Annual Report 2014

Raiffeisen BANK Kosovo

Survey of key data

Raiffeisen Bank Kosovo J.S.C.			
Monetary values are in € million	2014	2013	Change
Income statement	**1/1-31/12**	**1/1-31/12**	
Net interest income after provisioning	35.1	33.5	4.8%
Net commission income	7.9	8.0	-0.7%
Trading profit	0.1	0.1	-41.6%
Net valuation result financial instruments carried at FV	(0.3)	0.8	-131.4%
Net valuation of equity investments	-	-	-
Other operating income	0.2	0.1	38.3%
General administrative expenses	(25.3)	(25.5)	-0.8%
Profit before tax	17.8	17.0	4.9%
Profit after tax	15.8	15.2	3.7%
Earnings per share	N/A	N/A	N/A
Balance sheet			
Loans and advances to banks	71.0	63.2	12.3%
Loans and advances to customers	446.8	432.3	3.4%
Other loans	-	19.3	-100.0%
Deposits and borrowings from banks	3.7	4.5	18.8%
Deposits from customers	604.3	557.7	8.4%
Equity (including minorities and profit)	122.8	107.0	14.8%
Balance-sheet total	760.8	698.1	9.0%
Local regulatory information			
Risk-weighted assets B1, including market risk	520.3	504.4	3.2%
Total own funds	106.7	86.9	22.7%
Total own funds requirement	62.4	60.5	3.2%
Excess cover ratio	70.9%	43.6%	27.3 PP
Core capital ratio (Tier 1)	16.0%	12.4%	3.6 PP
Own funds ratio	20.5%	17.2%	3.3 PP
Performance			
Return on equity (ROE) before tax	16.9%	17.6%	-0.7 PP
Return on equity (ROE) after tax	15.0%	15.8%	-0.8 PP
Cost/income ratio	55.2%	54.5%	0.7 PP
Return on assets (ROA) before tax	2.4%	2.6%	-0.2 PP
Net provisioning ratio (average risk-weighted assets B2 in banking book)	0.6%	0.9%	-0.3 PP
Risk/earnings ratio	7.1%	11.2%	-4.1 PP
Resources			
Number of staff (FTE)	687	684	0.5%
Business outlets	50	52	-3.8%

Content

Report of the Supervisory Board

Ladies and Gentlemen,

At the beginning of 2014, Raiffeisen Bank International carried out a capital increase with gross proceeds of € 2.78 billion. RZB participated in the capital increase, in addition to numerous institutional and private investors, and remained the majority shareholder of RBI. The capital increase enabled RBI to fully repay the participation capital held by the Republic of Austria and private investors and significantly improve its common equity tier 1 ratio (on a Basel III fully-loaded basis). The rest of the year was mainly impacted by the geopolitical and financial situation in Ukraine and Russia, which led to higher loan loss provisions, as did defaults of individual large customers in Asia. Significant one-off charges were also booked during the year, the largest item thereof being goodwill impairments. Further one-off effects included the write-down of deferred tax assets and costs resulting from legislation changes in Hungary. These factors contributed to the € 493 million consolidated loss incurred in 2014, which was the first negative result in RBI's history. However, these one-offs had no impact on fully-loaded tier 1 common equity, and without them RBI would have reported a significantly positive net profit.

In February 2015, RBI resolved to take a number of steps to increase its capital buffer. The measures are intended to facilitate an improvement in the common equity tier 1 ratio (fully loaded) to 12 per cent by the end of 2017, compared to 10 per cent at the end of 2014. The planned steps include the sale or rescaling of units as well as reductions in total risk-weighted assets (RWA) in select markets, in particular in those which generate low returns, have high capital consumption or are of limited strategic fit. The implementation of these measures will result in an aggregate gross RWA reduction of approximately € 16 billion by the end of 2017 (total RWA as at 31 December 2014: € 68.7 billion). This reduction is expected to be partially offset by growth in other business areas.

As far as Raiffeisen Bank Kosovo is concerned, we are pleased to report that in 2014 it managed to achieve a great result. Although there was a political stalemate of six months following the national elections in Kosovo, the banking sector was stable and recorded a growth of all key performance indicators compared to 2013. Raiffeisen Bank Kosovo has also played a key role in the positive development and growth of the country's banking sector. In addition to the growth of net profit to € 15.8 million the Bank recorded a growth of deposits, loans and assets. In 2014, delivering market leading quality customer services and supporting various socially responsible projects were also priorities of Raiffeisen Bank Kosovo. All these results and activities were recognized by Global Finance, Euromoney and The Banker who all awarded Raiffeisen Bank Kosovo the title "Bank of the Year 2014" in Kosovo.

