Annual Report 2014

NLB Prishtina

Contents

1. Financial highlights

000 EUR	2013	2014	Index 2014 / 2013
Ratios			
ROE after tax (Return on equity after tax)	7.4%	**11.2%**	151.4%
ROA after tax (Return on assets after tax)	0.7%	**1.2%**	171.4%
Cost to income ratio (CIR)	56.3%	**48.9%**	86.8%
Rank in TA in banking system of home country	3	**3**	100.0%
Capital adequacy as per CBK	16.5%	**16.6%**	100.5%
Tier 1 as per CBK	40,670	**50,222**	123.5%
Balance sheet indicators			
Total assets	464,095	**463,501**	99.9%
Loans to non-banking sector (net)	240,368	**252,365**	105.0%
Deposits from non-banking sector	407,863	**404,650**	99.2%
Total equity	45,913	**51,454**	112.1%
Interest margin	3.7%	**4.2%**	112.7%
Income statement indicators			
Net profit or loss for the financial year	3,286	**5,435**	165.4%
Total P&L before tax from continuing operations	3,699	**6,132**	165.8%
Total Income	17,797	**21,244**	119.4%
Net interest income	14,021	**17,816**	127.1%
Net fee and commission income	3,470	**3,401**	98.0%
Total expenses	(10,016)	**(10,379)**	103.6%
Staff expenses	*(5,086)*	**(5,150)**	101.3%
General and administrative expenses	*(3,859)*	**(3,955)**	102.5%
Depreciation	*(1,071)*	**(1,274)**	118.8%
Portfolio quality and provisions			
Loans to non-banking sector - gross	265,526	**281,451**	106.0%
Loan portfolio	365,777	**399,583**	109.2%
Loan impairments and provisions NBS	(25,158)	**(29,086)**	115.6%
Increase of provisions and other impairments (IS.)	(4,082)	**(4,733)**	115.9%
Coverage of gross loans (NBS) by provisions	9.5%	**10.3%**	108.8%
Coverage of credit portfolio by provisions	7.5%	**8.0%**	106.7%
Non-performing loans ratio in total Loans (NPL)	6.2%	**6.0%**	96.4%
Non-performing loans ratio of NBS (NPL)	7.4%	**7.7%**	104.4%
Non-performing loans coverage with provisions	126.5%	**132.7%**	104.9%
Structural liquidity indicators			
Share of resources from NBS in the balance sheet	87.9%	**87.3%**	99.3%
LTD (Gross Loans NBS/Deposits NBS)	65.1%	**69.6%**	106.8%
LTD (Net Loans NBS/Deposits NBS)	58.9%	**62.4%**	105.8%
Resources			
Number of employees	525	**525**	100.0%
Number of branches	9	**9**	100.0%

2. Statement from the President of Management Board

Albert Lumezi
President of the Management Board

Dear friends of NLB Prishtina!

NLB Prishtina, model of a stable and successful bank in Kosovo

NLB Prishtina is part of NLB Group, the strongest banking institution in Slovenia and one of the most important in the region. In 2014 the earnings began to positively influence the group by abolishing through the obstacles from the past. The strategy outlined within the group is driving prudent growth and enabling long-term sustainability of the group. The year 2014 marks a significant positive turn and full consolidation of banking and financial business.

The NLB Group had a successful ending year 2014 with a net profit of EUR 62.3 million wich is a very positive and encouraging news ,not only for NLB Bank in Slovenia, but also for the NLB Group in general and in particular for the NLB Prishtina.

NLB Group has a strong presence in the markets of Eastern Europe countries such as: Kosovo, Macedonia, Serbia, Montenegro, and Bosnia and Herzegovina. By assessing the strategic importance of the presence in the region, during 2015 NLB Group will continue with the process of transformation, consolidation and further growth in all business segments.

Nowadays, NLB d.d. is the most stable and largest bank in Slovenia, well capitalized with sufficient liquidity. Good results and the profit realized during 2014 represent a guarantee for further development and an indication of the capital increase, which fully meets the capital requirements as per European Central Bank.

NLB Prishtina is a bank with Slovenian capital, founded in 2008 and represents a model of a stable and successful bank in Kosovo. The year 2014 is the seventh year in row that marks a continuous success of the bank.

NLB Prishtina continued to successfully complete its development in all business segments. All set business objectives are achieved or exceeded and the most key performance indicators have been improved.

In accordance with the circumstances and opportunities, NLB Prishtina market share **has increased and has managed to consolidate its position among the three largest and most important banks in the banking market in Kosovo,** in terms of both, total assets and deposits. These indicators best reflect in the interest and confidence of the clients towards the bank.

As a result of the strategy of prudent growth, NLB Prishtina for 2014 has made a profit after tax in the amount of EUR 5.4 million, or 65% higher compared to the previous year. Net loans to non-banking sector in 2014 have been EUR 252 million or 5% increase compared to the end of previous year. Coverage with provisions of gross loans to non-banking sector is 10.3%, while non-performing loans are provisioned with 132.7%. Cost income ratio (CIR), compared to the annual plan of 56.4% has improved to 48.9%, as a result of effective management of operating expenses and increase of operating income. Capital adequacy ratio for 2014 is 16.6%, thus reflecting sustainable capital adequacy and efficient capital management.

NLB Prishtina is committed to its clients, by understanding better the client requirements and providing adequate support in meeting their objectives. This is possible by offering efficient, qualitative and modern products and services in comfortable, discrete and safe environments with a highly trained staff and high integrity and professional ethics.

NLB Prishtina by being economically successful and competitive creates added value for all its stakeholders, including shareholders, clients, employees and the entire society. It is worth mentioning the contribution of the bank towards its social responsibility by supporting continuously the projects and social programs, by sponsoring activities relevant to social –economic, artistic, sportive, health and humanitarian areas in the country.

NLB Prishtina has a clear, ambitious vision and goals for development for the year 2015 and for the upcoming years. The main aim of the bank is a continuation of its success with constant and steady growth in all business segments, always having in mind the basic motive - **the security of the capital of the bank and its clients**. We aim to be **innovative**, by bringing new ideas and solutions which aim to further increase the efficiency. Our aim is also to be **social**, being an active player and contributor in Kosovo society.

I am confident that 2015 will be a year of further delivery and further growth.

NLB Prishtina is deeply grateful to all its clients and business partners for their confidence in the bank and their partnership. In particular we are grateful to NLB Prishtina employees for their contribution and dedication in achieving these good results, which promise a better future for all of us.

Albert Lumezi,

President of the Management Board

3. The Management of NLB Prishtina

Lavdim Koshutova
Member of the Management Board

Albert Lumezi
President of the Management Board

Bogdan Podlesnik
Member of the Management Board

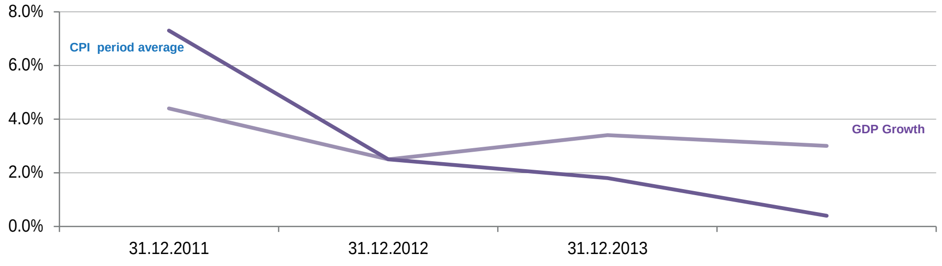
Managment of the Bank

4. Macroeconomic environment and market development

In 2014, growth in Kosovo has been reasonable and in some ways more resilient than in neighboring countries. The economic growth rate for 2014 was 3.0 percent, compared to 3.8 percent in previous year. This increase have been primarily a result of consumption growth, while investments and net exports have had a negative contribution.

In 2014, the economy was characterized with an increase in bank lending, government current expenditures and an increase in remittances. However, an increase in the trade deficit and a decline in the public investments and in foreign direct investments in 2014 has resulted in a slower annual growth rate. Economy continued to be characterized. High trade deficit and high unemployment rate represents the main challenge for economic and social stability in the country.

Illustration 1: Real GDP growth and CPI (period average) – inflation



Source: CBK and IMF reports

Inflation – (CPI) - has continued to decline, and for 2014 is declined to 0.4%, compared to 1.8% which was in previous year. The level of inflation in Kosovo largely reflects the changes in import prices, which are mainly reflected in the economy through food and oil prices.

Foreign direct investment and Remittances - Remittances continued to represent a stable source of income and a main driver of domestic demand and growth, while foreign direct investments recorded a significantly lower level compared with the previous year.

Unemployment, which is one of the major problems of Kosovo still remains very high, and is the highest in the region.

The banking sector in Kosovo - continued to grow in 2014 at a rate which was higher compared to growth in 2013, but which slowed down compared to recent years. Banking system continued to be well-capitalized, liquid, and profitable. Non-performing loans of the banking sector are stable at just above 8 percent and well provisioned.

NLB Prishtina in 2014 continued to be the third largest bank in Kosovo market with its total assets and deposits, while having a market share of above 15% in total assets, deposits and loans.

5. Strategy

5.1. Mission, Values, and Vision

We are committed to developing a culture of client focus, risk awareness, integrity, efficient processes, and social responsibility.

Such a flexible approach underpins provision of appropriate services and business solutions to the clients. NLB Prishtina is a client focused bank, aiming through efficient processes to deliver value to its clients and shareholders, with the purpose of being a reliable and long term partner.

With a great responsibility, and through continuous and sustainable contribution, NLB Prishtina works towards building a long term partnership with clients, shareholders and the society in which it operates. NLB Prishtina honors the clients' trust by working together with the purpose of mutual benefit, economic growth as well as by contributing to the positive changes in the environment.

At NLB Prishtina we embody the following core values within our corporate culture:

- Responsibility and Accountability towards clients, shareholders, employees and social environment.
- Commitment to deliver on our promises and objectives with the highest standards of integrity.
- Open communication and cooperation,
- Efficiency in fulfillment of our commitments and
- A win-win player with efficient and prudent risk and capital management.

NLB Prishtina will be a sustainably profitable bank, predominantly working with clients in core market segments where it can achieve and hold a top three competitive position in terms of (relative) profitability and/or market share.`

In its core business NLB Prishtina will differentiate by in depth client understanding, by service level and advisory competence, by bank accessibility and by a competitive product / channel mix.

5.2. Strategic Objectives

The NLB Prishtina strategic objectives are based on the assumption that it is an international bank with local approach that develops its own business model in line with the strategic orientation and objectives set from the parent company NLB d.d., in light with the local environment and ensures the necessary strategic resources for growth and development.

NLB Prishtina aims to be one of the banks with highest quality services and the most trustworthy bank in Kosovo market. NLB Prishtina appreciates its social responsibilities as employer, bank, and as a member of Kosovo society. Thus we are committed to positively contribute to the economy of Kosovo throughout our business activities.

The main strategic business objectives of NLB Prishtina are:

- Retain the current market share and to be perceived by public as one of the most trusted banks in the market
- Focus on understanding needs of its clients and the society in which we operate, thereby delivering long-term sustainable value to all stakeholders
- Efficient risk and capital management
- To retain and increase the client base and achieve business volume growth as well as increase in revenues.
- Improve efficiency in all operational areas through further consolidation of banking operations

- Be a bridge between Slovenian and Kosovo economy and countries where NLB group is present.
- Active management of credit portfolio and LTD ratio.

NLB Prishtina provides comprehensive banking services to its customers. The key strategic pillars include: Corporate banking, Retail banking, Treasury and Payments.

Measures to achieve strategic objectives

We track our progress against our strategy to become one of the best banks for our clients using a range of performance measures. Our progress in these areas is measured against a number of key financial and non-financial indicators. Specific targets are set for each coming year and 5 year period. Any key weaknesses are eliminated on a timely basis through our regular monitoring.

6. Financial Review

6.1 Statement of financial position commentary

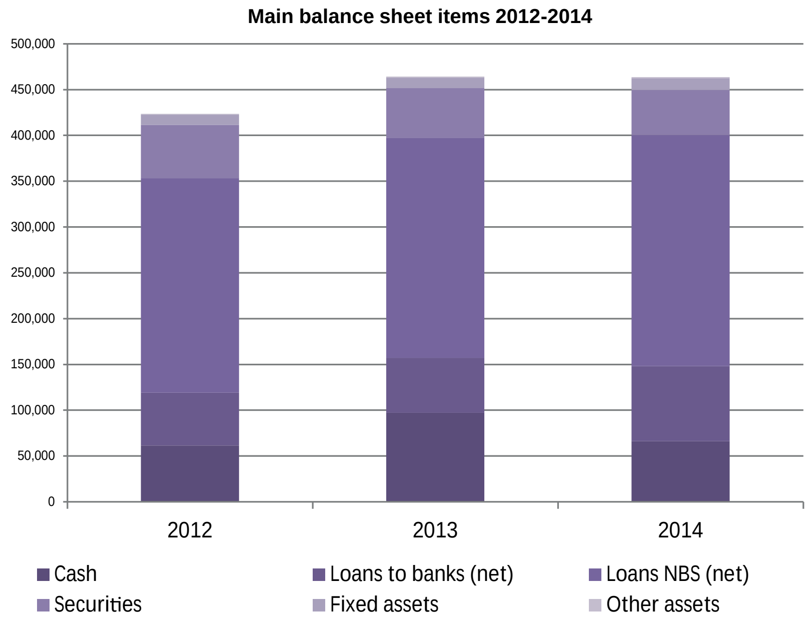
In 2014, NLB Prishtina resulted with a good financial performance considering a continuous challenging economic and regulatory environment. It achieved solid profit, good returns and strong balance sheet and liquidity position reflecting the stability of the bank. All main indicators from the annual plan where fulfilled or exceeded. NLB Prishtina remained cautious and committed towards stable growth, by using a prudent approach towards lending, which was reflected to a sound quality of our loan and fund's portfolio.

Table 6.1.1. Balance sheet –IFRS

000 EUR	2013	2014	Index	
			2014 / 2013	2014/2013 nominal
Assets	**464,095**	**463,501**	**99.9%**	**(594)**
Cash and balances with central bank	**97,163**	**66,282**	**68.2%**	**(30,881)**
Loans to banks– net	**60,034**	**81,844**	**136.3%**	**21,810**
Loans to the nonbanking sector – net	**240,368**	**252,365**	**105.0%**	**11,997**
Corporate Loans - net	*163,439*	*163,542*	100.1%	**102**
Retail loans - net	*76,929*	*88,823*	115.5%	**11,895**
Securities	**54,104**	**49,234**	**91.0%**	**(4,870)**
Fixed assets (tangible and intangible)	**11,318**	**12,642**	**111.7%**	**1,324**
Other assets (net)	**1,108**	**1,134**	**102.3%**	**26**
Liabilities and equity	**464,095**	**463,501**	**99.9%**	**(594)**
Banking sector sources	**6,346**	**3,645**	**57.4%**	**(2,701)**
Deposits from banks	866	1,015	113.9%	**124**
Borrowings	5,454	2,630	48.2%	**(2,825)**
Nonbanking sector deposits	**407,863**	**404,650**	**99.2%**	**(3,185)**
Deposits – corporate	119,397	94,405	78.5%	**(25,698)**
Deposits - retail	288,140	305,427	106.2%	**17,776**
Deposits - state other	80	4,817	6021.3%	**4,737**
Other liabilities	**4,001**	**3,752**	**93.8%**	**(249)**
Total share capital/equity	**45,913**	**51,454**	**112.1%**	**5,541**
Issued capital	20,498	20,498	100.0%	**-**
Reserves (including retained earnings)	22,235	25,521	114.8%	**3,286**
Other	-106	0	0.0%	**106**
Profit/loss for the period	3,286	5,435	165.4%	**2,149**

Balance sheet of NLB Prishtina remained stable and further strengthened and amounted to 463.5 million EUR. Compared to previous year was slightly decreased by 0.6 million EUR (or 0.1%). Annual plan was fulfilled by 111.6%. Asset structure improved reflecting stability of the bank.

Illustration 2: Total assets and assets structure



Cash and balances with central bank have amounted to EUR 66.3 million, a decrease by EUR 30.9 million compared to previous year due to investment in more profitable assets. Cash is well above the minimum liquidity reserve required from Central Bank (mandatory liquidity reserve).

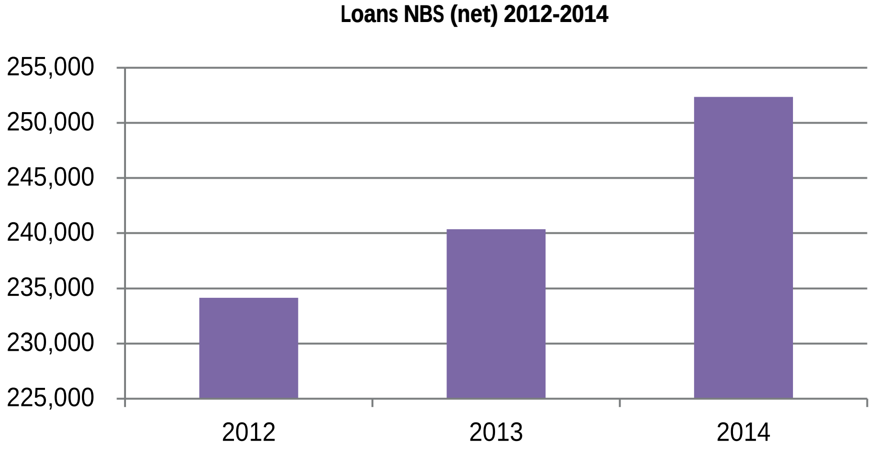
Loans and advances to banks increased to EUR 81.8 million an increase by EUR 21.8 million (or by 36.3%). All placements are in OECD countries which have top credit ratings.

AFS securities have amounted to EUR 49.2 million, a decrease by EUR 4.9 million (or by 9%). All the securities are placed in Kosovo Government treasury bills, apart from investment in Visa at EUR 176 thousand (class C shares).

Net loans to non-banking sector have increased to EUR 252.4 million, an increase by EUR 12 million (or 5%) compared to previous year. Loan to non-banking sector have increased in all types of loans issued. Increase was both in retail and corporate business. The structure consists of loan to corporate at 64.8% and loans to retail at 35.2%.

The LTD ratio (net) of NBS has been increasing steadily compared to last year and is improved to 62.4% (2013: 58.9%), driven by increase of loans and maintenance of deposits at appropriate level and improvement in quality. The LTD ratio (gross) has increased compared to last year and is improved to 69.6% (2013: 65.1 %).

