sale investments	10,372	-	-	-	**10,372**
Loans and advances to customers	85,975	-	-	-	**85,975**
Other financial assets	291	-	-	-	**291**
Total financial assets	**127,574**	**1,202**	**1,730**	**291**	**130,797**
Financial Liabilities					
Due to customers	112,835	968	1,783	262	**115,848**
Subordinated debt	1,848	-	-	-	**1,848**
Borrowings	3,017	-	-	-	**3,017**
Other liabilities	651	-	-	-	**651**
Total financial liabilities	**118,351**	**968**	**1,783**	**262**	**121,364**
Net foreign currency position	**9,223**	**234**	**(53)**	**29**	**9,433**

d) Liquidity risk

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

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

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

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

Exposure to liquidity risk

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

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

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

Management of liquidity risk

Residual contractual maturities of financial assets and liabilities

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

31 December 2016	**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	12,691	-	-	-	-	**12,691**
Balances with CBK	27,248	-	-	-	-	**27,248**
Loans and advances to banks	-	350	-	200	50	**600**
Held-to-maturity investments	-	70	3,799	7,016	7,383	**18,268**
Loans and advances to customers	4,282	6,586	8,645	17,400	64,972	**101,885**
Other financial assets	237	-	-	-	-	**237**
Total	**44,458**	**7,006**	**12,444**	**24,616**	**72,405**	**160,929**
Financial Liabilities						
Due to customers	76,585	3,424	10,512	37,520	12,557	**140,598**
Subordinated debt	-	4	41	-	1,800	**1,845**
Borrowings	-	45	48	800	3,355	**4,248**
Other financial liabilities	1,346	-	-	-	-	**1,346**
Contingent liabilities from guarantees	2,168	-	-	-	-	**2,168**
Unused credit commitments	5,615	-	-	-	-	**5,615**
Total	**85,714**	**3,473**	**10,601**	**38,320**	**17,712**	**155,820**
Liquidity gap	**(41,256)**	**3,533**	**1,843**	**(13,704)**	**54,693**	**5,109**

31 December 2015	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 12 Months**	**Total**
Financial Assets						
Cash on hand and at banks	10,623	-	-	-	-	**10,623**
Balances with CBK	22,576	-	-	-	-	**22,576**
Loans and advances to banks	100	306	-	454	100	**960**
Available-for-sale financial assets	1,750	649	2,938	300	4,735	**10,372**
Loans and advances to customers	4,382	5,932	8,496	15,570	51,595	**85,975**
Other financial assets	291	-	-	-	-	**291**
Total	**39,722**	**6,887**	**11,434**	**16,324**	**56,430**	**130,797**
Financial Liabilities						
Due to customers	64,840	4,629	3,626	28,047	14,706	**115,848**
Subordinated debt	-	7	41	-	1,800	**1,848**
Borrowings	-	17	-	400	2,600	**3,017**
Other liabilities	651	-	-	-	-	**651**
Guarantees issued	7,499	-	-	-	-	**7,499**
Unused credit commitments	4,911	-	-	-	-	**4,911**
Total	**77,901**	**4,653**	**3,667**	**28,447**	**19,106**	**133,774**
Liquidity gap	**(38,179)**	**2,234**	**7,767**	**(12,123)**	**37,324**	**(2,977)**

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Operational risk

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

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

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

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

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

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

Furthermore, during 2016 the bank has restructured the internal control function and allocated responsibilities amongst the Operational Risk and Internal Control. In this case the monitoring of key indicators remain part of Operational Risk and these indicators are collected and reported on a regular basis. Operational risk provision are included also in note 21 other liabilities and other provisions.

(Amounts in thousands of EUR, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2015.

The equity structure of the Bank comprises share capital, reserves and retained earnings. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The 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.

	2016	**2015**
Total risk weighted assets	99,926	82,753
Total risk weighted off balance exposures	1,398	2,076
Total risk weighted assets for operational risk	10,545	9,600
Total	**111,869**	**94,429**
Regulatory capital (Total Capital)	16,526	12,848
Capital adequacy ratio (Total Capital)	**14.77%**	**13.61%**

(Amounts in thousands of EUR, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions. Ultimate controlling parties are shareholders listed in the note 22 shareholders equity and reserves.

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

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

	31 December 2016		31 December 2015	
Assets: *Loans outstanding at end of year with shareholders and key management*	CBK Rating*		CBK Rating*	
Enrad-Ex Newco Jugo Term	A	1,553	A	1,561
Eng Office	A	613	A	660
Ismet Sylejmani (Vatani Sh.p.k.)	A	95	A	52
Uniprojekt	A	187	A	252
Naser Aliu-Uniprojekt	A	12	A	12
Besnik Vrella- Uniprojekt	A	13	A	14
Agim Bilalli-Uniprojekt	A	3	A	-
Sokol Krasniqi	A	3	A	6
Brymako	A	21	C	28
Ahmet Arifi	A	16	A	27
Naim Abazi (Medianam shpk)	B	167	B	180
Flamur Bryma	A	-	A	30
DMTH sh.p.k	A	-	A	11
Other shareholders and management	A	98	A	130
Total		**2,781**		**2,963**
Guarantees and letters of credit with shareholders	A	40	A	21
Loans and advances to Banka Di Cividale		-		-

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

	2016	2015
Loans to shareholders, gross	2,683	2,827
Allowance for impairment	(12)	(63)
Total Loans to shareholders, net	**2,671**	**2,764**
Cash collateral	(2,525)	(2,032)
Net exposure to shareholders	**146**	**732**

	2016	2015
Loans to management and BoD members, gross	98	136
Loans to management, net	**98**	**136**
Cash collateral	(69)	(57)
Net exposure to management	**29**	**79**

(Amounts in thousands of EUR, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2016	31 December 2015
Liabilities:		
Customer accounts with shareholders		
Caffe group n.t.sh	29	-
Mejdi Rexhepi	227	308
Newco Jugo Term	-	30
Rrustem Aliaj	20	39
Malesia Reisen	44	-
Frutex sh.p.k	40	-
Shaqir Palushi	3	-
Besnik Vrella- Uniprojekt	15	2
Ahmet Arifi	-	2
Vatani Sh.p.k	1	-
DMTH sh.p.k	-	34
Moneta sh.p.k	227	-
Nazmi Viça	-	3
Sokokl Krasniqi	3	-
Medianam Sh.p.k	1	-
Other shareholders and management	62	1
Total	**672**	**419**
Borrowing from EBRD	2,000	1,000
	2,672	**1,419**

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

	2016	2015
Income		
Interest income from loans and advanes	117	210
Total interest income	**117**	**210**
Expenses		
Interest expenses for subordinated debt from EBRD	112	100
Key management compensation	342	318
Board of directors compensation	38	43
Total expenses	**492**	**461**

26. SUBSEQUENT EVENTS

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