I would like to take this opportunity to thank all employees of Raiffeisen Bank Kosovo for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

On behalf of the Supervisory Board,

Helmut Breit
Chairman

Report of the Management Board

2014 was another excellent year for Raiffeisen Bank Kosovo. The Bank achieved a range of positive key performance indicators in 2014 including a net profit after tax of € 15.8 million which represents a 3.7 per cent increase compared to 2013.

Despite taking a prudent and sensible approach to our lending in all customer segments our assets continued to grow during 2014. Our total loan portfolio amounted to € 471 million by the end of the year, a 3.1 per cent increase compared to 2013. It still represents the largest loan portfolio in the Kosovo banking sector. Our customer deposits grew significantly in 2014 totaling € 604 million which is an 8.4 per cent increase year-on-year. This is a clear demonstration of the trust customers have in our brand and confirms their satisfaction with our branch service and distribution network.

Cost management and improved efficiency continued to be high priorities in 2014. Cost income ratio was 55.2 per cent. Our operating costs actually decreased by 1.2 per cent but due to very aggressive competitor pricing causing a reduction in interest margins our income growth was a little below budget.

The development of our electronic and digital banking services in areas such as ATMs, point of sale terminals, internet and telephone banking was another high priority in 2014. We improved the functionality, affordability and access to these services across Kosovo and the usage of these services among our customers increased significantly. The number of customers using our internet banking service increased by 31 per cent year-on-year and the number of transactions via point of sale terminals rose by 52 per cent compared to 2013. Further development of these services will continue to be a high priority in 2015.

Delivering consistent experiences through all points of customer interactions was another top priority for our customer service agenda in 2014. By determining and closely monitoring the performance of key interactions with our customers we have not only managed to meet our customers' expectations but also increase their satisfaction with our products and services. Our promise to our customers is "Your voice is what matters"; using customer feedback as starting point for each initiative in 2014 ensured positive progress and further enhancements of our "Voice of Customer" management strategy. The establishment of a completely new process of complaint handling and customer satisfaction was very important, especially last year. A clear focus on implementing a customer-centric approach throughout the organization has impacted the overall improvement in our service quality crucially. In 2014, the bank continued with its commitment to corporate social responsibility with a wide range of activities in sports, healthcare, education and arts. Of particular note was our donation of € 100,000 to the Gynecological Clinic in Pristina associated with the 10th anniversary of Raiffeisen Bank in Kosovo.

To sum it up, 2014 was a year with a high focus on customer satisfaction across all segments and distribution channels. This enabled us to deliver a remarkable combination of excellent financial results and an improved customer experience. I am pleased to report that these achievements were recognized and acknowledged by the three top independent assessors of the European banking industry, "Global Finance", "Euromoney" and the prestigious global publication "The Banker" who all awarded us "Best Bank in Kosovo" for 2014.

Finally, on behalf of the Management Board I would like to thank all our staff for achieving another excellent result in 2014. None of this would have been possible without their skills, commitment, loyalty and dedication and it is their strengths and abilities that give me absolute confidence that 2015 will be another very successful year.