Illustration 3: Total Net Loans (NBS)

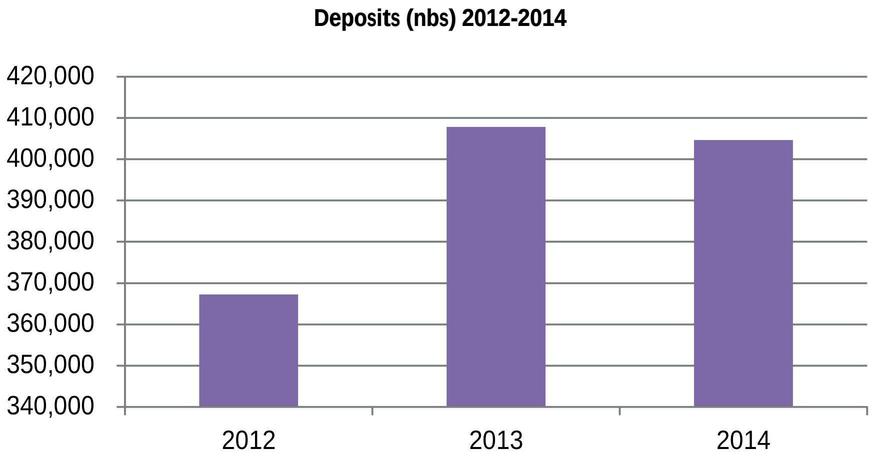


Provisions for loan losses - The Bank continued to have a conservative approach for creating impairment for loans and provisions. Provisions for loans and advances to customers in 2014 increased by EUR 4.1 million and totaling the amount at year end to EUR 29.1 million (2013: EUR 25.2 million).

NPL ratio of NBS on December 31, 2014 is at 7.7% (2013: 7.4%). Non-performing loans (Category D and E) covered with total provisions are by 132.7% (2013: 125.5%). The coverage of gross loans to non-banking sector by provisions is 10.3% (2013: 9.5%).

Total deposits of non-banking sector remained solid and stable and have amounted to EUR 404.7 at the approximate level of previous year. Decreased was by only by 0.8% considering the high decrease of interest rates on deposits, customers continued to maintain high trust in our bank year after year. Deposit continued to be dominated by retail customers, structure consists of 75.5 % for citizens and 24.5 % legal entities. The deposit market share is at above 15.5% in 2014.

Illustration 4: Total Deposits to NBS



Borrowed sources decreased to EURO 2.6 million due to repayments of installments due. All borrowed funds are payable to EFSE-KFW financial institution and all amounts will be repaid by September 30, 2016.

Shareholders equity based on IFRS amounted to EUR 51.5 million. The capital of the bank has been increased organically during the years through capitalization of retained profit. The profit for the year 2014 as per IFRS is EUR 5.4 million.

6.2 Income Statement commentary

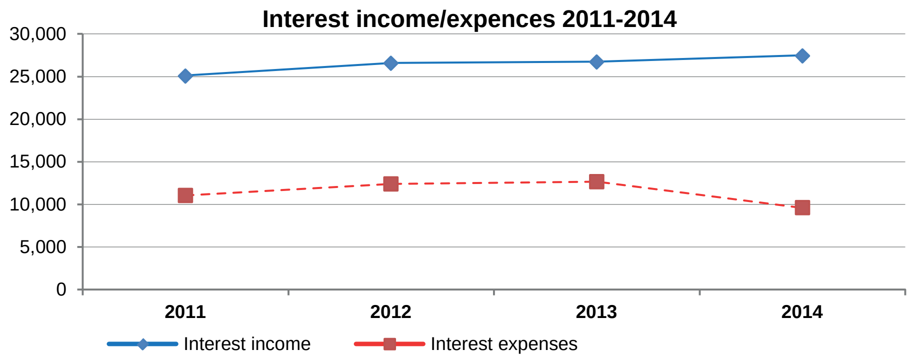
NLB Prishtina showed a good financial performance exceeding the set financial targets and delivering a profit after tax in amount of EUR 5,435 thousand EUR (CBK 5,400 thousend EUR). Net profit was higher than previous year and higher than the annual plan, and achieving a ROE a.t at 11.2% and a ROA a.t, at 1.2% (in same level with plan) and higher than last year.

Table 6.2.1. Income statement - IFRS

000 EUR	2013	2014	Index 2014 / 2013
Operating Income (Expenses)	**17,797**	**21,244**	**119.4%**
Net Interest	14,021	17,816	127.1%
Interest income	26,685	27,419	102.7%
Interest expenses	(12,664)	(9,603)	75.8%
Net non-int. inc. and other inc./exp.	**3,776**	**3,428**	**90.8%**
Net Fees and Commissions	3,470	3,401	98.0%
Income from commissions	4,436	4,558	102.7%
Expenses for fees and commissions	(966)	(1,157)	119.5%
Net prof./los. from exchange rate differentials	12	(169)	-
Net prof./los. from finan. assets and liab. held for trad.	377	383	101.6%
Other net operating profits/losses	(83)	(187)	225.3%
Total Operating Expenses	**(10,016)**	**(10,379)**	**103.6%**
Employee costs	(5,086)	(5,150)	101.3%
General and administrative expenses	(3,859)	(3,955)	102.5%
Depreciation/Amortization	(1,071)	(1,274)	118.8%
Financial Results Before Provisions and Taxes	**7,781**	**10,865**	**139.6%**
Impairments and provisions	**(4,082)**	**(4,733)**	**115.9%**
Impairments of loans	(3,872)	(4,123)	106.5%
Provisions for off balance sheet items	(2)	(9)	-
Other impairments / provisions	(211)	(601)	287.6%
Operating Profit/Loss	**3,699**	**6,132**	**165.8%**
Tax expense	**(413)**	**(697)**	**168.8%**
Net Profit/Loss for the Year	**3,286**	**5,435**	**165.4%**

Net Interest Income, amounted to 17,816 thousand EUR, an increase by EUR 3,795 thousand compared to previous year, driven by increase of loan portfolio and higher interest income, maintenance of deposits at appropriate level (lower interest bearing liabilities) and decrease of interest expense (effective interest rate monitoring, repayments of borrowings, etc.). Net interest margin also improved to 4.2% from 3.7% in previous year.

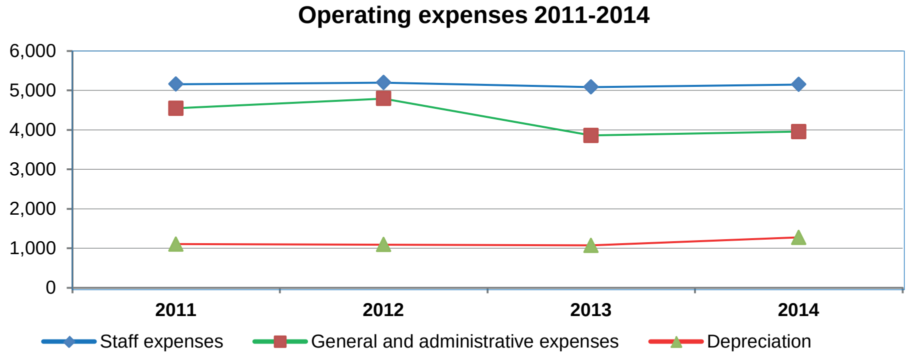
Illustration 5: Interest income / expences 2011-2014



Net fee and commission income were in amount of EUR 3,401 thousand a decrease by EUR 69 thousand or by 2% compared to previous year. Fee and commission income increased to EUR 4,558 thousand, up by EUR 122 thousand mainly increased payment transfers/ transactions, cards and E-banking, while there was a decrease in fee income from guarantees (due to increase of competition) which was neutralized by other fees. On the other hand fee and commission expense increased to EUR 1,157 thousand, an increase by EUR 191 thousand, mainly driven by increase of fee for Insurance of deposits (fee expense in current year increased by EUR 115 thousand, limit of insurance increased to EUR 3,000.

Total operating expenses – the bank continued to focus on cost management through operating more effectively while improving processes and controls. As a result, total operating costs amounted to EUR 10,379 thousand, a slight increase compared to previous year by EUR 363 thousand or 3.6% considering the business growth, and driven mainly by higher depreciation and maintenance costs (new investments made for providing better and more reliable services), and higher staff costs. Total Operating expenses were lower than annual plan by EUR 371 thousand or 3.6%. As a result of effective cost control and higher net operating income delivered during the year, the Cost to Income ratio (CIR) improved to 48.9% (2013: 56.3%).

Illustration 6: Operating Expenses from 2011-2014



Note, that details of accounting policies used in preparation of financial statements are presented in Notes to financial statement within this report.

7. Activities by business segments

7.1 Corporate Banking

Corporate clients of NLB Prishtina are priovidet services at 47 branches, sub-branches and terminals. In 2014 the Bank continued to build strong relationships with corporate clients through providing a variety of services and managing further increase of the Bank's position in the corporate segment.

The business activities with legal entities represent the largest share in the Bank's activities and represent a high portion of the total increase. It incorporates short-term loans for current needs, credit lines, overdrafts, long term loans for financing of investment projects, loans for construction of business facilities, letters of credit and guarantees, depositary operations, services of domestic and international payment transactions.

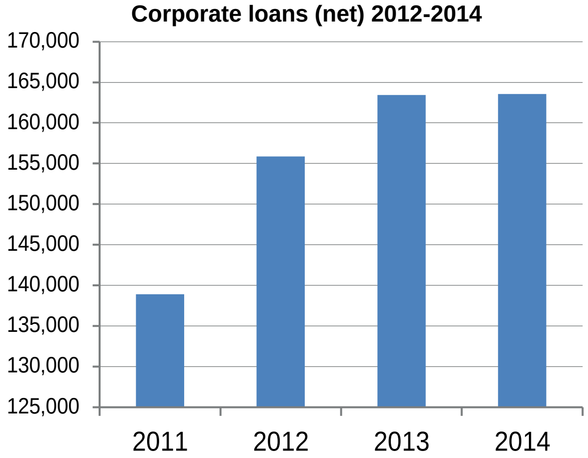
During 2014, the Bank providet services to more than 14 thousand corporate clients, ranging from different industries, including international companies and financial institutions. By combining the domestic market expertise with the international know-how of NLB Group, NLB Prishtina has already grown a reputation for sophisticated concept for legal entities. The Bank also ensured optimization of the risk profile by keeping a close monitoring of the loan portfolio focusing centrally on maintaining a qualitative loan portfolio, whereas achieving an increase of the portfolio through new deals.

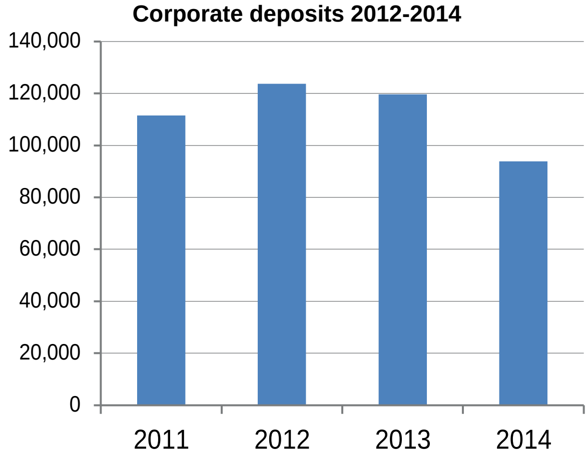
The Bank offers for legal entities were conducted by respecting the model of integrated client relationship management, especially for larger corporate clients, as well as satisfying the client's needs.

Table 7.1.1. The main/key data on operations with corporate banking

000 EUR	2012	2013	2014	Index	
				2014 / 2012	2014 / 2013
Amount of corporate loans (net)	155,860	163,440	163,541	104.9%	100.1%
Amount of corporate deposits	123,692	119,615	94,405	75.9%	78.5%
Number of clients	20,129	15,293	14,707	73.1%	96.2%
Number of cards (debit cards)	9,222	6,191	4,968	53.9%	80.2%
Number of E-banking	1,828	2,172	2,764	151.2%	127.3%

Illustration 7: Trend of loan & deposit with corporate banking





In the field of depository operations, the activities were orientated towards maintenance of deposits at sufficient level and maintaining qualitative deposits in line with strategic objectives of the bank, and as a result deposits of legal entities were optimized to EUR 94 million EUR in 2014.

7.2. Retail Banking

The main activities in Retail have been focused on achieving the increase of business as determined by the key objectives and achieving the NLB Retail standards, based on the experiences and recommendations of the NLB d.d. Slovenia, in the scope of services and products for Individual clients as well as for small and medium enterprises (SMEs).

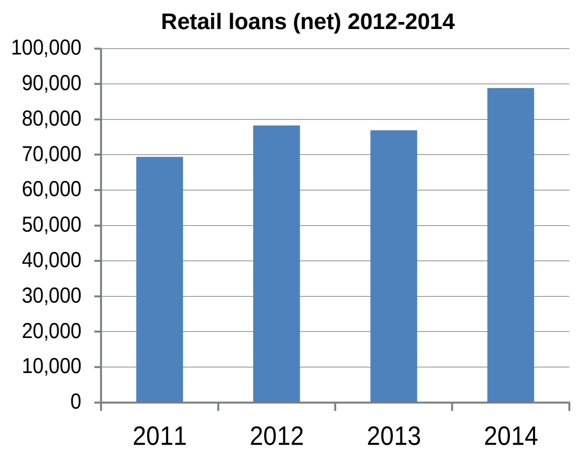
Optimization of NLB Prishtina business network which has a broad network of branches, provided its clients with simple and friendly access to banking products. NLB Prishtina during 2014 was mainly focused on strengthening the skills and competencies of the branch staff in order to provide more complex financial advice and solutions to clients' needs. In addition, NLB Prishtina invested a considerable time to the customer care. 2014 was a year of consolidation and improvements in branch premises and the Bank has modernized the branch IT network.

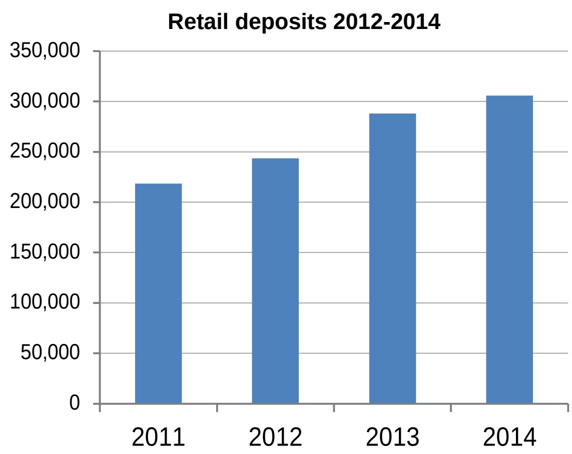
NLB Prishtina is present throughout the territory of Kosovo, in 9 major regions, with its presence in 47 locations and additional 61 ATM's located on all Bank units and in the most frequented places. More than half of NLB Prishtina units (about 71%) are renovated in accordance with NLB d.d, standards whereas all provided banking services and products are focused on the clients' needs for safe and modern banking services.

Table 7.2.1. The main data on operations with retail banking

000 EUR	2012	2013	2014	Index	
				2014 / 2012	2014 / 2013
Amount of retail loans (net)	78,278	76,929	88,824	113.5%	115.5%
Amount of deposit from retail	243,429	288,140	305,427	125.7%	106.2%
Number of clients	241,405	226,713	241,148	99.9%	106.4%
Number of cards (debit cards)	53,744	57,007	67,057	124.8%	117.6%
Number of cards (credit cards)	1,745	2,009	2,350	134.7%	117.0%
Number of E-banking	4,250	5,001	6,341	149.2%	126.8%

Illustration 8: Trend of loan & deposit with retail banking





Business with modern channels of distribution.

Modern distribution channels continued to develop new services and consolidate existing ones. In January 2015 NLB Prishtina introduced the service- ATM deposit service. NLB Prishtina introduced a new credit card product which is dedicated for the clients who have Term Deposits (MasterCard TDA). It provides the benefits for the clients who wishes to make purchases and on the other hand want to save their deposits. There is a positive continuous trend in increase of number of new and active users of electronic banking (e-click) in both segments retail and corporate. Development of new services within E-Click will enable the increase of active users since it will facilitate all client needs.

Business with loans to individuals.

Business with loans to retail, during the year 2014 was very successful, especially loans to individuals. During this year Retail had a significant increase both in number and in amount. Compared to 2013, loan portfolio increased by around 12.5 million EUR or 14 .1% (gross). As at 31.12.2014 loan portfolio was 89 million EUR net. The largest number and amounts of loans which were granted were housing loans which comprise about 60% of total loans. One of the targets of 2014 was the improvement of the quality of the loan portfolio and it was successfully fulfilled. Around 93.3% of total retail loan portfolio remains in A category.

Business with Retail deposits - remains one of the fundamental traditional activities of the Bank. Deposits of individuals during 2014 increased by 6 %, amounting to the total of 306 million EUR, or an increase by 17.3 million EUR compared to previous year.

Personal banking service - is a tailored service offered to key and very demanding clients' of the Bank. The development of this service has been a priority of the Bank's Retail segment, with the aim of providing quality services to selected and prestigious clients. The package designed for this category has led to the increase of number of clients' in this category. In 2014 number of clients who benefited from the Personal banking service incresed to 2,337 (2013 was 1906).

7.3. Treasury and Payments

Assets and Liabilities Management

Customer retail deposits remained the main funding stable source for the Bank despite the historically low interest rates in 2014. In order to respond to the dynamic pricing environment, the Bank regularly revised its Pricing Policy on customer deposits and loans.

Liquidity Management

Over the year 2014 NLB Prishtina continued maintaining abundant levels of liquidity buffers with investment limitations in the still tense international environment.

The Bank successfully managed the banks liquidity and ensured compliance with all legal provisions pursuant to the Central Bank regulations, NLB Group Guidelines and Methodology, as well preliminary calculations on the global liquidity standards - Basel III ratios. During 2014 NLB Prishtina was also very active in the local market and opened new bank's history chapter in Kosovo Securities Market by making the first deal on the Kosovo Secondary Market with the public Telecom Company.

During the year, based on NLB Group Guidelines, the Bank continued to apply measuring, monitoring and management tools, regular liquidity projections and stress test scenarios based on various realistic and adverse assumptions scenarios. The bank complied with the debt ceilings determined by the newly introduced methodology of credit rating analysis and classification based on the existing credit rating from international credit rating agencies and NLB internal methodology.

Foreign Exchange Market and Payments system

NLB Prishtina is the only one bank in the Kosovo market offering foreign currency exchange services in 9 (nine) liquid currencies – USD, CHF, GBP, NOK, SEK, AUD, CAD, HRK and DKK.

In 2014 Kosovo banks began preparation for standardization of the account numbers with the IBAN standards, which further improved the international payments reliability and efficiency.

In order to reduce the client's costs on payments, during 2014 NLB Prishtina implemented lower fees for payments in the region. In order to ensure smooth process of pension payments, the bank signed a Memorandum with Ministry of Social Welfare enabling pensioners to withdraw the pensions by debit cards. In the field of international payment transactions, in 2014, more than 34 thousand payments were processed, as well a total turnover of 507 million EUR was recorded. In the field of domestic payment transactions, in 2014, more than 2 million payments were processed, as well a total turnover of 1.94 bills EUR was recorded, or 8.76 % more than in 2013.

Trade Finance

During 2014, the bank supported the clients' local and international trade by issuing all types of Letters of Guarantees, Letters of Credit, Letters of Intent and Escrow accounts, as well acceptance of cheques for collections, being among the only Kosovo banks to handle this product which is in decrease of use as a payment instrument; The total amount of guarantees and LC as of December 31, 2014 reached to the amount of 21,524 thousand EUR.