On behalf of the Management Board,

Robert Wright
Chairman

Raiffeisen Bank Kosovo Management Board

Robert Wright

Chairman of the Management Board

Shukri Mustafa

Member of the Management Board

Iliriana Toçi

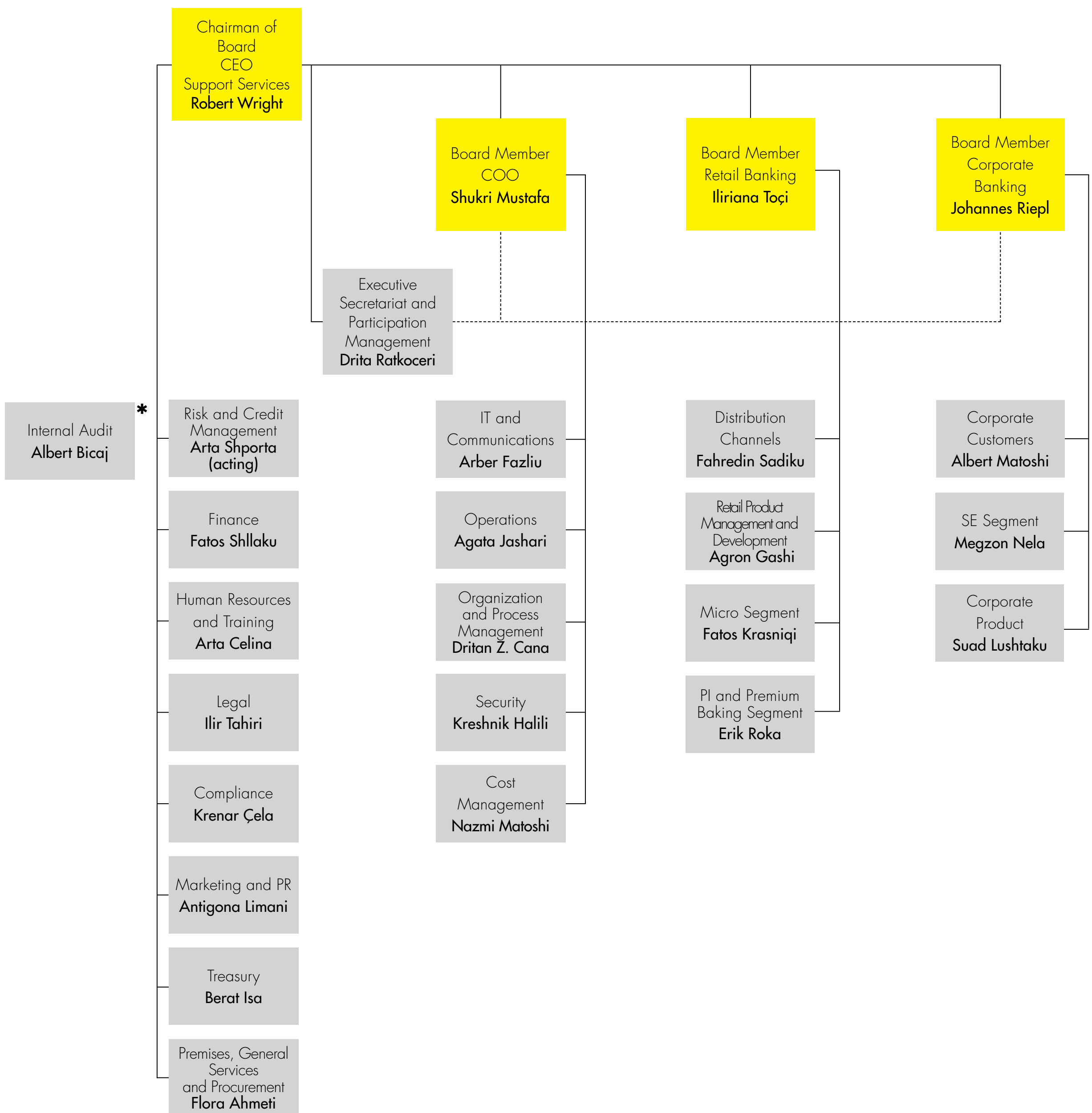
Member of the Management Board

Johannes Riepl

Member of the Management Board

Raiffeisen Bank Kosovo Organisational Structure

As of 31 December 2014



* Internal Audit reports directly to Audit Committee of Supervisory Board

Raiffeisen Bank Kosovo Vision and Mission

Vision

To be the leading universal bank in Kosovo.

Mission

To develop long-term relationships with our customers by providing a wide range of competitive products and a high standard of service.

To be the employer of choice in Kosovo.

Raiffeisen Bank International at a glance

A leading bank in Central and Eastern Europe, including Austria

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. At the end of 2014, around 52,000 RBI staff served approximately 14.8 million customers in around 2,900 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and major multinational clients operating in CEE. All in all, RBI employs about 55,000 staff and has total assets of approximately € 122 billion.

Long-term success story

Raiffeisen Zentralbank Österreich AG (RZB) was founded in 1927 as "Genossenschaftliche Zentralbank". RZB founded its first subsidiary bank in Central and Eastern Europe already back in 1987. Since then, further subsidiaries have been established. From 2000 onward, Raiffeisen's expansion into CEE countries has mainly been achieved by acquiring existing banks. These were subsequently combined into a holding company that operated under the name Raiffeisen International from 2003. In April 2005, Raiffeisen International was listed on the stock exchange in order to finance its future growth efficiently. Today's RBI was established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger. As at year-end 2014, RZB held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float.