7.4. Information technology

In 2014 NLB Prishtina continued with significant investments in Information and Communications Technology (ICT) by putting in place a strong infrastructure to leverage its benefits thus contributing to improvement in customer service quality and providing a comprehensive, resilient and modernized technical infrastructure.

In order to ensure efficient recovery in case of disasters, IT division continued to follow an on-going process of reviewing its Business Continuity Plans and Recovery Procedures (BCP) and performing quarterly tests according to the plans established at the beginning of the calendar year. To this regard, in 2014 BCP plans for almost all critical business applications where successfully tested thus ensuring the high availability of the services to the clients of the bank.

In addition, in order to achieve faster Recovery Time Objectives (RTO) and thus ensuring business continuity, IT has implemented a next-generation data protection solution that utilizes data deduplication technology provided by EMC Networker backup and recovery software integrated with EMC Data Domain deduplication storage system. By reducing the size of backup datasets, backups can now be retained onsite longer for fast operational restores and replicated offsite efficiently over existing network links for disaster recovery purposes.

During 2014, the Information Technology division of the bank was largely involved in improvements in card business and electronic banking products offered by the bank.

In order to achieve faster service to customer, core banking software is modified in that way that some of the processes are automatized such as TDA Interest rate, Loans Interest rate, SMS notification, e-mail notification etc. and crucial massive processing activities are processed during the night.

Almost all modules in the core banking software during 2014 are modified to make operations in front office easier and the efficiency of the services to the clients is increased. DMS - IT department in coordination with the business side regularly identify the possible new features of service improvement.

IT will continue to enhance the IT infrastructure of the bank necessary to support the bank operations by enabling the bank to look for new business opportunities by providing affordable, reliable and secure solutions and services to its customers.

8. Risk Management

In the current local environment and the global trends of the financial industry, the Risk Department of NLB Prishtina has a key role in daily banking operations underpinning conservative risk management approach. Similarly risk management activities are enhanced by further involvement of the Department in the strategic decision making process, also adding value and risk awareness in areas such as pricing, product development. Thus the main role of the risk management department is reflection and implementation of the risk appetite of NLB group, in the light of local market specifics, with a sole objective of maintaining and contributing on the effective and efficient asset quality management.

The risk management function of NLB Prishtina ensures that credit risk, market risk, liquidity risk, investment risk, including operational risk are effectively identified on regular basis, measured, monitored and controlled, in order to ensure an risk mitigation.

Operational Risk - Purpose of risk management is to manage the exposure towards the operational risk and mitigate the potential loss that may occur due to inappropriate internal systems, process of control, weaknesses and failures during the process of work, illegal activities and external events which may cause losses to the bank. In order to enable a sound system of risk management NLB Prishtina has established appropriate structures (operational risk management committee) and assigned responsibility and accountability with in the organizational structure of the bank, in order to ensure efficient risk identification, recording, mitigating and monitoring of operational risk. At the same time loss events arising from operational risk were followed on monthly basis, thus actively monitored and reported to internal bodies of NLB Prishtina.

Details on Risk Management including credit risk, liquidity risk, interest rate risk, capital management risk, etc.,are disclosed in note (31) in risk management section of the Audited financial statements.

9. Corporate social responsibility

NLB Prishtina conducts activities in accordance with the approved "Social and Environmental Policy" and best international practices for corporate social responsibilities.

We strongly believe that being economically successful and competitive generates value for all of our stakeholders including the shareholders, clients, employees, as well the whole society and economy. We continue to apply high environmental and social standards to our business to support a sustainable future.

Progress and prosperity are driving us when we initiate and support educational, social, and cultural projects that help people to fulfill and reach their potential.

9.1. Social and environmental activities

The bank applies the principle fair treatment and equal opportunities for all employees at bank. The bank continues to have a balanced employee's structure between female and male employees.

In 2014, the Bank has made efforts to increase the knowledge of its employees through various seminars, trainings, best practices and experiences from the NLB Group banks. The Bank has also provided financial assistance within its capacities for studying and professional development alongside work and outside of work in Kosovo and abroad in order to maintain a high standard of services provided to all the stakeholders.

The Bank in 2014 has once again concluded a health insurance contract with an insurance company, and this policy is covered by the bank on behalf of its employees.

With the purpose of professional training in practice, the Bank has made cooperation agreement with several faculties for admission of students in the internship in our bank as well as individually based on student requests, which is a practice for many years.

NLB Prishtina employees are actively involved in humanitarian campaigns also outside their normal working obligations and through their own initiative contributed to social responsibility by:

- cleaning environment
- collecting voluntary contributions from employees for disabled persons or people with diseases
- collecting plastic bottle caps for charitable purposes,
- attending blood donation campaigns and
- attending in other various campaigns.

The Bank has participated and has supported as sponsor or participated on different social initiatives/ activities such as "Let's clean up Kosovo" campaign, financial activities, donating to the campaign organized for "Mother and Child", donating to Handikos, etc.

NLB Prishtina during 2014 has sponsored various clubs such as: Prishtina football club, Chess Federation of Kosovo for continuous support of American Chamber of Commerce, NLB Prishtina was awarded with certificate of appreciation.

10. Human resources management

NLB Prishtina on continuous basis also in 2014 had a clear purpose for the development and management of human resources. This is based on the principle that modern concepts of human resource management imply the management of competencies, customer satisfaction from the offered service and the responsibility of employees. As in any institution, also in the Bank, human resource management has been and still is the most important function.

The development trends which characterize the nowadays , show that the society will be based on new values, which are essentially non-material values, namely knowledge, information, communication ideas and intelligence of human resources. Therefore, the Bank in the past year has made efforts to encourage employees to participate in internal, external training , work sessions and meetings in order to help increase the professionalism in the performance of any function, the development of a new culture of cooperation , exchange of work experience among them, development of relations not only hierarchical, but also with citizens, so that each one individually, but also together will contribute towards achieving the business objectives .

The most specific event that occurred in 2014 was that the Bank for the first time in cooperation with NLB dd, with specialized institutions like HSC, ADECCO, etc., has organized tests for employees in managerial positions for management of competencies, social competencies and interactive testing (Evaluation Center), which are tested for general and verbal intelligence, career aspirations, personality types and assessment of competences.

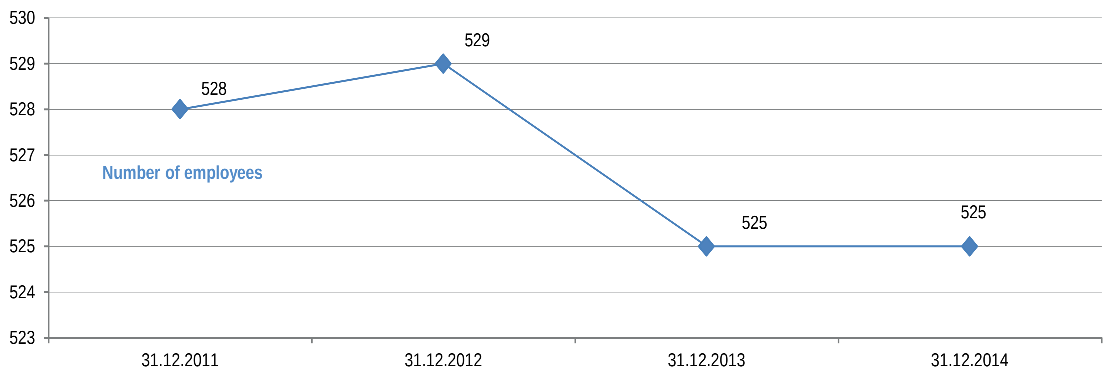
The bank employes 287 females and 238 males.

Table 10.1: Employee/staff structure

Age by years	Number			
	2011	2012	2013	2014
Up to 30 years	164	142	117	83
from 31 to 40 years	172	189	209	233
from 41 to 50 years	82	83	83	89
from 51 to 60 years	90	93	92	87
Above 60	20	22	24	33
TOTAL	**528**	**529**	**525**	**525**

Educational background	Number			
	2011	2012	2013	2014
Less than high school	11	10	8	8
High school	254	253	248	243
College	33	33	31	30
University	218	215	216	221
Masters and PHD	12	18	22	23
TOTAL	**528**	**529**	**525**	**525**

Illustration 9: Number of employees at the bank, on December 31, 2014 was 525.

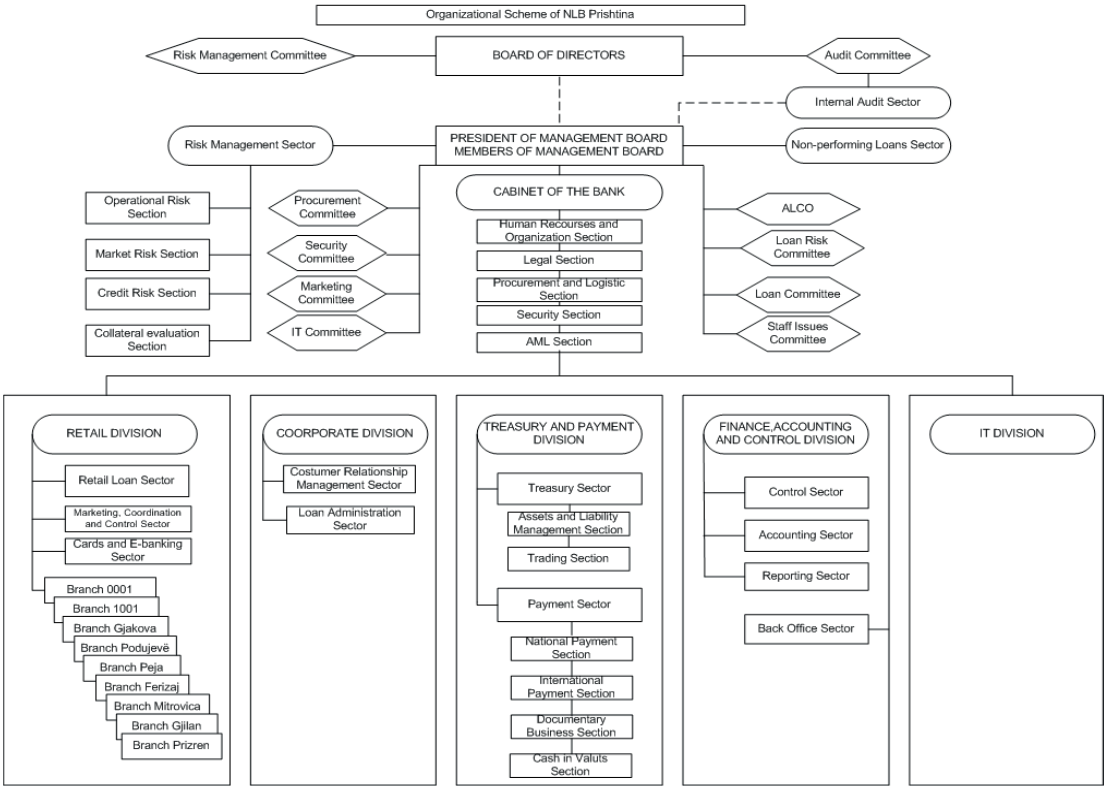


11. Corporate Governance

11.1. Corporate Governance and Management Bodies

NLB Prishtina has a clear organizational structure that precisely defines the rights and responsibilities of the members of the Boards of Directors and other Management Bodies, the other employees as well as the lines of control and checks in the performance of daily duties.

The organizational structure of NLB Prishtina is as follows:



Bank is managed by the Management Board and its operations are supervised by the Board of Directors.

The Bank's main bodies are:

- General Meeting of Shareholders
- Board of Directors
- Audit Committee
- Risk Committee
- Management Board
- Other operational bodies

General Meeting of Shareholders

The General Meeting of Shareholders of NLB meets and makes decisions at regular and extraordinary meetings, where it adopts resolutions in accordance with the law. The responsibilities of the General Meeting of NLB Shareholders are stipulated by NLB Prishtina Statute, which are also in compliance with the requirements set from the regulatory.

During 2014, General Shareholders Meeting had one meeting. The meeting was held on March 30, 2014, which was the regular General Meeting of Shareholders for the year 2014. In the meeting present were 89,39% of shareholders. Among the other regular duties, on this General Meeting of Shareholders were also approved the following: External Auditors report for 2013, Business plan for the period 2014-2018, appointment of external auditor for the year 2014 and supplements and amendments of NLB Prishtina sh.a. Statute.

Share Capital

On 31.12.2014 the Bank's authorized share capital consisted of 42,739 ordinary shares at par value of 479.61 EUR each per share. The nominal shares assign the owners the right on dividend payment and voting right at the General meeting of Shareholders. The Bank's authorized share capital represents all paid up share capital.

The total registered capital was 20,498 thousand EUR, whereas the total shareholders` equity as of December 31, 2014 was 51,454 thousand EUR (2013: 45,913 thousands EUR).

The largest shareholder of NLB Prishtina is NLB d.d. with 81.21%, whereas more detailed data are presented in notes to the Audited financial statements within this report.

Composition of Board of Directors

Board of Directors is elected by the shareholders of the Bank at the General meeting of Shareholders and they are responsible for the establishment of bank policies, including policies for risk management and supervision of their implementation. The BoD conducts its activities in accordance with the provisions of the laws on governing banks and the Statute of the Bank.

The Board of Directors during the 2014 had 5 meetings.

As of December 31, 2014, the structure of BoD members of NLB Prishtina sh.a. was as follows:

- Janko Medja, chairman
- Jure Peljhan, vice chairman
- Andrej Baricic, member
- Aleksander Vozel, member
- Ardiana Bunjaku, member
- Albert Lumezi, member – President of Management Board of NLB Prishtina as per function with no voting right.

NLB Prishtina Board of Directors has established the Audit Committee as required by the banking law.

The Audit Committee members as of December 31, 2014 were:
- Andrej Baričić , President of Audit Committee
- Leon Živec, member of the Audit Committee
- Ardiana Bunjaku, member of the Audit Committee

As of December 31, 2014 the members of Risk Committee were as follows:
- Aleksander Vozel, Chairman
- Jure Peljhan, member
- Ardiana Bunjaku, member

Composition of Management Board

NLB Prishtina Management Board governs, represents and acts on behalf of the Bank, independently and on its own responsibility, as provided for by the Statute of Bank. The president and members are appointed for a term of four years, and may be reappointed or recalled before their term expires in accordance with law and Bank's Statute.

The Management Board of NLB Prishtina consists of three persons Mr. Albert Lumezi as President of the Management Board, Mr. Bogdan Podlesnik as member of Management Board and Mr. Lavdim Koshutova as Member of Management Board.

In order to ensure the proper function of the bank's business and monitor the regular activities of the Bank, the following operational Committees also operate within the bank:

- ALCO Committee
- Credit Committee
- Credit Risk management Committee
- Security Committee
- Operational Risk management Committee
- IT Steering Committee
- Personnel Committee
- Procurement Committee

Within ALCO Committee is established a sub-committee called Pricing Committee.

11.2. Internal Audit

Internal Audit Sector of NLB Prishtina is an independent Sector, which functions in an independent and objective advisory role, using a systematic and professional approach to assess risk management, system of internal control and the efficiency of operations of the bank. Internal audit gives a significant contribution for the bank to meet its strategic and business objectives and applying best banking practices.

The Internal Audit's work methodology, its competencies and responsibilities are defined in the Audit Charter, whereas the guidelines and working procedures are outlined in the Internal Audit Manual. Both of these documents are fully in accordance with standards of Internal Audit Center NLB d.d, international best practices and in compliance with banking law in Kosovo.

Internal Audit of NLB Prishtina functions and is in compliance with International Standards for the Professional Practice of Internal Auditing and Internal Auditors fully comply with Code of Ethics of internal auditing.

During 2014 the work of internal audit was performed in accordance with the Internal Audit Plan 2014. Based on audit plan, there are performed twelve(12) regular audits covering key areas of bank`s operations including Credit risk, Accounting and finance, personal banking, e-banking, cards business, Information Technology function, Anti-money laundering, corporate loans as well as three(3)unannounced branch audits. Four audit assignments are performed in cooperation with staff from Center of Internal Audit of NLB d.d Ljubljana.

Additionally, Internal Audit has regularly monitored the implementation of recommendations issued by the Central Bank of Kosovo, External Auditor, and Internal Audit sector. The status of opened recommendations has been reported on quarterly basis to the Audit Committee, Board of Directors, Management Board and the Center of Internal Audit of NLB d.d.

12.
Financial Statements and Auditors` Report

NLB PRISHTINA SH.A.

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended December 31, 2014

CONTENTS **PAGE**

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

To the Shareholders and Board of Directors of NLB Prishtina

The Management Board hereby confirms its responsibility for the preparation of the financial statements of the Bank for the year ended December 31, 2014, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards to give a true and fair view of the financial position of the Bank as at December 31, 2014 and the financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of the Bank, together with the notes, have been prepared on a going-concern basis and in compliance with the International Financial Reporting Standards.

The Management Board is also responsible for appropriate accounting practices, for the adoption of appropriate measures for the safeguarding of assets, and for the prevention and identification of fraud and other irregularities or illegal acts.

Prishtina, Kosovo
January 30, 2015

Management Board

Lavdim Koshutova	Bogdan Podlesnik	Albert Lumezi
Member of the Management Board	Member of the Management Board	President of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of NLB Prishtina sh.a.

We have audited the accompanying financial statements of NLB Prishtina sh.a. (the "Bank") which comprise the statement of comprehensive income, statement of financial position as at 31 December 2014, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Bank for the year ended December 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on February 21, 2014.

Ernst & Young Certified Auditors Kosovo sh.p.k

Ernst & Young Certified Auditors Kosovo sh.p.k

Prishtina,
23 February 2015

NLB PRISHTINA SH.A.
STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2014
(All amounts expressed in EUR thousand, unless otherwise stated)

	Note	December 31, 2014	December 31, 2013
ASSETS			
Cash and balances with the Central Bank	4	66,282	97,163
Loans and advances to banks	5	81,844	60,034
Loans and advances to customers	6	252,365	240,368
Financial assets available for sale	8	49,234	54,104
Other assets	9	670	549
Prepaid current income tax	25	256	230
Property and equipment	10	12,160	10,756
Intangible assets	11	482	562
Deferred tax asset	25	208	329
Total assets		**463,501**	**464,095**
LIABILITIES			
Due to banks	12	1,015	866
Due to customers	13	404,650	407,863
Other financial liabilities	14	2,442	3,218
Other liabilities	15	1,310	781
Borrowings	16	2,630	5,454
Total liabilities		**412,047**	**418,182**
SHAREHOLDERS' EQUITY			
Share capital	17	20,498	20,498
Revaluation reserve on AFS securities	8	-	(106)
Retained earnings		30,956	25,521
Total shareholders' equity		**51,454**	**45,913**
Total liabilities and shareholders' equity		**463,501**	**464,095**

These financial statements have been approved by the Management Board on January 30, 2015 and signed on their behalf by:

Mr. Albert Lumezi	Mr. Bilall Hoti
President of the Management Board	Finance Director

The accompanying notes from 10 to 78 form an integral part of these financial statements.