The banking sector

Note: *Information in this chapter is based on material from the Central Bank of the Republic of Kosovo.*

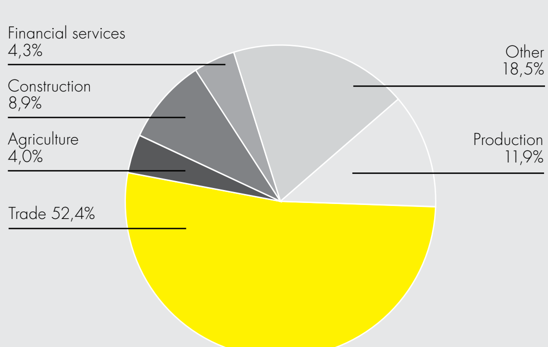
The banking sector in Kosovo continued to grow in 2014 at a rate which was higher compared to growth in 2013, but which slowed down compared to recent years. There were a total of 10 licensed banks operating in a market which is dominated by banks with foreign capital amounting to 90.5 per cent of total banking sector assets.

Total assets of the banking sector reached € 3.19 billion in December 2014, an annual growth of 4.2 per cent (2013: € 3.06 billion). The growth of the banks' total assets was mainly driven by an increase in investments in securities and treasury bills rather than lending activity. Investment in securities of the banking sector reached € 383.8 million which represents an annual growth of 8.3 per cent.

The structure of investments in securities continued to be dominated by foreign government bonds which as of 31 December 2014 represented 49.8 per cent of total investments. As of 31 December 2014 investments in Kosovo government treasury bills increased to 50.2 per cent of portfolio.

The lending activity of banks in 2014 grew at a faster rate than in 2013. Total loans and advances achieved the value of € 1.88 billion, which is an annual increase of 4.16 per cent compared to 2.2 per cent in 2013. The largest contribution in the loans growth was from private individuals, which during 2014 increased by 12.6 per cent (3.9 per cent as of 31 December 2013). Loans to businesses had a smaller contribution with an annual growth of 3.1 per cent, compared to 2.1 per cent in December 2013. The economic sector concentration of loans to businesses continued to be dominated by trade sector with an overall share of 52.4 per cent, followed by production 11.9 per cent and construction with 8.9 per cent.

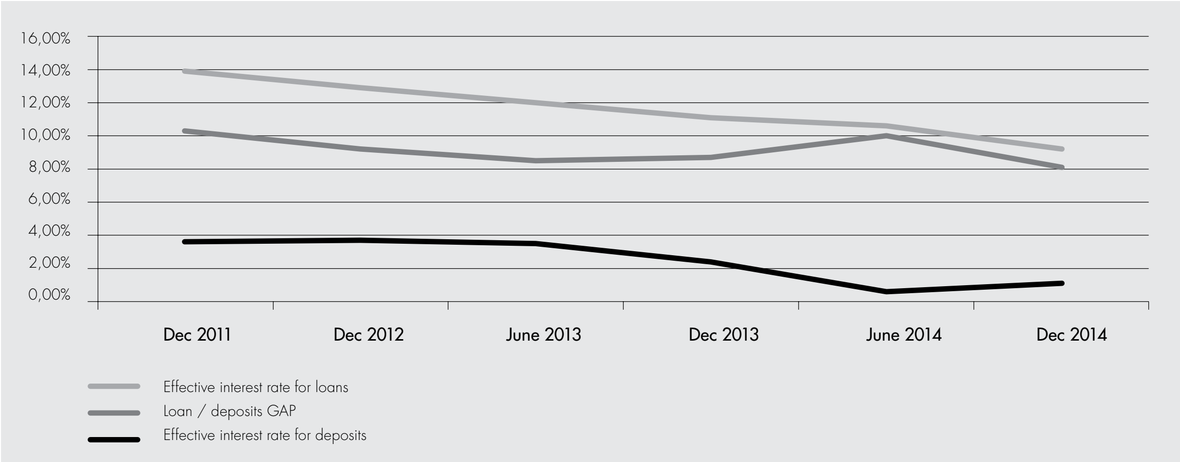
Business loan concentration



Total deposits in the banking sector reached € 2.54 billion an annual increase of 3.7 per cent which is lower when compared to growth rate of 7.5 per cent in 2013. The highest contributor in the increase of deposits continued to be the deposits of private individuals which achieved an annual growth of 5.5 per cent (8 per cent in December 2013). Also deposits from businesses had an annual decrease of 1.3 per cent when compared to growth of 13.4 per cent in December 2013.. The structure of deposits in the Kosovo banking sector continued to be dominated by deposits from private individuals with 72.8 per cent of total deposits being from this sector. Current and saving accounts increased their share of total deposits while term deposits decreased in 2014. This is as a result of decreasing deposit interest rates in the banking sector, making longer term investments less popular.