NLB PRISHTINA SH.A.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014
(All amounts expressed in EUR thousand, unless otherwise stated)

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Interest and similar income	18	27,419	26,685
Interest and similar expense	19	(9,603)	(12,664)
Net interest income		**17,816**	**14,021**
Fee and commission income	20	4,558	4,436
Fee and commission expense	21	(1,157)	(966)
Net fee and commission income		**3,401**	**3,470**
Impairment losses on loans to customers	6	(4,109)	(3,871)
Net Operating Income		**17,108**	**13,620**
Net foreign exchange gain		214	382
Income from granted equity instruments	8	181	-
Other operating income/expenses, net	22	(368)	(76)
Other impairment losses and provisions	7	(624)	(211)
Staff costs	23	(5,150)	(5,086)
Depreciation and amortisation	10,11	(1,274)	(1,071)
Administrative and other operating expenses	24	(3,955)	(3,859)
Profit before tax		**6,132**	**3,699**
Income tax expense	25	(697)	(413)
Net profit for the year		**5,435**	**3,286**
Other comprehensive income / (loss):			
Net gain/(loss) on change of fair value of AFS securities	26	106	(347)
Total comprehensive income for the year		**5,541**	**2,939**
Basic and diluted earnings per share (in EUR per share)	27	127.3	76.9

The accompanying notes from 10 to 78 form an integral part of these financial statements.

(All amounts expressed in EUR thousand, unless otherwise stated)

	Share capital	Revaluation reserve for AFS securities	Retained earnings	Total
Balance as at January 1, 2013	**20,498**	**241**	**22,235**	**42,974**
Net profit for the year	-	-	3,286	3,286
Other comprehensive income	-	(347)	-	(347)
Total comprehensive income	-	(347)	3,286	2,939
Balance as at December 31, 2013	**20,498**	**(106)**	**25,521**	**45,913**
Net profit for the year	-	-	5,435	5,435
Other comprehensive income/ loss	-	106	-	106
Total comprehensive income loss for the year	-	106	5,435	5,541
Balance as at December 31, 2014	**20,498**	**-**	**30,956**	**51,454**

The accompanying notes from 10 to 78 form an integral part of these financial statements.

(All amounts expressed in EUR thousand, unless otherwise stated)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows from operating activities			
Profit for the year before taxation		**6,132**	**3,699**
Depreciation	10	1,060	868
Amortization	11	214	203
Impairment losses on loans to customers		3,928	4,041
Write off of property and equipment		27	55
Other impairment losses and provisions		624	191
Interest income	18	(27,419)	(26,685)
Interest expense	19	9,603	12,664
		(5,831)	**(4,964)**
Increase in mandatory reserve with CBK	4.1	(350)	(1,078)
Increase in loans and advances to banks	5	(21,467)	(11,314)
Increase in loans and advances to customers	6	(15,850)	(10,084)
Increase in other financial assets		2	(1)
(Increase) / decrease in other assets		(123)	57
Increase in due to banks		156	657
(Decrease)/increase in due to customers		(993)	40,323
Decrease in other financial liabilities		(776)	(339)
Increase/(Decrease) in other liabilities		16	42
		(45,216)	**13,299**
Interest received		27,402	26,477
Interest paid		(11,831)	(12,352)
Income tax paid	25	(614)	(578)
Cash inflows from operating activities		**(30,259)**	**26,846**
Cash flows from investing activities			
Purchases of property and equipment	10	(2,491)	(1,398)
Purchases of intangible assets	11	(134)	(168)
Sales of financial assets available for sale	8	4,805	4,299
Net cash from investing activities		**2,180**	**2,733**
Cash flows used in financing activities			
Repayments of borrowings	16	(2,816)	(3,309)
Cash inflows from financing activities		**(2,816)**	**(3,309)**
Increase in cash and cash equivalents		**(30,895)**	**26,270**
Cash and cash equivalents at January 1	4.1	126,146	99,876
Cash and cash equivalents at December 31	**4.1**	**95,251**	**126,146**

The accompanying notes from 10 to 78 form an integral part of these financial statements.

1. GENERAL

NLB Prishtina sh.a.is a commercial bank (the "Bank") registered with the Kosovo Registry under Certificate of Registration no. 70053484 dated December 18, 2007. The Bank was established by the merger of two banks, NLB Kasabank and NLB New Bank of Kosova (during 2007 both banks were in control of Nova Ljubljanska Banka d.d.) and it obtained the license for banking activities on December 19, 2008 from Central Bank of Kosovo ("CBK").

The Bank is controlled by Nova Ljubljanska Banka d.d. Ljubljana incorporated in Slovenia (Parent), which owns 81.21% of the ordinary shares as at 31 December 2014 (2013: 81.21% ordinary shares). The solo shareholder of Nova Ljubljanska Banka d.d. Ljubljana is the Republic of Slovenia owning 100 % of shares as of December 31, 2014.

The Bank's registered head office is located at Street. Kosta Novakovic p.p., Prishtina, Kosovo. The Bank operates as a commercial bank to all categories of customers, through its network of 9 branches in Prishtina, Gjakova, Peja, Ferizaj, Mitrovica, Gjilan, Besiana, Prizren, 39 sub-branches.

The bank as of December 31, 2014 had 525 employees. (31 December 2013: 525).

The financial statements of the Bank for the year ended 31 December 2014 were approved by the Management Board on January 30, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

The Bank prepares its financial statements according to International Financial Reporting Standards (IFRS). The Bank's financial statements for the year ended December 31, 2014 are prepared in accordance with IFRS as issued by the IASB and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC) and its predecessor body have been applied.

The Bank's IFRS financial statements comprise the statement of financial position, statement of comprehensive income, the statement of changes in equity, the statement of cash flows, significant accounting policies and the notes to the financial statements. These financial statements cover the individual entity as the Bank is not a parent.

2.2 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of available for sale financial assets and financial assets and financial liabilities at fair value through profit or loss. The principal accounting policies are set out below.

2.2.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation of financial statements (continued)

2.2.2 Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Significant estimates are disclosed in more detail in Note 2.21.

2.3 Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where applicable, comparative figures have been reclassified to conform to changes in presentation in the current year. In year 2014 the NLB Prishtina did not adjust any comparative figures.

2.3 Functional Currency

In accordance with IAS 21 the Bank's functional currency is EUR as it is the currency of the primary economic environment in which the Bank operates and it reflects the economic substance of the underlying events.

2.4 Interest income and expense

Interest income and expense are recognised in the profit and loss for all interest bearing instruments on an accrual basis using the effective yield method.

2.5 Fee and commission

The fee and commission income and expenses arisen from providing, using of banking services are recorded in the profit and loss as incurred, at the moment the services are provided, used.

Loan management fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee and commission income and expenses also include fees from letters of guarantees and letters of credit issued by the Bank in favour of the clients, fees arising from domestic and international bank charges, and other services provided by the Bank.

2.6 Financial instruments

i. Initial recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continue)

ii. Classification

Financial assets are classified in the following categories: financial assets available-for-sale and loans and receivables. The classification of financial assets is determined at their initial recognition, depends on the instrument's characteristics and management's intention.

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted on active markets.

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

iii. Measurement

Financial assets are measured initially at its fair value plus transaction costs, if any. Loans and receivables are initially recognized at fair value plus transaction costs, if any. After initial recognition these are subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument, when applicable.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

iv. Specific instruments

Cash and cash equivalents

Cash equivalents are items which can be converted into cash at short notice (with less than three months original maturity) and which are subject to an insignificant risk of changes in value. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash equivalent are carried at amortized cost.

Mandatory liquidity reserves

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

Financial assets available for sale

At initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs, if any. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on current observable market. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized through other comprehensive income in the position "revaluation reserve from available-for-sale financial instruments", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss through reclassification. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

Loans and advances

Loans and advances to customers are classified as loans and receivables. Loans and receivables are measured at amortized cost. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (through the use of an allowance account) for impairment or un-collectability. Loans and advances are reported net of allowances for loans impairment to reflect the estimated recoverable amounts.

v. Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or financial assets are transferred and transfer qualifies for derecognition. The transaction is treated as a transfer of a financial asset, where substantially all risks and rewards of ownership are transferred. When the bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it shall determine whether it has retained control of the financial asset. A financial liability is derecognized from statement of financial position when, and only when, it is extinguished. When the obligation specified in the contract is discharged or cancelled or expires, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

vi. Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount and any impairment loss of that asset is determined, based on the net present value of future anticipated cash flows, and is recognized for the difference between the recoverable amount and the carrying amount as follows:

Loans and advances to customers are reported at amortized cost net of provision (allowances) to reflect the estimated recoverable amounts.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component and the credit ratings assigned to the borrowers reflect the current economic environment in which the borrowers operate.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

v. Impairment of financial assets (continued)

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

All exposures having outstanding amount of EUR 100 thousand or more for categories A, B and C, while for categories D and E exposures greater than Euro 10 thousand are assessed individually while loans below this threshold level are considered insignificant and assessed on a group basis for loans showing indications of loss events.

Ranking of categories is as follows:

Category A- Standard

All direct loans or facilities and off-balance sheet exposures of the bank that carry normal banking risk. Available information concerning the credit exposure, the performance of the customer's account, and the financial data all indicate that the settlement of the exposure is reasonably certain without difficulties, (or the obligation is fully secured by eligible collateral). The loan is current, or delinquency is less than thirty days from the date of due payment or maturity. Overdraft facilities would be within established limits or only temporarily exceeding the limit by less than 5% or for less than thirty days, and cash flow into the account is sufficient to liquidate the overdraft balance within 30 days of the expiration date of the facility.

Category B- Watch

Special Attention (or Watch) - This classification is used to identify and monitor exposures which contain weaknesses or potential weaknesses that, at the time of review, do not jeopardize the repayment of the credit or reflect a potential for loss, but which, if not addressed or corrected could result in the deterioration of the credit to a substandard or more severe classification. Absent any documented evidence to the contrary, the bank classifies as "special attention" those exposures that are overdue more than 30 days but less than 60 days or those with continuous indebtedness in excess of 5% of approved lines for more than 30 days but less than 60 days. This category of classification is intended to identify and address potentially weak relationships at an early stage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

v. Impairment of financial assets (continued)

Category C-Substandard

Substandard - Exposures which, based upon a review of all factors attendant to the credit, have well defined credit weaknesses that jeopardize repayment of the credit in the normal course. A substandard credit is one which, by an analysis of financial data and other factors, is not currently protected by the sound worth and paying capacity of the borrower or guarantors or the value of the collateral, if any. Recourse to a responsible and able guarantor for repayment that would involve prolonged negotiations before liquidation of the credit would invoke a substandard classification. The need for recourse to the collateral as the means of satisfying the obligation also would be the basis for a substandard classification. Absent any documented evidence to the contrary, an exposure is classified at least substandard if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 60 days from the expiration date of the facility.

(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 60 days without paying this excess or without bank management formally raising the authorized limit.

(c) If the customer is overdue in repaying contractual instalments (including interest) for over 60 days.

(d) If the maturity of the loan or facility is over 60 days past due without repayment.

Category D-Doubtful

Doubtful - Exposures which, based upon a review of all factors attendant to the credit, contain all the weaknesses that are inherent in a substandard credit, but which are so pronounced that there is a strong probability that a significant portion of the principal amount will not be paid. There is a likelihood of loss, but the exact amount cannot be clearly defined at the time of review or is dependent upon the occurrence of a future act or event. Although the possibility of loss is thus extremely high, because of significant pending factors, reasonably specific, which could be expected to work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until more exact status may be determined. Such pending factors include but are not limited to mergers, acquisitions, capital restructuring, and the furnishing of new collateral or realistic refinancing plans. Uncooperative guarantors or those who are in weak financial condition should not be considered as being able to provide strength to the credit.

Recourse to any available collateral that would not be sufficient to cover the amount owing may also justify a doubtful classification.

Absent any documented evidence to the contrary, an exposure is classified at least doubtful if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 90 days from the date of expiration of the overdraft facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 90 days without paying this excess or without bank management formally raising the authorized limit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

v. Impairment of financial assets (continued)

(c) If the customer is overdue in repaying any contractual instalment (including interest) for over 90 days.
(d) If there are deficiencies in the customer's financial condition that have caused negative equity.
(e) If the maturity/expiration date of the loan or facility is over 90 days past due without repayment.

Category E- Loss

Bad (Loss) **-** Exposures which, based upon a review of all factors attendant to the credit are of such little value or will require such an extended period to realize any value, are no longer justifiable for carrying on the active books of the bank.

An exposure is classified bad (loss) if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the balance of the outstanding overdraft within 180 days from the expiration date of the overdraft facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 180 days without paying the excess or without bank management formally raising the authorized limit.
(c) If the customer fails to repay a contractual instalment (including interest) for over 180 days.
(d) If the maturity/expiration date of the loan or facility is over 180 days past due without repayment.

Impairments and provisions for the remaining part of the portfolio of companies, sole proprietors and retail clients (receivables from clients which are not individually relevant) and for the receivables from individually significant clients (except banks) for which there is no evidence of impairment is calculated on group basis (portfolio approach). Loans in group are further divided in categories, as companies and sole proprietors group of retail clients on balance sheet. All the three groups are further divided in to five sub categories A, B, C, D, and E.

When a loan is considered to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the profit of loss.

Financial assets available for sale - the Bank assesses at each balance sheet date whether there is objective evidence that financial assets available for sale are impaired. In case of equity investments classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment. If any such evidence exists, the cumulative loss is removed from other comprehensive income and recognised in the profit and loss. Impairment losses recognised in the profit and loss on equity instruments are not reversed through the profit and loss; subsequent increases in fair value after impairment are recognized in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

v. Impairment of financial assets (**continued**)

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss, the impairment loss is reversed through the profit and loss.

The following factors are considered in determining impairment losses on debt instruments:

- Default or delinquency in interest or principal payments;
- Liquidity difficulties of the issuer;
- Breach of contract covenants or conditions;
- Bankruptcy of the issuer;
- Deterioration of economic and market conditions; and
- Deterioration in the credit rating of the issuer below the acceptable level.

Impairment losses recognized in the profit and loss are measured as the difference between the carrying amount of the financial asset and its current fair value. The current fair value of the instrument is its market price or discounted future cash flows, when the market price is not obtainable.

2.7 Foreign currencies

Transactions denominated in currencies other than Euro are translated in the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss (as foreign exchange translation gains and losses).

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2.8 Property and equipment

Property and equipment are accounted for under the cost model of IAS 16. They are stated at cost less accumulated depreciation and accumulated impairment loss, where required. Each year, the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the profit and loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period. Repairs and maintenance are charged to the profit or loss when the expenditures are incurred.

Depreciation is charged using the straight line method, over the estimated useful lives of each part of an item of property and equipment. For additions depreciation is charged subsequent to the month of purchase while for disposals up to the month of disposal. Depreciation does not begin until the assets are available for use.

(All amounts expressed in EUR thousand, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment (continued)

The annual depreciation rates used for each category of property and equipment are as follows:

Category of assets	Depreciation rates used
Buildings	3%
Leasehold improvements	Lower of the lease term or 20%
Furniture, fixtures and equipment	20%
Computers and related equipment	20%
Motor vehicles	20%

Management reviewed the useful lives and residual values of buildings on January 1, 2013. Following this review, the remaining useful life of the buildings used by Bank for its operations is estimated 33 years instead of 20 years used previously.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The net book value of buildings on the estimate change date represents the new depreciable amount.

On January 1, 2013, the historical cost of buildings whose useful life was revised was Eur 3,251 thousand and the accumulated depreciation was Eur 1,136 thousand. Consequently, the depreciable amount starting from January 1, 2013 is Eur 1,136 thousand less than the historical cost of buildings as disclosed in Note 10 of the financial statements.

2.9 Intangible assets

The Bank's intangible assets consist of computer software, Intangible assets acquired by the Bank are recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits will flow to the Bank. Intangible assets are accounted for under the cost model of IAS 38 and are stated at cost less accumulated amortisation and impairment losses, when required. Amortisation is provided on a straight-line basis at an annual rate of 20 %.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred. Amortization does not begin until the assets are available for use.

2.10 Non – current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.11 Seized assets

Seized assets represent financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of non-financial assets

An impairment loss is recognised whenever the carrying value of an asset exceeds its recoverable amount. Recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. Value in use of an asset is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

2.13 Due to banks

Due to banks are recorded when money or other assets are advanced to the bank by counterparty banks. The non-derivative liability is carried at amortised cost.

2.14 Due to customers

Due to customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any interest or fee related to the borrowed funds is expensed using the effective interest method and presented in the profit and loss for the period.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they were incurred.

2.16 Taxation

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. Effective from January 1, 2010, the tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 03/L-162 “On Corporate Income Tax”.

The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date. Taxable profit differs from profit as reported in the profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accounted for using the balance sheet liability method for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Off-balance sheet commitments and contingencies

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees at the date of issue are recognised at fair value which is equal to the amount of the fee received. The fee is amortized to the profit and loss during the contract period using the straight line method. The Bank's liabilities under guarantees are subsequently measured at the greater of the initial measurement, less amortization calculated to recognize fee income over the period of guarantee or the best estimate of the expenditure required settling the obligation.

Guarantee for completion - are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to complete the work when due, in accordance with the terms of contract.

Guarantees at the date of issue are recognised at fair value which is equal to the amount of the fee received. The fee is amortized to the profit and loss during the contract period using the straight-line method. The Bank's liabilities under guarantees are subsequently measured at the greater of:

- The initial measurement, less amortization calculated to recognize fee income over the period of guarantee; or
- The best estimate of the expenditure required to settle the obligation

2.18 Provisions

Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

2.19 Employee benefits

The Bank pays contributions to the publicly administered pension plan (KPST) on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.20 Operating leases

Payments made under operating leases are charged to expenses on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Critical judgements in applying the accounting policies and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a) Impairment of loans and advances to customers

In determining, whether the loans to customers are impaired on individual basis requires the estimation of the present value of expected cash flows from loans to customers including amounts recoverable from guarantees and collateral. The management of the Bank is using judgment in estimating expected cash flow from the loans portfolio. Key assumptions used in the evaluation of client's credit worthiness is based on the financial positions, profitability, market share, and the value of collateral, as two main sources of expected cash flows. Similarly circumstances prevailing in the region of the client are taken in to consideration, such as the court efficiency.

Loans and advances that have been assessed individually and found not to be impaired are also assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. The collective assessment takes account of historical data and uses probabilities of default to ensure that appropriate levels of provisions are maintained.

b) Effective interest rate

As disclosed in Note 2.4 Interest income and expense are recognised in the profit and loss for all interest bearing instruments on an accrual basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The effective interest rate differs from the contractual rate as a result of fees and commission that the Bank may charge, however, the Bank does not have any financial instruments where additional fees and commissions represent significant cash flows in comparison to the contractual rate. The most significant cash flows arise from lending fees that are applied on issuance of the loan. Due to information system constrains, the Bank does not use the effective interest rate to recognise overall interest income from loans, but defers lending fees separately over the life of each loan using a method that approximates the effective interest rate and management estimates that no material differences would arise.

c) Taxation

Current tax expense
The Bank is subject to taxation laws in the Republic of Kosovo. Management uses its best estimate and judgment to fully comply with the relevant tax laws. Owing to use of judgment in complying with certain requirements of tax laws and depending on the tax authorities' assessment, tax liabilities may differ compared to the one reported in these financial statements, however Management is confident that no material differences can arise.

Deferred tax assets

Deferred tax assets are recognised in respect of temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Tax losses can be used for a period of 7 years in Kosovo.

d) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Bank available for sale financial assets are the only assets measured at fair value and they are not significant to overall financial assets. For disclosure purpose of the fair value of other financial assets and liabilities, valuation models are used based on observable market data where possible, but if this is not available, judgement is required to establish fair values. The disclosure of fair value of financial instruments and the methods used are described in more detail in Note 30 (n).

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

3.1 Standards and amendments effective in the current period

The following standards and amendments of IFRS became effective as of January 1, 2014:

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
  These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The application of these amendments did not have any effect in the policies of the Bank.

- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**
  The Bank does not have any derivative instruments and this amendment did not affect the Bank.

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**
  These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The Bank does not have any recognised any impairment of non-financial assets and as a result, this amendment did not affect the Bank.

- **IFRIC Interpretation 21: Levies**
  The Bank does not have any imposed Levies and consequently this new interpretation did not have any impact on the Bank.

3.2 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Bank has not early adopted. Standards and amendments that are not applicable at all to the Bank have not been discussed.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The Bank does not currently use for depreciation purpose the specified revenue ratio and Management has assessed that this clarification will not impact the Bank when the standard becomes effective.

- **IAS 19 Employee benefits (Amended): Employee Contributions**
  The amendment is effective for annual periods beginning on or after 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. Currently, the Bank does not provide any plans to employees and this amendment will not impact the Bank.

- **IFRS 9 Financial Instruments – Classification and measurement**
  The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management is still in the process of assessing the impact of this amendment and whether it will adopt the standard early.

- **ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**

3.2 New Accounting Pronouncements (continued)

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations:** The Bank does not have any joint arrangements.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management is still in the process of assessing the impact the standard will have, however being a financial institution, no significant impact is expected.

- **IAS 27 Separate Financial Statements (amended)**
  The amendment is effective from 1 January 2016. It will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. The Bank presently does not have any investments in other entities and the amendment will not impact the Bank.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments will be effective from annual periods commencing on or after 1 January 2016. The Bank presently does not have any investments in other entities, it does not prepare consolidated financial statements and the amendment will not impact the Bank.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014.

  - ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
  - ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The Bank does not use the revaluation model of IAS 16.
  - ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The clarification may include such entities in the related parties of the Bank.
  - ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The Bank does not presently use the revaluation model for intangible assets

  The following standards have also been amended but are not applicable to the Bank:

  - ***IFRS 2 Share-based Payment***
  - ***IFRS 3 Business combinations***
  - ***IFRS 8 Operating Segments***

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.2 New Accounting Pronouncements (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on o 1 July 2014.

  - ***IFRS 13 Fair Value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. Presently, the Bank does not have any portfolio of assets and liabilities that is managed on the basis of net exposure, as defined in IFRS 13, so this clarification does not impact the Bank.
  - ***IAS 40 Investment Properties:*** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The Bank has not engaged in any business combination that could also meet the definition of investment property.
  - ***IFRS 3 Business Combinations:*** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The Bank does not have any ongoing or planned business combination.

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on 1 January 2016.

  - ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
  - ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
  - ***IAS 34 Interim Financial Reporting:*** The Bank does not report any general purpose interim financial statements.

- **IFRS 10, 12 & IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**
  The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The Bank does not meet the definition of Investment Entity and the amendments are not applicable.

- **IAS 1: Disclosure Initiative (Amendment)**
  The amendments to IAS 1 *Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management is assessing the impact of this amendment as it continuously tries to improve the presentation and relevance of information in the financial statements.

(All amounts expressed in EUR thousand, unless otherwise stated)

4. CASH AND BALANCES WITH THE CENTRAL BANK

	December 31, 2014	December 31, 2013
Cash on hand	11,641	11,760
Cash at banks–current accounts with correspondent banks	11,818	5,021
Amounts held at the CBK		
Current account	8,741	47,000
Statutory reserve account	34,082	33,382
Cash and balances with the Central Bank	**66,282**	**97,163**

The current accounts with correspondent banks are carrying varying interest from 0.1% to 0.15%.

Balance and obligatory reserve with Central Bank of Kosovo (“CBK”) represents the mandatory reserve under the CBK regulations as discussed in note 2.6 (iv). The statutory reserve is not available for day-to-day use by the bank. The restricted liquidity reserves balance with CBK is excluded from cash and cash equivalents for the purpose of cash flow statement.The Central Bank of Kosovo does not possess external credit rating.

4.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows comprise of:

	December 31, 2014	December 31, 2013
Cash and balances with the Central Bank	66,282	97,163
Less: Liquidity reserve	(17,041)	(16,691)
Deposits with maturity with less than 3 months (note 5)	46,010	45,674
Cash and cash equivalents	**95,251**	**126,146**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. LOANS AND ADVANCES TO BANKS

	December 31, 2014	December 31, 2013
Term deposits	81,822	60,019
Deposits at liquidated bank	736	742
Provision for impairment	(736)	(742)
Accrued interest	22	15
Total loans and advances to banks	**81,844**	**60,034**
Current	**81,844**	**60,034**

Deposits at liquidated bank represent the amount of deposits at Credit Bank of Prishtina which on March 13, 2006 went into liquidation following the withdrawal of license by CBK.

As at December 31, 2014 included in the total term deposits are EUR 8,135 thousand which are pledged funds for Trade Finance activities (included in this amount are EUR 64 thousand as blocked), (2013: EUR 7,531 thousand pledged funds).

(All amounts expressed in EUR thousand, unless otherwise stated)

6. LOANS AND ADVANCES TO CUSTOMERS

Analysis by class of advance

	December 31, 2014	December 31, 2013
Loans to customers	223,463	205,462
Overdrafts	56,841	59,072
Credit cards	1,103	934
Called guarantees	44	58
	281,451	**265,526**
Provision for impairment on loans to customers	(29,086)	(25,158)
Total loans to customers	**252,365**	**240,368**
Current	114,567	113,327
Non-current	137,798	127,041

Loans and advances to customers include accrued interest income in the amount of EUR 1,377 thousand (31 December 2013: EUR 1,302 thousand). Loans and advances to customers include deferred disbursement fee from loans to customers in the amount of EUR 954 thousand (2013: EUR 1,193 thousand).

Overdraft facilities represent short term revolving facility and consumer loans.

Analysis by sector is as follows:

	December 31, 2014	December 31, 2013
Loans to Corporate	163,541	163,439
Loans to Retail	88,824	76,929
	252,365	**240,368**

The movement in the provision for impairment on loans to customers is as follows:

	December 31, 2014	December 31, 2013
Provision for loan impairment at January 1	25,158	21,117
Charge during the year	4,238	4,041
Written off loans	(310)	-
Provision for loan impairment at December 31	**29,086**	**25,158**

(All amounts expressed in EUR thousand, unless otherwise stated)

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment charge to profit and loss is detailed below:

	December 31, 2014	December 31, 2013
Impairment charge for the year	4,238	4,041
Credited to Interest Income	(49)	-
Recovery of previously written off loans	(80)	(157)
Other recoveries	-	(13)
Charge to profit and loss	**4,109**	**3,871**

Analysis of provision charge on sectors and industry:

	December 31, 2014	December 31, 2013
Provision charged to individuals:		
Housing loans	240	116
Consumer loans	20	(3)
Other loans to individuals	382	137
	642	**250**
Provision charged to corporate entities:		
Loans to small and medium entities	(266)	376
Loans to large entities	3,862	3,415
	3,596	**3,791**
Total	**4,238**	**4,041**

An industry analysis of the gross portfolio of loans to corporate customers before provisions is as follows:

	December 31, 2014	December 31, 2013
Trade and commerce	28%	30%
Services & Production	7%	9%
Construction	5%	9%
Other	60%	52%
	100%	**100%**

As at December 31, 2014, the ten major borrowers accounted for 14.5% (2013: 13.7%) of the total loan portfolio.

(All amounts expressed in EUR thousand, unless otherwise stated)

7. OTHER IMPAIRMENT LOSSES AND PROVISIONS

Other Impairment losses and provisions are included in Other Liabilities in Note 15. Impairment charge to profit and loss for the year is detailed below.

	December 31, 2014	December 31, 2013
Provisions for legal cases	615	187
Impairment charge from robbery and misappropriated funds	-	14
Impairment charge for seized assets (written off)	-	9
Provision for guarantees and commitments	9	1
Charge to profit and loss	**624**	**211**

8. FINANCIAL ASSETS AVAILABLE FOR SALE

Analysis by class financial assets available for sale

	December 31, 2014	December 31, 2013
Treasury bills issued by Government of Slovenia	-	4,041
Treasury bills issued by Government of Kosovo	49,058	46,062
Treasury bills of Belgium	-	4,001
AFS Investment in shares	176	-
Total financial assets available for sale	**49,234**	**54,104**
Current	49,234	54,104

The Kosovo government treasury discount bills with maturities ranging from six to twelve months have yields ranging from 0.45% – 2.40 %. The Slovenian Bond matured in February and Belgium treasury bills matured in May and have not been replaced. Revaluation reserve as at December 31, 2014 is EUR 0 thousand (2013: EUR 106 thousand). All financial assets available for sale are with fixed interest yield.

As of 31 December 2014 there are no pledged debt securities to third parties.

Available for sale financial assets include accrued interest in the amount of EUR 0 (2013: EUR 23 thousand), and a remaining discount of EUR 363 thousand (2013: 300 thousand).

AFS investment in shares represents shares in VISA Inc, Class C Common stock, quoted in active market. These equity instruments were granted by VISA inc to all of its members at no considerations. The fair value of the instruments on grant date was recognised by the Bank in the current year income.

(All amounts expressed in EUR thousand, unless otherwise stated)

9. OTHER ASSETS

	December 31, 2014	December 31, 2013
Prepaid expenses	582	400
Seized collateral on irrecoverable loans	47	77
Inventories	31	53
Other financial assets	10	19
Total other assets	**670**	**549**
Current	670	549

Seized collateral on irrecoverable loans consists of real estate and equipment.

(All amounts expressed in EUR thousand, unless otherwise stated)

10. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Capital work in progress	Motor vehicles	Total
Cost:							
As at January 1, 2013	**3,251**	**991**	**3,620**	**1,527**	**6,448**	**588**	**16,425**
Additions	3	82	227	196	832	58	1,398
Transfers	6,985	-	295	-	(7,280)	-	-
Reclassifications	(1)	13	8	(20)	-	-	-
Write offs/disposals	(3)	(24)	(189)	(73)		(175)	(464)
As at December 31, 2013	**10,235**	**1,062**	**3,961**	**1,630**	**-**	**471**	**17,359**
Additions during the year	2,030	58	172	197	-	34	2,491
Write offs/disposals	(9)	(132)	(310)	(98)		(48)	(597)
As at December 31, 2014	**12,256**	**988**	**3,823**	**1,729**	**-**	**457**	**19,253**
Accumulated depreciation:							
As at January 1, 2013	**1,152**	**565**	**2,733**	**1,146**	**-**	**548**	**6,144**
Charge for the year	165	126	393	139	-	45	868
Reclassification	(9)	21	19	8	-	(39)	-
Write offs	(3)	(20)	(156)	(73)	-	(157)	(409)
As at December 31, 2013	**1,305**	**692**	**2,989**	**1,220**	**-**	**397**	**6,603**
Charge for the year	317	142	406	157	-	38	1,060
Write offs	(5)	(131)	(298)	(95)	-	(41)	(570)
As at December 31, 2014	**1,617**	**703**	**3,097**	**1,282**	**-**	**394**	**7,093**
Net book value:							
As at December 31, 2013	**8,930**	**370**	**972**	**410**	**-**	**74**	**10,756**
As at December 31, 2014	**10,639**	**285**	**726**	**447**	**0**	**63**	**12,160**

(All amounts expressed in EUR thousand, unless otherwise stated)

11. INTANGIBLE ASSETS

	Software
Cost:	
As at January 1, 2013	2,002
Additions	169
As at December 31, 2013	**2,171**
Additions	134
Write offs	-
As at December 31, 2014	**2,305**
Accumulated amortization:	
As at January 1, 2013	1,406
Charge for the year	203
As at December 31, 2013	**1,609**
Charge for the year	214
As at December 31, 2014	**1,823**
Net book value:	
As at December 31, 2013	**562**
As at December 31, 2014	**482**

All intangible assets are acquired assets and are amortized during its useful life.

12. DUE TO BANKS

	December 31, 2014	December 31, 2013
Current accounts	1,015	866
Total due to banks	**1,015**	**866**
Current	1,015	866

Due to banks represents deposits of local and foreign banks which have accounts in the Bank.

(All amounts expressed in EUR thousand, unless otherwise stated)

13. DUE TO CUSTOMERS

	December 31, 2014	December 31, 2013
Demand Deposits		
Enterprises	58,260	63,147
Citizens	129,086	84,639
Financial organizations	15,291	10,070
Governments	4,818	80
	207,455	**157,936**
Term Deposits		
Enterprises	20,854	46,180
Citizens	176,341	203,747
Financial organizations	-	-
	197,195	**249,927**
Total due to customers	**404,650**	**407,863**
Current	340,377	334,596
Non-Current	64,273	73,267

Due to customers include accrued interest in the amount of EUR 2,993 thousand (2013: EUR 5,213 thousand).

Analysis by class of business for term deposits and current accounts is as follows:

	December 31, 2014	December 31, 2013
Sector	**% of total due to customers**	**% of total due to customers**
Citizens	75%	71%
Enterprises and other legal entities	25%	29%
	100%	**100%**
	Amounts total due to customers	**Amounts of total due to customers**
Citizens	305,427	288,386
Enterprises and other legal entities	99,223	119,477
	404,650	**407,863**

(All amounts expressed in EUR thousand, unless otherwise stated)

14. OTHER FINANCIAL LIABILITIES

	December 31, 2014	December 31, 2013
Pending clients transfers	1,669	2,665
Accrued expenses	472	315
Due to suppliers	85	62
Others	216	176
Total other financial liabilities	**2,442**	**3,218**
Current	2,442	3,218

Pending client's transfers represents the payments collected on behalf of third parties through the clearing system, which remained unpaid to the intended recipients at the year end. In this amount is included amount of EUR 850 thousands (2013: EUR 1,349 thousands) payable to customs authorities, which was transferred on January 03, 2015 to the customs authorities bank account. The remaining balance represents amounts payable to other recipients.

15. OTHER LIABILITIES

	December 31, 2014	December 31, 2013
Provisions for legal cases	906	341
Deferred income from guarantees	97	165
Withholding tax payable	102	149
Provisions for guarantees	70	61
Other payables (other provisions)	99	32
Pension and tax payable on payroll	35	31
VAT and other tax payable	1	2
Total other liabilities	**1,310**	**781**
Current	1,310	781

The current year effect of provision for legal cases and other provisions is presented in Note 7. The movement of provisions is as follows:

	December 31, 2014	December 31, 2013
Balance on January 1,	434	244
Provision charge for legal cases and guaranties (Note 7)	624	188
Provision charge for unused leave days (Note 23)	36	35
Release of provisions	(19)	(33)
Closing balance at 31 December	**1,075**	**434**

(All amounts expressed in EUR thousand, unless otherwise stated)

16. BORROWINGS

	December 31, 2014	December 31, 2013
Current portion		
EFSE loan 1	45	47
EFSE loan 2	-	312
EFSE loan 3	2,489	2,505
Other	51	-
	2,585	**2,864**
Non- current portion		
EFSE loan 1	45	90
EFSE loan 3	-	2,500
	45	**2,590**
Total borrowings	**2,630**	**5,454**

Loan 1 from EFSE

The Bank inherited this loan from New Bank of Kosova, which was signed with Kreditanstaltfür Wiederaufbau Frankfurt (KfW) under a Framework agreement dated April 26, 2006 for a total loan of Euro 450 thousand for the purpose of obtaining loans from European Funds for Kosovo ("EFK"). The loan carries interest at the rate of 3% plus 6 months EURIBOR and is repayable on bi-annual instalments basis. The loan matures on September 30, 2016. KfW is managing the EFK which has been funded by European Agency for Reconstruction (EAR) and the purpose of the fund is to refinance sub-loans to borrowers in Kosovo for housing activities and small and medium enterprises (SME) and according to the criteria established by EFK.

Loan 2 from EFSE

Based on the Framework agreements, the loan agreements were signed between EFSE and NLB-New Bank of Kosova and EFSE and NLB-Kasabank for EUR 2,500 thousand. The loan bear interest at the rate of 6 month EURIBOR plus 4% p.a. This loan of EUR 2,500 will be repaid in equal consecutive semi-annual instalments with maturity date of September 30, 2014.

Loan3 from EFSE

Pursuant to a framework agreement dated October 12, 2010 and under an Individual Loan Agreement, the Bank obtained a loan of EUR 10,000 thousand from EFSE. This loan is repayable on semi –annual instalment basis with first instalment starting from June 15, 2012 and last instalment on December 15, 2015. The loan carries interest of EURIBOR plus 4% margin and is secured by a soft letter of comfort by NLB d.d.

All loans from EFSE have remained current as the Bank has met timely all repayments.

(All amounts expressed in EUR thousand, unless otherwise stated)

17. SHARE CAPITAL

As at December 31, 2014, the share capital amounted to EUR 20,498 thousand (2013: EUR 20,498 thousand.

Authorised share capital		
42,739 Ordinary shares at par value of EUR 479.61 each	20,498	20,498
Paid up share capital		
42,739 Ordinary shares at par value of EUR 479.61 each	**20,498**	**20,498**

All shares have rights to dividends and carry equal voting rights. There are no restrictions attached to the shares. A summary of share ownership of the Bank is as follows:

Shareholders	Percentage ownership	December 31, 2014	Percentage ownership	December 31, 2013
Nova Ljubljanska Banka d.d	81.21	16,647	81.21	16,647
Agjencioni Turizmit " MCM"	4.70	964	4.63	949
Mr.Hashim Deshishku	2.48	508	2.48	508
Mr.Rizah Deshishku	1.24	254	1.24	254
Mr. Bashkim Deshishku	1.24	254	1.24	254
Mr.Remzi Ejupi	1.16	238	1.16	238
Mr.Nerimane Ejupi	1.22	250	1.22	250
Mr.Naim Ejupi	1.21	248	1.21	248
Mr.Metush Deshishku	0.90	185	0.90	185
"Dardania" - 2" Sh.p.k.	0.63	129	0.63	129
Mr. Xhemajl Ismajli	0.60	124	0.60	124
NPTSh "Jehona"	0.60	123	0.60	123
Mr.BlerinaEjupi	0.51	104	0.51	104
Others	2.29	470	2.37	485
	100	**20,498**	**100**	**20,498**

For 2014 the Bank has not declared or distributed dividends (2013: EUR nil).