The interest rates for loans and deposits continued to decrease in 2014. The average interest rate for loans in December 2014 was 9.2 per cent, a decrease from 11.1 per cent in December 2013. The average rate in deposits fell to 1.1 per cent in December 2014 from 2.4 per cent in 2013. The interest rates for loans have been decreasing continuously for the last ten years, and the rates have also been impacted by the increased liquidity of the banks and a decrease in demand from businesses.

The decrease of the interest rates for deposits is because of the increased liquidity of the banks and the adjustment of the rates to the falling margins in the global money markets.



In 2014, the banking sector improved its financial performance and achieved the best results since its existence in Kosovo. By December 2014, the net profit of the banking sector has reached € 60.1 million (2013: € 26 million). The increase of profit took place following a decrease in interest expenses even though income showed a slight decrease in 2014 when compared to the previous year.

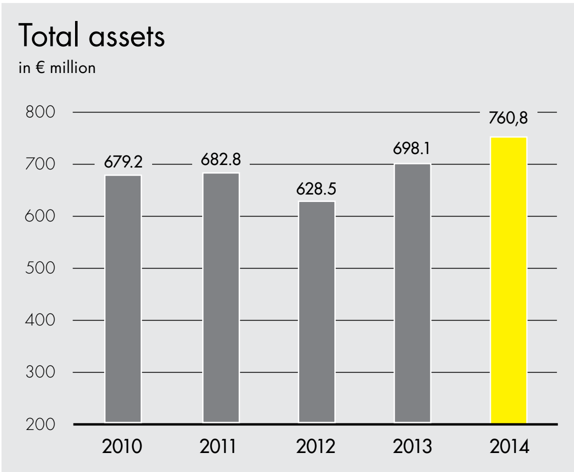
Within noninterest expenses the largest decrease was provisioning for impaired loans which decreased by 56.5 per cent when compared to the previous year. Interest expenses also recorded a decrease and by December 2014 had decreased by 31 per cent when compared to December 2013.

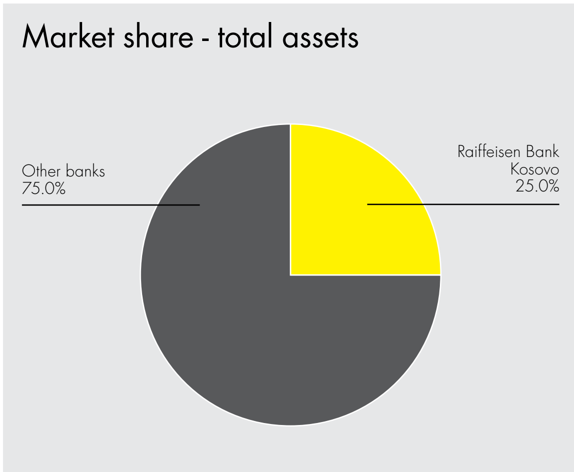
Income of the banking sector decreased by 2 per cent as of September 2014, which mainly came as a result of a decrease in interest income. Interest income comprised 80.2 per cent of total income and resulted in a decrease of 1 per cent when compared to 2013. This decrease in interest income can be explained by the decrease in interest rates for loans during 2014. As a result of a decrease in banks' operating expenses the cost income ratio also improved and by December 2014, it was 75.4 per cent compared to 89.5per cent in December 2013. Non-performing loans (NPL) were at 8.3 per cent, thus a slight improvement from 8.7 per cent in December 2013.