(All amounts expressed in EUR thousand, unless otherwise stated)

18. INTERESTAND SIMILAR INCOME

Analysis by class of assets:

	Year ended December 31, 2014	Year ended December 31, 2013
Income from loans and advances to customers	26,507	25,887
Income from financial assets available for sale	812	723
Income on loans and advances to banks	100	75
Total interest income	**27,419**	**26,685**

Interest income includes EUR 1,162 thousand (2013: EUR 1,262 thousand) accrued on impaired but still performing financial assets. The Bank, also in accordance with CBK regulation stops the accrual of interest for non-performing loans classified as D and E.

19. INTEREST AND SIMILAR EXPENSE

Analysis by class of liabilities

	Year ended December 31, 2014	Year ended December 31, 2013
Interest from due to customers	9,376	12,311
Interest on borrowings	224	350
Interest on due to banks	3	3
Total interest expense	**9,603**	**12,664**

20. FEE AND COMMISSION INCOME

Analysis of fee and commission income relating to activities:

	Year ended December 31, 2014	Year ended December 31, 2013
Payment transfers and transactions	1,646	1,543
Guarantees and letters of credit	822	1,054
Card and ATM operations	732	609
Account maintenance fee	660	597
Payments -account maintenance fee for retirees	459	386
Others	239	247
Total fee and commission income	**4,558**	**4,436**

Payments from account maintenance fee from retirees represents fee income paid by the Ministry of Labour of Kosovo for retirees based on the Memorandum of Understanding concluded between the bank and Ministry of Labour of Kosovo for all retirees having a bank account with the Bank. For each retiree an amount of EUR 5 is paid to the bank on an annual basis.

(All amounts expressed in EUR thousand, unless otherwise stated)

21. FEE AND COMMISSION EXPENSES

Analysis of fee and commission expenses relating to activities:

	Year ended December 31, 2014	Year ended December 31, 2013
Payment transfers and transactions	186	149
Guarantees and Letters of Credit	75	84
Card and ATM operations	412	391
Payments –CBK related fees	131	88
Fees for insurance of customer deposits	336	221
Other fees	17	33
Total fee and commission expenses	**1,157**	**966**

22. OTHER OPERATING INCOME/EXPENSES, NET

	Year ended December 31, 2014	Year ended December 31, 2013
Licensing expense	(324)	(136)
Other expense	(95)	(68)
Other Income	51	128
Other operating income/expenses, net	**(368)**	**(76)**

23. STAFF COSTS

	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and wages	4,491	4,531
Mandatory staff pension contributions	232	233
Staff health insurance costs	213	216
Other staff costs	214	106
Total staff costs	**5,150**	**5,086**

(All amounts expressed in EUR thousand, unless otherwise stated)

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended December 31, 2014	Year ended December 31, 2013
Security and insurance costs	821	895
Operating lease expenses	764	859
Maintenance	505	437
Office supplies	326	349
Utilities	312	281
Telecommunications	251	217
Marketing and sponsorship	226	208
ATM, Visa Card and E-Banking	332	187
Fuel (Generators and Cars)	84	115
Charge for professional services	109	89
Travel	72	71
Representation	55	54
Others	57	52
Taxes and commissions	25	32
Write off of fixed assets	16	13
Total Administrative and other operating expense	**3,955**	**3,859**

25. INCOME TAX EXPENSES

	Year ended December 31, 2014	Year ended December 31, 2013
Current income tax expense	588	546
Deferred tax expense/(credit)	109	(133)
Tax expense	**697**	**413**

Detailed below is the calculation of current income tax expense.

	Year ended December 31, 2014	Year ended December 31, 2013
Profit for the year before taxation	**6,132**	**3,699**
Profit tax on profit at the rate of 10%	613	370
Tax effect of expenses not deductible for tax purposes	(25)	176
Other	109	(133)
Tax expense	**697**	**413**

(All amounts expressed in EUR thousand, unless otherwise stated)

25. INCOME TAX EXPENSES (CONTINUED)

Effective from January 1, 2010, the tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 03/L-162 “On Corporate Income Tax”.

According to tax legislation in Kosovo, the tax authorities have the right to examine tax returns six years after their submission. Movement of current tax receivable is as follows:

	December 31, 2014	December 31, 2013
Current income tax receivable at January 1,	230	191
Income tax expense	(588)	(546)
Income tax expense paid during the year	614	578
Transfer to prepaid tax for previous years	-	7
Current income tax receivable at December 31,	**256**	**230**

Deferred tax asset has been recognised as follows for the temporary differences:

	December 31, 2014	December 31, 2013
Loan and guarantees impairment provision	48	189
Property and equipment and intangible assets	(960)	(132)
Interest expense on deposits	1,993	2,664
Provision for legal and other	998	441
Available for sale revaluation reserve	-	128
Total deductible temporary difference	**2,079**	**3,290**
Total net deferred tax asset @ 10%	**208**	**329**

The movement in the deferred tax asset account is as follows:

	December 31, 2014	December 31, 2013
Deferred tax asset as at January 1,	329	157
Deferred tax income/ charge	(109)	133
Available for sale revaluation reserve (equity)	(12)	39
Deferred tax asset as at December 31,	**208**	**329**

26. OTHER COMPREHENSIVE INCOME

	Year ended December 31, 2014	Year ended December 31, 2013
Gain on change of fair value of AFS securities	106	-
Loss on change of fair value of AFS securities	-	(347)
Credit/Debit to other comprehensive income	**106**	**(347)**

26. OTHER COMPREHENSIVE INCOME (CONTINUED)

The movement in revaluation reserve is as follows:

	December 31, 2014	December 31, 2013
Revaluation reserve as at January 1	(106)	241
Revaluation reserve of AFS	118	(386)
Deferred tax on Available for sale	(12)	39
Net as presented in other comprehensive income / profit or loss	**106**	**(347)**
Balance as of December 31	**-**	**(106)**

27. EARNING PER SHARE

Earnings per share are calculated by dividing net profit attributable to the ordinary shareholders by the number of ordinary shares for the period.

	Year ended December 31, 2014	Year ended December 31, 2013
Net profit	5,435	3,286
Number of ordinary shares (in thousands)	42.7	42.7
Earnings per share	**127.3**	**76.9**

28. RELATED PARTY DISCLOSURES

In determination of related parties the Bank applies IAS 24 requirements. Related parties include:

- The parties which directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the entity,
- Parties in which the Bank has an interest that gives it significant influence or joint control over the entity,
- private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, and entities controlled or jointly controlled by such individuals, members of the key management personnel, i.e. individuals with authority and responsibilities for planning, managing and controlling the Bank’s operations, including directors.
- When taking into account each possible transaction with a related party, attention is focused on the substance of the relationship not just the legal form.

The Bank is controlled by Nova Ljubljanska Banka d.d. Ljubljana incorporated in Slovenia (Parent), which owns 81.21% of the ordinary shares as at 31 December 2014 (2013: 81.21% ordinary shares). The remaining shares are held by other small shareholders (18.79 %).

The Bank performs a number of related party transactions in the course of its regular operations. The transactions include investments, deposits, borrowings, and foreign currency transactions. These transactions were carried out on normal commercial terms and market prices.

(All amounts expressed in EUR thousand, unless otherwise stated)

28. RELATED PARTY DISCLOSURES (CONTINUED)

The following table summarizes the scope of related party transactions, balances of assets and liabilities at 31 December 2014 and related income and expenses for the year then ended.

December 31, 2014	NLB d.d. Ljubljana	NLB Tutunska Banka	NLB Montenegro	NLB Leasing	Key management personnel	Total
Receivables						
Loans and advances to banks	248	251	10	1	-	**510**
Loans and advances to customers	-	-	-	-	98	**98**
Securities	-	-	-	-	-	**0**
Other receivables	-	-	-	-	-	0
Total Receivables	**248**	**251**	**10**	**1**	**98**	**608**
Liabilities						
Deposits	-	-	-	-	1,263	**1,263**
Borrowings	-	-	-	-	-	**-**
Other liabilities	4	-	-	51	-	**55**
Total Liabilities	**4**	**-**	**-**	**51**	**1,263**	**1,318**
Net Receivables/(Liabilities)	**244**	**251**	**10**	**(50)**	**(1,165)**	**(710)**
Confirmed guarantees	**1,000**	**320**	**-**	**-**		**1,320**
Income						
Interest income	1	-	-	-	2	**3**
Foreign exchange gain	47	-	-	-	-	**47**
Total Income	**48**	**-**	**-**	**-**	**2**	**50**
Expenses						
Interest expenses	-	-	-	(3)	(43)	**(46)**
Fee expenses	(19)	(2)	-	-	-	**(21)**
Salaries rents and other expenses	(37)	-	-	-	(302)	**(339)**
Total Expenses	(56)	(2)	-	(3)	(345)	**(406)**
Net income/(expense)	**(8)**	**(2)**	**-**	**(3)**	**(343)**	**(356)**

(All amounts expressed in EUR thousand, unless otherwise stated)

28. RELATED PARTY DISCLOSURES (CONTINUED)

The following table summarizes the scope of related party transactions, balances of assets and liabilities at 31 December 2013 and related income and expenses for the year then ended.

December 31, 2013	NLB d.d. Ljubljana	NLB Tutunska Banka	NLB Montenegro	NLB Leasing	Key management personnel	Total
Receivables						
Loans and advances to banks	255	35	24	1	-	**315**
Loans and advances to customers	-	-	-	-	125	**125**
Securities	4,018	-	-	-	-	**4,018**
Other receivables	-	-	-	-	-	**-**
Total Receivables	**4,273**	**35**	**24**	**1**	**125**	**4,458**
Liabilities						
Deposits	-	-	-	-	1,238	**1,238**
Borrowings	-	-	-	-	-	**-**
Other liabilities	10			30	16	**56**
Total Liabilities	**10**	**-**	**-**	**30**	**1,254**	**1,294**
Net Receivables/(Liabilities)	**4,263**	**35**	**24**	**(29)**	**(1,129)**	**3,164**
Confirmed guarantees	**1,100**	**643**	**-**	**-**	**-**	**1,743**
Income						
Interest income	-	4	29	-	2	**35**
Foreign exchange gain	55	-	-	-	-	**55**
Total Income	**55**	**4**	**29**	**-**	**2**	**90**
Expenses						
Interest expenses	(6)	-	-	(1)	(57)	**(64)**
Fee expenses	(40)	(5)	-	-	-	**(45)**
Salaries rents & other expenses	(19)	-	-	(10)	(299)	**(328)**
Total Expenses	**(65)**	**(5)**	**-**	**(11)**	**(356)**	**(437)**
Net income/(expense)	**(10)**	**(1)**	**29**	**(11)**	**(354)**	**(347)**

Key management Compensation: Key management consists of the management board of the bank and its compensation was as follows:

	Year ended December 31, 2014	Year Ended December 31, 2013
Salaries	254	254
Bonus	36	36
Costs refund	12	9
Total	**302**	**299**

(All amounts expressed in EUR thousand, unless otherwise stated)

29. OFF BALANCE SHEET, COMMITMENTS AND CONTINGENCIES

a. Guarantees and letters of credit

Credit related commitments include commitments to extend credit, letters of credit and guarantees given, which are designed to meet the requirements of the Bank's customers. Letters of credit and guarantees given to customers commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total amounts do not necessarily represent cash requirements.

The aggregate outstanding amount of guarantees, letters of credit and stand by letter of credit issued by the Bank are as follows:

	December 31, 2014	December 31, 2013
Customs	4,457	9,533
Guarantees for payments	11,560	12,513
Public tenders guarantees	2,562	3,961
Letters of Credit	102	767
Standby letter of Credit	735	-
	19,416	**26,774**
Guarantees for completion of work	2,108	6,679
	21,524	**33,453**
Committed loans to customers not yet issued	**32,881**	**26,738**
Total	**54,405**	**60,191**

	December 31, 2014	December 31, 2013
Guarantees:		
Secured		
Secured by cash deposits	3,419	8,660
Secured by other collateral	16,220	48,461
	19,639	**57,121**
Unsecured	1,885	3,070
Total	**21,524**	**60,191**

(All amounts expressed in EUR thousand, unless otherwise stated)

29. OFF BALANCE SHEET, COMMITMENTS AND CONTINGENCIES (CONTINUED)

b. Legal cases

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management has calculated provision for expected losses, and accordingly provision has been made in these financial statements in the amount of EUR 906 thousand (note other liabilities) as at December 31, 2014.

c. Operating lease commitments

The Bank has outstanding commitments under non-cancellable rental contracts which fall due as follows:

	December 31, 2014	December 31, 2013
Within one year	779	770
Within two to five years	2,230	2,072
Total	**3,009**	**2,842**

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

No material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.

31. FAIR VALUES AND RISK MANAGEMENT

a. Capital Risk Management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.
The capital structure of the Bank consists of debt, which includes the borrowings, and the equity attributable to equity holders, comprising paid up capital and retained earnings.

Tier I capital means a bank's permissible permanent paid-in capital which may be comprised of any or all of the following:

(i) Common equity shares and their related surplus;

(ii) Earnings which have not been distributed.

Additional Tier 1 capital – means:

(i) Perpetual preferred shares (being those which, in the event of liquidation of the bank, are not paid any amounts until all depositors and other creditors have been fully addressed, but are paid in full, (preferred) before any common shareholder is paid and which have rights to agreed dividend payments but which have no maturities or options of their holders to redeem);

(ii) Such other instruments as may be approved by the CBK as permissible permanent capital from time to time by rule or order.

Deductions from Tier 1 Capital:

(i) Goodwill and intangible assets are to be deducted from a bank's Tier 1 capital before the Tier 2 capital portion of the calculation is made;

(ii) Investments in equity of banks or other financial institutions that comprise above ten per cent (10%) of their capital (this percentage shall include also the subordinated rights), or investments in amounts less than 10% of their capital, but with a significant influence in decision making of these financial institutions. Investments in equity of banks and other financial institutions (including here also the subordinated rights) that comprise less than 10% of the bank's equity before deductions, where the amount above the 10% threshold shall be deducted.;

(iii) Deferred tax assets;

(iv) Lending to a Bank-Related Person, except lending covered with cash.

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

b. Capital Risk Management (Continued)

Tier II capital includes a Bank's:

(i) Reserves for loan losses up to a maximum of 1.25 % (one point twenty-five percent) of its risk weighted assets at any one time or such other percentage as may be established by the CBK from time to time by rule or order;

(ii) Ordinary preferred shares (being preferred shares which have maturities or are redeemable at the option of their holders and which are cumulative (have the right to payment of past dividends missed) if the bank has the option to defer payment of dividends;

(iii) Term preferred shares (shares whose holders have the right to redeem them and which have terms of 5 years or more). These shares are subject to approval as capital from time to time throughout their terms by the CBK. The amount of long-term preferred shares (shares with maturities in excess of ten (10) years eligible to be included in Tier 2 capital will be reduced by 20 % (twenty percent) of their original amounts at the beginning of each of the last 5 years of their terms;

(iv) Term debt instruments which are fully subordinated to the rights of depositors (those which, in the event of liquidation of the bank, are not paid any amounts until all depositors have been paid. The amount of long-term subordinated debt instruments (those with maturities in excess of ten years) eligible to be included in Tier 2 capital will be reduced by 20% (twenty percent) of their original amounts at the beginning of each of the last five (5) years of the instrument's life;

(v) Debt instruments which are mandatory convertible into common shares and which are unsecured and fully paid-in;

(vi) Subordinated term debt are liabilities, but if subordinated term debt was issued with an original term to maturity of over five years, then it may be included as Tier 2 capital to a maximum of 50% (fifty percent) of Tier 1 capital;

(vii) Tier 2 capital cannot be higher than 100% (one hundred percent) of Tier 1 capital.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

a. Capital Risk Management (continued)

Minimum Risk-Based Capital Ratios

The bank maintains a minimum total capital to risk-weighted asset ratio of 12% and a Tier I capital to risk-weighted asset ratio of 8 % in accordance with the rule on Capital Adequacy issued by the Central Bank of Republic of Kosovo. Also the bank is required to maintain a minimum 7 percent leverage ratio. (Leverage ratio equals total equity / total assets).

i. A bank's risk adjusted capital is obtained by dividing its capital base by its risk weighted assets.
ii. The minimum ratio set forth above may be increased by the CBK by rule or order from time to time.

As of reporting period, the capital adequacy ratios in accordance with CBK are as follows:

	December 31, 2014	December 31, 2013
Tier 1 capital		
Share capital	20,498	20,498
Reserves	-	(106)
Retained earnings	30,908	25,507
less: deductions from capital	(1,184)	(5,229)
Total qualifying Tier 1 capital	**50,222**	**40,670**
Tier 2 capital		
Subordinated liability		
Provisions for loan losses (limited to 1.25% of RWA)	2,838	2,644
Total qualifying Tier 2 capital	**2,838**	**2,644**
Total regulatory capital	**53,060**	**43,314**
Risk-weighted assets:		
On-balance sheet	278,974	217,335
Off-balance sheet	17,474	23,240
Risk assets for operational risk	23,976	22,223
Total risk-weighted assets	**320,424**	**262,798**
Tier I capital to risk- weighted asset ratio	**15.7%**	**15.4%**
Total capital to risk-weighted asset ratio	**16.6%**	**16.4%**
Total equity to total assets	**11.1%**	**9.8%**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

b. Categories of Financial Instruments

The table below is reconciliation of financial instruments classes to IAS39 measurement categories. As at the year end the Bank has the following financial instruments:

	December 31, 2014	December 31, 2013
Loans and advances		
Cash and balances with Central bank	66,282	97,163
Loans and advances to banks	81,844	60,034
Loans and advances to customers	252,365	240,369
Financial assets available for sale	49,234	54,104
Total financial assets	**449,725**	**451,670**
Financial liabilities at amortized cost		
Due to banks	1,015	866
Due to customers	404,650	407,863
Borrowings from banks	-	-
Borrowing from other financial institutions	2,630	5,454
Other financial liabilities	2,442	3,218
Total financial liabilities	**410,737**	**417,401**

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

c. Financial Risk Management Objectives

The Bank's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

Compliance with policies and exposure limits is reviewed by the management committees and internal auditors on a continuous basis. The Bank does not enter into or trade significant derivative financial instruments.

d. Market Risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The market risk is not concentrated to currency risk or interest rate risk, as major transactions of the Bank are in local currency and majority of the interest rates are fixed.

e. Foreign Currency Risk

The Policy on Management of the currency risk of NLB Prishtina, defines the methods of currency risk management in the bank. The purpose of currency risk management policy is the management and limitation of the potential loss, which is created as a result of changes on the foreign currency rates and, reflected on the business results and capital adequacy of the bank. The currency risk presents the probability of realizing the losses as per on balance and off balance sheet items, as a result of changes on the currency rates and/or non-harmonization on the level of assets, liabilities and off balance items in the same currency. The Bank manages foreign currency risk through managing currency structure of assets and liabilities in line with expected changes in foreign currency rates. Foreign exchange rate risk is managed and governed according to the policies of the NLB group. As such NLB Prishtina continuously monitors exchange rate movements and foreign currency markets, and determines its currency positions on a daily basis. Any exception to the policy shall be subject of approval by the Supervisory Board of NLB Prishtina and the Risk Management Department of NLB group. The bank and group policy forbids the bank to maintain open currency position for speculative purposes. Nevertheless, foreign exchange derivatives may be used for hedging purposes to close certain positions, in which case they are closely monitored at both local and group level.

The Bank undertakes transactions in both Euro and foreign currencies. The Bank has not entered into significant forward exchange or any embedded derivative transactions during the year ended December 31, 2014 and 2013.

The Bank is exposed to currency risk through transactions in foreign currencies. As the currency in which the Bank presents its financial statements is Euro, the Bank's financial statements are effected by movements in the exchange rates between the Euro and other currencies.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the profit and loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the functional currency of the Bank.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Foreign Currency Risk (continued)

Foreign currency sensitivity analysis

The Bank is mainly exposed to US Dollar (USD) and Swiss Franc (CHF). The following table details the Bank's sensitivity to the respective increase and decrease in the value of Euro against the foreign currencies. The percentage used is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the current currency exchange rates. A positive number below indicates an increase in profit and other equity where the Euro strengthens with respective percentages against the relevant currency.

	+10% of Euro	-10% of Euro
December 31, 2014		
Assets:		
Impact on cash and due from banks	790	(790)
Liabilities:		
Impact on due to banks and customers	(867)	867
Net impact on profit and loss and equity	**(77)**	**77**
December 31, 2013		
Assets:		
Impact on cash and due from banks	1,292	(1,293)
Liabilities:		
Impact on due to banks and customers	(1,272)	1,272
Net impact on profit and loss and equity	**20**	**(21)**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Foreign Currency Risk (continued)

The following table summarises the Bank's currency position as at December 31, 2014:

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	61,370	1,739	2,824	349	**66,282**
Due from banks	77,009	3,772	832	231	**81,844**
Loans to customers – net	252,365				**252,365**
Financial assets available for sale	49,058	176	-	-	**49,234**
Total assets	**439,802**	**5,687**	**3,656**	**580**	**449,725**
Financial liabilities					
Due to banks	803	208	3	1	**1,015**
Due to customers	394,676	5,657	3,258	1,059	**404,650**
Borrowings	2,630				**2,630**
Other financial liabilities	2,441				**2,441**
Total liabilities	**400,550**	**5,865**	**3,261**	**1,060**	**410,736**
Net currency position as at December 31, 2014	**39,252**	**(178)**	**395**	**(480)**	**38,989**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Foreign Currency Risk (continued)

The following table summarises the Bank's currency position as at December 31, 2013:

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	92,541	1,410	2,764	448	**97,163**
Due from banks	49,979	6,706	2,037	1,312	**60,034**
Loans to customers – net	240,368	-	-	-	**240,368**
Financial assets available for sale	54,104	-	-	-	**54,104**
Total assets	**436,992**	**8,116**	**4,801**	**1,760**	**451,669**
Financial liabilities					
Due to banks	499	359	7	1	**866**
Due to customers	393,913	8,770	3,586	1,592	**407,861**
Borrowings	5,454	-	-	-	**5,454**
Other financial liabilities	3,218	-	-	-	**3,218**
Total liabilities	**403,084**	**9,129**	**3,593**	**1,593**	**417,399**
Net currency position as at December 31, 2013	**33,908**	**(1,013)**	**1,208**	**167**	**34,270**

The exchange rates applied for principal currencies against the Euro were as follows:

	December 31, 2014	December 31, 2013
United States Dollar (USD)	1.2141	1.3791
British Pound (GBP)	1.2024	1.2276
Swiss Franc (CHF)	0.7789	0.8337

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Interest rate risk

Interest rate risk is 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 (re-pricing risk). 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 while borrowings are at variable interest rate. The interest rates applicable to financial assets and liabilities are disclosed in relevant note to these financial statements. Interest rate risk management policy of the bank defines the method of identification, measurement, following up and controlling the risk in the event of interest rate modification. The purpose of policy is management on the exposure to interest rate risk and limitation of potential loss, which is created as a result of modification of levels of interest rates in the market and the effect of those changes on business results and the market value of bank capital.

With the policy are defined methodologies of risk assessment from the interest rate:

- Gap analysis
- Basis Point Value (“BPV”) methodology

The risk management department monitors exposure to interest-rate risk using the interest-rate gap analysis methodology. To that end, NLB Prishtina defines a set of input data that are based on cash flows by individual time interval. The principle of residual maturity is applied to agreements with a fixed interest rate, while the interest rate re-pricing date is taken into account for agreements with a variable interest rate.

All balance sheet and off balance sheet positions which are sensitive to interest rate risk are classified in the banking book and trading book. Positions are observed pursuant to these segments:

- Interest rate sensitive positions in Euros
- Interest rate sensitive positions in other currencies (aggregate base and as per each currency severally)

At the current stage trading activities are not applicable for NLB Prishtina, as per required criteria of NLB Group policies. As part of NLB group NLB Prishtina is subject to NLB policies and procedures.

The Bank is not obliged to calculate and meet capital requirements in respect of market risk provided that the following conditions are met simultaneously:

- the trading book business does not normally exceed 5% of its total business;
- its total trading book positions do not normally exceed EUR 15 million; and
- the trading book business never exceeds 6% of its total business and its total trading book positions never exceed EUR 20 million.

Management believes that the Bank is not exposed to interest rate risk on its financial instruments except borrowings which are at variable interest rates. Funds and obligations which do not have defined maturity (such as deposits due on demand) or which have variable maturities in relation with original achievement specified with contract, are classified in the category as demand to deposits for the purpose of gap analysis.

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Interest rate risk (continued)

Interest rate risk management in the Bank's book is carried out based on Gap analysis and Basis Point Value methodology.

Gap analysis relates to an interest rate risk measurement technique by means of which asset, liabilities and off-balance sheet assets are categorized into corresponding time buckets by the earlier of contractual re-pricing (for instruments with floating interest rate) or maturity date (for instruments with fixed interest rate).

Assets and liabilities with no maturity date (e.g. on-demand deposits) or with maturity dates which may be different from the original maturity dates defined by the contracts are categorised into corresponding time buckets based on the Bank's estimate and considering its previous experience.

With a view to more adequate interest rate risk management and measurement, BPV (Basis Point Value) methodology is used, measuring the financial instruments' sensitivity to changes of market interest rates. Based on this method, it is estimated how the position value will change if the market interest rates change by +/- 200 basis points.

The main tool for management of interest rate exposure is gap analysis, i.e. gap analysis for interest bearing assets and liabilities. The Assets and Liabilities Committee (ALCO) based on the proposal suggested by expert services, adopts the strategy of adjusting the assets and liabilities items based on the estimated changes in market interest rates.

Sensitivity analysis

Interest rate risk management is supplemented by monitoring the sensitivity of the Banks profit or loss and equity to various floating interest rate scenarios. The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. The analysis assumes a parallel increase of interest rates of 200 basis points (± 2%) on the level of net profit and equity.

Exposure to interest rate risk and its impact on the bank's statement of changes in equity and profit and loss is measured through Basis Point Value methodology. Results presented bellow represent the changes in profit and loss and equity, which would occur if interest rates will increase or decrease by 200 basis points.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Interest rate risk (continued)

Analysis of the sensitivity of profit or loss and equity to changes in interest rates is as follows:

	Sensitivity of the profit and loss	
Interest rate sensitivity	**2014**	**2013**
Increase in basic points		
+200 bps parallel shift	(53)	(109)

	Sensitivity of the profit and loss	
Interest rate sensitivity	**2014**	**2013**
Decrease in basic points		
-200 bps parallel shift	53	109

Basis Point Value (BPV) results as at December 31, 2014 is 9.49% of capital (2013: 6.49%). As per interest rate risk management policy the maximum limit of BPV result is 15% of total capital.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Interest rate risk (continued)

The table below gives the net interest rate position for financial assets and financial liabilities as monitored by management.

December 31,2014	Total	NON-interest bearing	Interest bearing	Sight	1 month	2 month	From 3 - 6 months	From 6 - 12 months	From 1 - 2 years	From 2 - 5 years	From 5 - 10 years	Over 10 years
Total	**-**	**(137,455)**	**137,455**	**(46,803)**	**21,746**	**14,603**	**63,568**	**10,857**	**26,974**	**31,317**	**14,366**	**827**
Fixed interest rate	**2,579**	(137,455)	**140,034**	(46,803)	21,746	14,603	66,147	10,857	26,974	31,317	14,366	**827**
Floating EURIBOR	**(2,579)**	-	**(2,579)**	-	-	-	(2,579)	-	-	-	-	-
Fixed interest rate (Euro)	**2,845**	(132,443)	**135,288**	(48,957)	18,888	13,843	65,950	12,080	26,974	31,317	14,366	827
Floating EURIBOR (Euro)	**(2,579)**	-	**(2,579)**	-	-	-	(2,579)	-	-	-	-	-
Fixed interest rate (USD)	**(181)**	(3,585)	**3,404**	1,345	2,697	800	(429)	(1,009)	-	-	-	-
Fixed interest rate (CHF)	**395**	(585)	**980**	671	(70)	(40)	626	(207)	-	-	-	-
Fixed interest rate (Other)	**(480)**	(842)	**362**	138	231	-	-	(7)	-	-	-	-

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Interest rate risk (continued)

December 31,2013	Total	NON-interest bearing	Interest bearing	Sight	1 month	2 month	From 3 - 6 months	From 6 - 12 months	From 1 - 2 years	From 2 - 5 years	From 5 - 10 years	Over 10 years
Total	**-**	**(59,346)**	**59,346**	**(42,018)**	**21,174**	**19,339**	**36,972**	**(33,259)**	**21,314**	**22,535**	**10,866**	**1,893**
Fixed interest rate	**5,425**	(59,346)	**64,771**	(42,018)	21,174	19,339	37,424	(28,287)	21,314	22,535	10,866	1,893
Floating EURIBOR	**(5,425)**	-	**(5,425)**	-	-	-	(452)	(4,972)	-	-	-	-
Fixed interest rate (Euro)	**5,086**	(53,862)	**58,947**	(43,436)	15,087	18,856	36,941	(25,713)	21,372	22,552	10,866	1,893
Floating EURIBOR (Euro)	**(5,425)**	-	**(5,425)**	-	-	-	(452)	(4,972)	-	-	-	-
Fixed interest rate (USD)	**(1,035)**	(3,591)	**2,556**	396	3,611	614	(84)	(1,907)	(58)	(17)	-	-
Fixed interest rate (CHF)	**1,208**	(943)	**2,151**	919	1,167	(111)	581	(406)	-	-	-	-
Fixed interest rate (Other)	**167**	(951)	**1,118**	103	1,309	(20)	(13)	(261)	-	-	-	-

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through guarantees issued.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by type of customer in relation to the Bank's loans and advances, and guarantees issued.

For subsequent measurement and impairment of assets the bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Terms and conditions of use of collateral

Collateral held under loan agreement can only be possessed by the bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo which enable the bank to take full legal title and ownership. Only after the completion of these procedures, the bank can sell or transfer the collateral.

In addition, the Bank recognises seized collateral as an asset only when it has full legal title and physical possession of the collateral and the fair value of collateral can be determined reliably.

The Bank cannot sell, transfer or re-pledge the collateral while the borrowers are performing or legal procedures for transfer of ownership as a result of default have not been completed.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

a) Maximum exposure to credit risk:

As at December 31, 2014

	Gross maximum exposure	Impairment Provision	Net maximum exposure	Fair value of collateral
Cash and balances with central bank	**66,282**		**66,282**	
Loans and advances to banks	**82,580**	**(736)**	**81,844**	**-**
Loans to individuals	**91,295**	**(2,472)**	**88,823**	**179,101**
Housing loans	48,679	(1,560)	47,119	148,981
Consumer loans	443	(69)	374	835
Other loans to individuals	42,173	(843)	41,330	29,285
Loans to legal entities	**190,156**	**(26,614)**	**163,542**	**642,529**
Loans to small and medium entities	19,727	(4,252)	15,475	101,000
Loans to large entities	170,429	(22,362)	148,067	541,529
Total loans & advances to customers	**281,451**	**(29,086)**	**252,365**	**821,630**
Financial assets available for sale	**49,234**	**-**	**49,234**	
Letters of credit	838		838	
Short-term guarantees	19,772		19,772	
Long-term guarantees	914		914	
Loan commitments	32,881		32,881	
Contingent liabilities	**54,405**		**54,405**	

Within other loans to individuals are also included cash cover loans in the amount of EUR 8,075 thousand.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

a) Maximum exposure to credit risk(continued)

As at December 31, 2013

	Gross maximum exposure	Impairment provision	Net maximum exposure	Fair value of collateral
Cash and balances with central bank	**97,163**	**-**	**97,163**	**-**
Loans and advances to banks	**60,776**	**(742)**	**60,034**	**-**
Loans to individuals	**78,774**	**(1,845)**	**76,929**	**202,710**
Housing loans	48,531	(1,319)	47,212	170,523
Consumer loans	772	(72)	700	1,363
Other loans to individuals	29,471	(454)	29,017	30,824
Loans to legal entities	**186,752**	**(23,313)**	**163,439**	**694,394**
Loans to small and medium entities	16,904	(4,758)	12,146	102,172
Loans to large entities	169,848	(18,555)	151,293	592,222
Total loans and advances to customers	**265,526**	**(25,158)**	**240,368**	**897,104**
Financial assets available for sale	**54,104**	**-**	**54,104**	**-**
Letters of credit	767		767	
Short-term guarantees	30,116		30,116	
Long-term guarantees	2,570		2,565	
Loan commitments	26,738		26,738	
Contingent liabilities	**60,191**		**60,186**	

Within other loans to individuals are also included cash cover loans in the amount of EUR 7,791 thousand.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances

Loans and advances are summarized as follows:

		31-Dec-14		31-Dec-13
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	11,242	81,844	13,440	60,034
Past due but not impaired	915	-	884	-
Collectively impaired	252,194	-	216,108	-
Individually Impaired	17,100	736	35,094	742
Gross loans	**281,451**	**82,580**	**265,526**	**60,776**
Less: allowances for impairment	(29,086)	(736)	(25,158)	(742)
Net loans	**252,365**	**81,844**	**240,368**	**60,034**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

a) Loans and advances neither past due nor impaired:

As at December 31, 2014 internal rating system

	A	B	C	D	Total	Fair value of collateral
Loans to banks	**81,844**				**81,844**	
Loans to individuals	***7,772***	***29***	***13***	-	***7,814***	***12,315***
Housing loans	123	-	-	-	123	444
Other loans to individuals	7,649	29	13	-	7,691	11,871
Loans to legal entities	***3,252***	***45***	***149***	-	***3,446***	***6,951***
Loans to small and medium entities	543	12	-	-	555	1,428
Loans to large entities	2,709	33	149	-	2891	5,523
Total loans and advances to customers	**11,024**	**74**	**162**	**-**	**11,260**	**19,266**
Financial assets available for sale	49,234				49,234	
Total	**142,102**	**74**	**162**	**-**	**142,338**	**19,266**

As at December 31, 2013 Internal rating system

	A	B	C	D	Total	Fair value of collateral
Loans to banks	**60,034**	**-**	**-**	**-**	**60,034**	**-**
Loans to individuals	***8,164***	-	***9***	***6***	***8,179***	***13,173***
Housing loans	158	-	-	-	158	444
Other loans to individuals	8,006	-	9	6	8,021	12,729
Loans to legal entities	***5,261***	-	-	-	***5,261***	***9,279***
Loans to small and medium entities	478	-	-	-	478	1,426
Loans to large entities	4,783	-	-	-	4,783	7,853
Total loans and advances to customers	**13,425**	**-**	**9**	**6**	**13,440**	**22,452**
Financial assets available for sale	54,104	-	-	-	54,104	-
Total	**127,563**	**-**	**9**	**6**	**127,578**	**22,452**

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances(continued)

Category A

All direct loans or facilities and off-balance sheet exposures of the bank that carry normal banking risk. Available information concerning the credit exposure, the performance of the customer's account, and the financial data all indicate that the settlement of the exposure is reasonably certain without difficulties, (or the obligation is fully secured by eligible collateral). Similarly within A graded clients/exposures *are a*ll direct loans or facilities and off-balance sheet exposures of the bank which are risk free. Exposures which have as collateral cash deposit or a guarantee issued by a bank which has an external credit rating of grater the BBB, grade evaluated by Moody's or S&P credit rating agencies.

Category B- Watch

Special Attention (or Watch) - This classification is used to identify and monitor exposures which contain weaknesses or potential weaknesses that, at the time of review, do not jeopardize the repayment of the credit or reflect a potential for loss, but which, if not addressed or corrected could result in the deterioration of the credit to a substandard or more severe classification. Absent any documented evidence to the contrary, the bank classifies as "special attention" those exposures that are overdue more than 30 days but less than 60 days or those with continuous indebtedness in excess of 5% of approved lines for more than 30 days but less than 60 days. This category of classification is intended to identify and address potentially weak relationships at an early stage.

Category C-Substandard

Substandard - Exposures which, based upon a review of all factors attendant to the credit, have well defined credit weaknesses that jeopardize repayment of the credit in the normal course. A substandard credit is one which, by an analysis of financial data and other factors, is not currently protected by the sound worth and paying capacity of the borrower or guarantors or the value of the collateral, if any. Recourse to a responsible and able guarantor for repayment that would involve prolonged negotiations before liquidation of the credit would invoke a substandard classification. The need for recourse to the collateral as the means of satisfying the obligation also would be the basis for a substandard classification. Absent any documented evidence to the contrary, an exposure is classified at least substandard if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 60 days from the expiration date of the facility.

(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 60 days without paying this excess or without bank management formally raising the authorized limit.

(c) If the customer is overdue in repaying contractual instalments (including interest) for over 60 days.

(d) If the maturity of the loan or facility is over 60 days past due without repayment.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

b) *Loans and advances past due but not impaired:*

As at December 31, 2014

	Up to 30 days	Up to 90 days	Over 90 days	Total	Fair value of collateral
Loans to individuals	**268**	**-**	**-**	**268**	**386**
Housing loans	-	-	-	-	-
Other loans to individuals	268	-	-	268	386
Loans to legal entities	**646**	**-**	**-**	646	**3615**
Loans to small and medium entities	62	-	-	62	1862
Loans to large entities	584	-	-	584	1753
Total loans and advances to customers	**914**	**-**	**-**	**914**	**4,001**

As at December 31, 2013

	Up to 30 days	Up to 90 days	Over 90 days	Total	Fair value of collateral
Loans to individuals	**278**	**84**	**-**	**362**	**797**
Housing loans	15	45	-	60	187
Other loans to individuals	263	39	-	302	610
Loans to legal entities	**522**	**-**	**-**	**522**	**548**
Loans to small and medium entities	12	-	-	12	35
Loans to large entities	510	-	-	510	513
Total loans and advances to customers	**800**	**84**	**-**	**884**	**1,345**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, are as follows:

December 31, 2014	Gross loans and advances individually impaired	Impairment	Net loans and advances individually impaired
Loans to bank	**736**	**(736)**	**-**
Loans to large corporate customers	15,847	(15,518)	329
Loans to small and medium size enterprises	1,194	(1,194)	-
Loans and advances to customers	**17,041**	**(16,712)**	**329**
Total	**17,777**	**(17,448)**	**329**

December 31, 2013	Gross loans and advances individually impaired	Impairment	Net loans and advances individually impaired
Loans to bank	**742**	**(742)**	**-**
Loans to large corporate customers	33,693	(16,268)	17,425
Loans to small and medium size enterprises	1,401	(1,348)	53
Loans and advances to customers	**35,094**	**(17,616)**	**17,478**
Total	**35,836**	**(18,358)**	**17,478**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

d) Loans and advances collectively impaired

The breakdown of the gross amount of collectively impaired loans and advances by class, are as follows:

December 31, 2014	Gross loans and advances collectively impaired	Impairment	Net loans and advances collectively impaired
Loans to individuals	50,455	(1,697)	48,758
Other loans to individuals	33,587	(775)	32,812
Loans to large entities	154,968	(6,794)	148,174
Loans to small and medium entities	17,944	(3,049)	14,895
Loans and advances to customers	256,954	(12,315)	244,639
Total	**256,954**	**(12,315)**	**244,639**

December 31, 2013	Gross loans and advances collectively impaired	Impairment	Net loans and advances collectively impaired
Loans to individuals	50,018	(1,435)	48,583
Other loans to individuals	20,215	(410)	19,805
Loans to large entities	130,862	(2,287)	128,575
Loans to small and medium entities	15,013	(3,410)	11,603
Loans and advances to customers	**216,108**	**(7,542)**	**208,566**
Total	**216,108**	**(7,542)**	**208,566**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

The financial effect of collateral as of 31 December 2014 is presented below:

	Loans to large corporate customers	Loans to small and medium size enterprises	Credit cards	Loans for houses and flats	Consumer loans	Other loans	Total
Loans collateralized by:							
- residential real estate	26,968	5,494	-	20,154	12	259	52,887
- other real estate	123,035	1,282	-	2,197	-	67	126,581
- cash deposits	3,002	503	10	118	-	7,912	11,545
- other assets	16,777	12,203	16	26,112	419	32,595	88,122
Total	**169,782**	**19,482**	**26**	**48,581**	**431**	**40,833**	**279,135**
Unsecured exposures	647	245	1,077	97	12	238	2,316
Total loans and advances to customers	**170,429**	**19,727**	**1,103**	**48,678**	**443**	**41,071**	**281,451**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

The financial effect of collateral as of 31 December 2013 is presented below:

	Loans to large corporate customers	Loans to small and medium size enterprises	Credit cards	Loans for houses and flats	Consumer loans	Other loans	Total
Loans collateralized by:							
- residential real estate	136,252	1,693	-	2,384	-	105	140,434
- other real estate	21,758	5,568	-	20,932	42	346	48,646
- cash deposits	5,293	491	-	218	1	8,322	14,325
- other assets	4,699	8,681	-	24,792	721	19,516	58,409
Total	**168,002**	**16,433**	**-**	**48,326**	**764**	**28,289**	**261,814**
Unsecured exposures	1,846	471	934	205	8	248	3,712
Total loans and advances to customers	**169,848**	**16,904**	**934**	**48,531**	**772**	**28,537**	**265,526**

The effect of collateral at 31 December 2014:

	Over-collateralized assets		**Under-collateralized Assets**	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to individuals	**42,130**	**168,297**	**43,397**	**8,538**
Credit cards	22	34	16	4
Loans for houses and flats	31,700	145,100	15,328	3,881
Consumer loans	128	763	245	73
Other loans	10,280	22,400	27,808	4,580
Loans to large corporate customers	**146,849**	**540,565**	**1,182**	**964**
Loans to small and medium size enterprises	**14,975**	**100,661**	**468**	**339**
Total	**203,954**	**809,523**	**45,047**	**9,841**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Credit risk (continued)

i. Loans and advances (continued)

The effect of collateral at 31 December 2013:

	Over-collateralized assets		Under-collateralized Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to individuals	**46,858**	**194,091**	**28,696**	**8,619**
Credit cards	-	-	-	-
Loans for houses and flats	34,098	166,573	12,915	3,950
Consumer loans	226	1,218	472	145
Other loans	12,534	26,300	15,309	4,524
Loans to large corporate customers	**148,044**	**589,338**	**-**	**-**
Loans to small and medium size enterprises	**11,762**	**101,974**	**191**	**187**
Total	**206,664**	**885,403**	**28,887**	**8,806**

The collaterals taken in consideration for the mitigation of the credit risk consists of immoveable properties such as land and buildings and pledge on moveable properties such as stocks and any other moveable property which could be converted in to liquid assets on an arm's length transaction. As prescribed by the credit policy the exposure of the Bank should be covered at least 163% with residential property and/or 200% with commercial property in correlation with the market value of the collateral. Risk free items include loans covered by cash or any other easily converted asset into liquid assets in an arms’ length transaction, as defined by the Credit risk management policy of the Bank and the CBK Rule on large exposures.

Collateral security is taken into consideration in the impairment loss calculation process. The fair market and liquidation values of the collateral are documented by a current appraisal made by a competent party. The Bank’s ability to access and liquidate the collateral within a reasonable period also is considered. Within the collaterals are included movable and immovable properties of the counterparties, in order to cover the exposure towards the credit risk and the risk of failure to repay the loan.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

j. Financial assets available for sale

The table below presents the whole portfolio of debt securities, and their credit grade assigned by Moody's or Fitch credit rating agencies:

December 31, 2014

Ratings	Available for sale financial assets	Total
AA	-	-
A-	176	176
Not-rated	49,058	49,058
Total	**49,234**	**49,234**

December 31, 2013

Ratings	Available for sale financial assets	Total
AA	4,000	4,000
A-	4,041	4,041
Not-rated	46,063	46,063
Total	**54,104**	**54,104**

k. Loans and advances to banks

Loans and advances to banks are neither past due not impaired and are granted without collateral. Table below presents current account and time deposits with corresponding banks (also refer to note 4 and 5).The table below presents credit grade assigned by Moody's or Fitch credit rating agencies:

December 31, 2014

Ratings	Current accounts	Deposits with banks
Long term Ratings		
A	9,959	21,432
A+	1,223	39,345
A-	54	6,932
AA-	-	7,203
BBB+	-	6,932
BBB	-	-
BB-	2 48	-
Not rated	331	-
Total	**11,815**	**81,844**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

k. Loans and advances to banks (continued)

December 31, 2013

Ratings	Current accounts	Deposits with banks
Long term Ratings		
A	3,101	14,862
A+	1,548	27,150
A-	30	6,001
AA-	-	5,960
BBB+	-	6,061
BBB	6	-
BB-	251	-
Not rated	85	-
Total	**5,021**	**60,034**

Not Rated December 31, 2014	Current accounts	Deposits with banks
Local bank	7	-
Member of NLB Group	261	-
Other bank (International banks)	63	-
Total	**331**	**-**

Not Rated December 31, 2013	Current accounts	Deposits with banks
Local bank	7	-
Member of NLB Group	62	-
Other bank (International banks)	16	-
Total	**85**	**-**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIRVALUES AND RISK MANAGEMENT (CONTINUED)

k. Concentrations

NLB Prishtina has a credit strategy which determines the types of investments (concentrations) based primarily on economic segments such as industry, trade, construction, etc. Due to the small size of the Republic of Kosovo, geographical concentrations within Kosovo are not significant; this strategy is reviewed and updated on an annual basis by the management board or the bank.

The following table breaks down the Bank's main credit exposure at their net amounts, as categorized by the industry sectors of our counterparties.

As of December 31, 2014 and 2013, an analysis of loans to customers and banks by industry sectors was as follows:

Industry concentration

	December 31, 2014		December 31, 2013	
	Net loans	**%**	**Net loans**	**%**
Banks	93,662	27%	65,055	21%
Citizens	88,824	26%	76,946	25%
Construction industry	15,829	5%	20,071	6%
Industry	12,722	4%	9,204	3%
Agriculture	644	-%	363	-%
Services	23,236	7%	29,537	10%
Hospitality	9,261	3%	1,774	1%
Transport and communications	6,047	2%	5,706	2%
Trading	95,802	28%	96,767	32%
Total	**346,027**	**100%**	**305,423**	**100%**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

l. Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations. The Bank monitors its liquidity on a daily basis in order to manage its obligations as and when they fall due.
Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts 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 for meeting 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. The amount disclosed in tables below is contractual undiscounted cash flows.

December 31, 2014

	On demand and less than one month	One month to three months	Three months to twelve months	One year to five years	Five years onward	Total
Financial assets						
Cash and balances with the Central Bank	66,282	-	-	-	-	**66,282**
Due from other banks	19,637	26,424	35,810	-	-	**81,871**
Loans to customers, net	13,699	21,781	99,906	147,180	17,576	**300,142**
Financial assets available for sale	6,999	12,371	30,051	-	176	**49,597**
Total financial assets	**106,617**	**60,576**	**165,767**	**147,180**	**17,752**	**497,892**
Financial liabilities						
Customer accounts	226,174	26,214	93,052	69,404	**-**	**414,844**
Borrowings	(2)	51	2,577	89	-	**2,715**
Other financial liabilities	2,442	-	-	-	**-**	**2,442**
Loan Commitments	2,172	3,695	19,355	3,286	4,373	**32,881**
Financial guarantees	21,523	-	-	-	-	**21,523**
Total financial liabilities	**252,309**	**29,960**	**114,984**	**72,779**	**4,373**	**474,405**
Total financial liabilities	**(145,692)**	**30,616**	**50,783**	**74,401**	**13,379**	**23,487**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

m. Liquidity risk (continued)

December 31, 2013

	On demand and less than one month	One month to three months	Three months to twelve months	One year to five years	Five years onward	Total
Financial assets						
Cash and balances with the Central Bank	97,163	-	-	-	-	**97,163**
Due from other banks	27,057	19,871	12,954	167	-	**60,049**
Loans to customers net	12,877	23,368	95,133	136,278	15,752	**283,408**
Financial assets available for sale	5,586	22,060	26,458	-	-	**54,104**
Total financial assets	**142,683**	**65,299**	**134,545**	**136,445**	**15,752**	**494,724**
Financial liabilities						
Customer accounts	179,534	23,805	131,890	76,211	-	**411,440**
Borrowings	-	194	2,859	2,668	-	**5,721**
Other financial liabilities	3,218	-	-	-	-	**3,218**
Loan Commitments	1,402	4,287	16,615	2,921	1,513	**26,738**
Financial guarantees	26,774	-	-	-	-	**26,774**
Total financial liabilities	**210,928**	**28,286**	**151,364**	**81,800**	**1,513**	**473,891**
Liquidity gap as at December 31, 2013	**(68,245)**	**37,013**	**(16,819)**	**54,645**	**14,239**	**20,833**

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

n. Fair value of financial instruments

(a) Fair values of financial instruments carried at amortised cost

IFRS 13 defines fair value as 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. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented on the statement of financial position at their fair value.

	31 December 2014		31 December 2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans and advances to banks	81,844	81,816	60,034	58,692
Loans and advances to customers	252,365	247,130	240,368	223,338
Due to banks	1,015	1,015	866	866
Due to customers	404,650	403,967	407,861	405,706
Borrowing	2,630	2,626	5,454	5,308
Other financial liabilities	2,442	2,442	3,218	3,218

All fair value disclosures are based on management estimates and valuation techniques and fall under Level 3 of the fair value hierarchy. The valuation techniques and estimates for most significant assets and liabilities are described below:

Loans to banks

Loans and advances to other banks comprise inter-bank placements. The fair value of placements and overnight deposits is their carrying amount due to their short-term nature.

Loans to customers

Loans to customers in the balance sheet are presented in net amount, i.e. net of allowances for impairment. For the purpose of calculating the fair value, the Bank used discounted cash flow method. Thus, the calculation is based on contractual cash flows. Credit risk of individual clients is taken into consideration through the expected impairment.

Deposits and borrowings

The estimated fair value of deposits and borrowings is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Foreign Currency Risk (continued)

The following table summarises the Bank's currency position as at December 31, 2013:

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	92,541	1,410	2,764	448	**97,163**
Due from banks	49,979	6,706	2,037	1,312	**60,034**
Loans to customers – net	240,368	-	-	-	**240,368**
Financial assets available for sale	54,104	-	-	-	**54,104**
Total assets	**436,992**	**8,116**	**4,801**	**1,760**	**451,669**
Financial liabilities					
Due to banks	499	359	7	1	**866**
Due to customers	393,913	8,770	3,586	1,592	**407,861**
Borrowings	5,454	-	-	-	**5,454**
Other financial liabilities	3,218	-	-	-	**3,218**
Total liabilities	**403,084**	**9,129**	**3,593**	**1,593**	**417,399**
Net currency position as at December 31, 2013	**33,908**	**(1,013)**	**1,208**	**167**	**34,270**

The exchange rates applied for principal currencies against the Euro were as follows:

	December 31, 2014	December 31, 2013
United States Dollar (USD)	1.2141	1.3791
British Pound (GBP)	1.2024	1.2276
Swiss Franc (CHF)	0.7789	0.8337

(All amounts expressed in EUR thousand, unless otherwise stated)

31. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

n. Fair value of financial instruments (continued)

b) Analysis by fair value hierarchy of financial instruments carried at fair value

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

a) **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument

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

c) **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 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 following table shows the distribution of fair values over the different fair value hierarchies.

December 31, 2014

	Total Fair Value	***Level 1***	***Level 2***	***Level 3***
Financial Assets				
Debt instruments	49,058	-	49,058	-
Equity instruments	176	-	176	-
Total available for sale financial assets	**49,234**	**-**	**49,234**	**-**

December 31, 2013:

	Total Fair Value	***Level 1***	***Level 2***	***Level 3***
Financial Assets				
Debt instruments	54,104	8,042	46,062	-
Equity instruments	-	-	-	-
Total available for sale financial assets	**54,104**	**8,042**	**46,062**	**-**

The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

The Bank does not possess instruments that are subject to possible movements from one level to another of fair value category.

13. Addresses and Contacts

The Bank's registered head office is located at St. Kosta Novakovic, p.n. KS- 1000, Prishtine, The Bank operates as a commercial bank to all categories of customers, through its network covering all major cities of Kosovo including: Prishtina, Gjakova, Peja, Ferizaj, Mitrovica, Gjilan, Podujeva and Prizren.

NO.	Filiali/ Ekspoz./Sporteli/ Terminali/ QKT/QRA	Njësia/ Unit	ADRESAT/ ADRESS
1	**Filiali 0001 PRISHTINË (4)**	F	Rr. Kosta Novakoviq, pn 10000 Prishtinë
2	Sporteli ne Kuvend K.	S	Rr.UÇK nr. 2 , 10000 Prishtinë
3	Terminali Doganor te Amortizat	T	Magjistralja Prishtinë - Fushë Kosovë
4	Terminali Intereuropa	T	Zona Industriale në Prishtinë
5	Ekspozitura te Xhamia e Llapit	E	Rr.Ilir Konushevci nr. 75
6	Ekspozitura në AL-Trade	E	Magjistralija Prishtinë – Shkup, Veternik, Prishtinë
7	Ekspozitura Bregu i Diellit	E	Qendra Tregëtare "Bregu i Diellit" nëPrishtinë
8	Ekspozitura-Drenas	E	Rr. Skënderbeu p.n. - 13000 Drenas
9	**Filiali 1001 Prishtine**	F	Rr. Rexhep Luci Nr. 5, - 10000 Prishtinë
10	Ekspozitura te Lesna	E	Rr. Eqrem Qabej nr.1, 10000 Prishtinë
11	Ekspozitura Gracanice	E	Rr. Kralj Milutin pn
12	Ekspozitura Fushe Kosovë	E	Zona Industriale , objekti Al -Trade
13	Ekspozitura Kastriot	E	Rr. Hasan Prishtina p.n.
14	Ekspozitura Lypjan	E	Rr. Lidhja e Prizrenit
15	Sporteli te AAB_Riinvest	S	Magjistralja Prishtinë - Fushë Kosovë
16	**Filiali 1002 GJILAN (7)**	F	Rr.28 Nëntor nr.215
17	Ekspozitura Gjilan (ish brk)	E	Rr.Brigada e UÇK 56/6
18	Ekspozitura Viti	E	Rr. Adem Jashari p.n. - 61000 Viti
19	Ekspozitura Kamenice	E	Rr. Skenderbeu p.n - 62000 Dardanë
20	**Filiali 1003 FERIZAJ (6)**	F	Rr. Rexhep Bislimi pn.
21	Ekspozitura Ferizaj	E	Rr. Dëshmorët e Kombit pn.
22	Ekspozitura Kacanik	E	Rr. Emin Duraku nr. 27
23	Ekspozitura Shterpca	E	Rr. Kryesore p.n në Shtërpcë
24	Ekspozitura Hani i Elezit	E	Rr. Adem Jashari p.n
25	Terminali Hani i Elezit	T	Rr.Sharr Sallonit nr.15
26	**Filiali 1004 GJAKOVË (3)**	F	Rr. Nëna Terezë nr. 363
27	Ekspozitura Gjakove	E	Rr. UÇK p.n.
28	**Filiali 1005 PRIZREN (8)**	F	Rr. Derada p.n
29	Ekspozitura Prizren	E	Rr. Adem Jashari
30	Ekspozitura Suhareke	E	Rr. Brigada 123, pn
31	Ekspozitura Rahovec	E	Rr. Xhelal Hajda-Toni, p.n. – Rahovec,
32	Ekspozitura Malisheve	E	Magjistralja Prishtinë - Rahovec
33	Terminali Hollandez	T	Tranzit pa.nr
34	**Filiali 1006 PEJË (8)**	F	Rr. Petro Marko nr. 1 në Pejë
35	Ekspozitura Peje (ish brk)	E	Rr. Mbreteresha Teutë nr.67 në Pejë
36	Ekspozitura Peje (te goldi)	E	Rr. Eliot Engel p.n në Pejë
37	Terminali Peje - Devolli Compar	T	Rr. Zahir Pajaziti p.n
38	Ekspozitura Kline	E	Rr.Abedin Rexha nr.4 në Klinë
39	Ekspozitura Istog	E	Rr. Fadil Ferati pa nr.
40	Ekspozitura Decan	E	Rr. Luan Haradinaj p.n
41	**Filiali 1007 MITROVICË (9)**	F	Rr. Afrim Zhitia p.n. - 40000 Mitrovicë
42	Ekspozitura Mitrovice	E	Rr. Mbreteresha Teuta nr.33
43	Terminali Mitrovice	T	Rr. Terminali Mitrovice nr.28
44	Ekspozitura Mitrovica Veriore	E	Rr. Kralja Petra, Mitrovice
45	Ekspozitura Vushtrri	E	Rr. Sheshi I Lirisë nr.17 Vushtrri
46	Ekspozitura Skenderaj	E	Rr. 28 Nëntori p.n
47	**Filiali 1009 PODUJEVË (2)**	F	Rr.Zahir Pajaziti pn në Podujevë
48	Terminali Doganor Podujeve	T	Mgjistralja Podujeve-Merdare

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