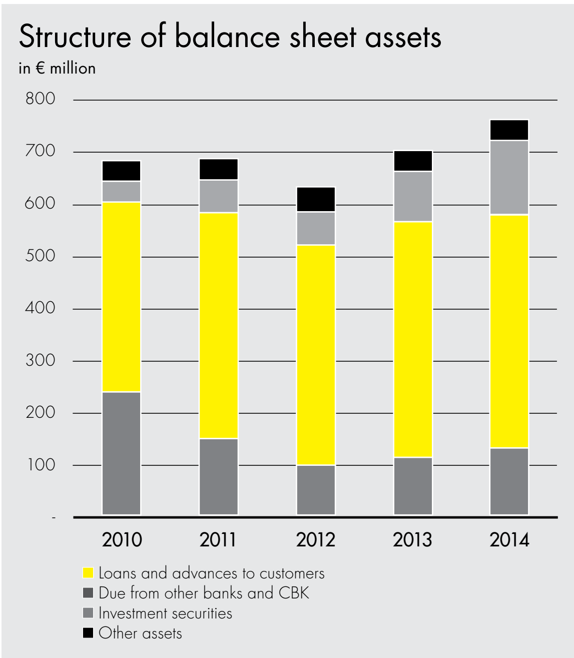
Raiffeisen Bank Kosovo performance and financials

Note: *The market analysis is based on preliminary published financial results of commercial banks prepared in compliance with the Central Bank of Kosovo (CBK) rules.*

Total assets of Raiffeisen Bank Kosovo at 31 December 2014 were € 760.8 million. This is an increase of 9 per cent when compared to the previous year (2013: € 698.1 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 25 per cent.





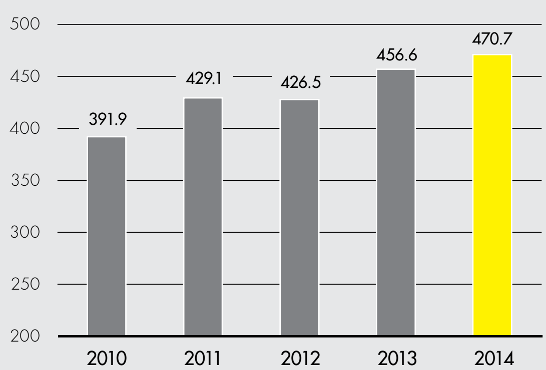


The structure of Raiffeisen Bank Kosovo assets continues to be dominated by loans and advances to customers. As of December 2014, 58.7 per cent of total assets were concentrated in loans and advances to customers after provisioning for loan losses. That is followed by 9.2 per cent of due from banks, excluding exposure with Central Bank of Kosovo (CBK). The account with CBK also includes the reserves which are required by CBK regulation on minimum reserves.

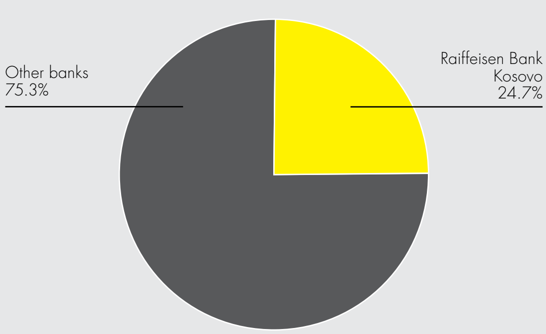
Investment securities comprised 19 per cent of assets. Investment securities include investments in Government Bonds of EU countries and the US, as well as Treasury Bills issued by the Kosovo Government. The investments in securities increased in 2014 by 50.4 per cent. This increase is a result of increased liquidity in the market. Investments in Kosovo Government treasury bills were € 32.8 million, which is an increase of over 300 percent when compared with the previous year. (2013: € 7.7 million).

Customer loans and advances - gross

in € million

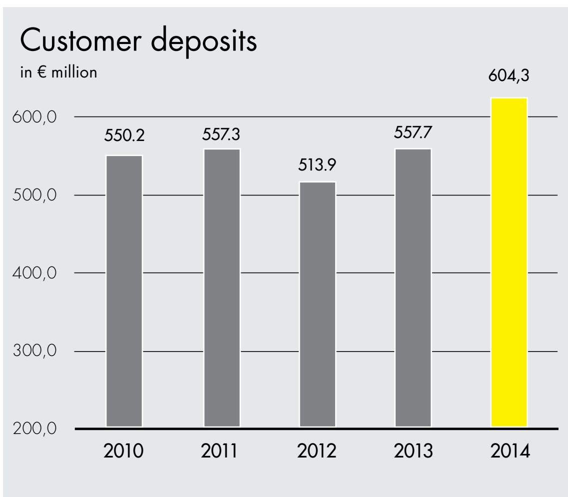


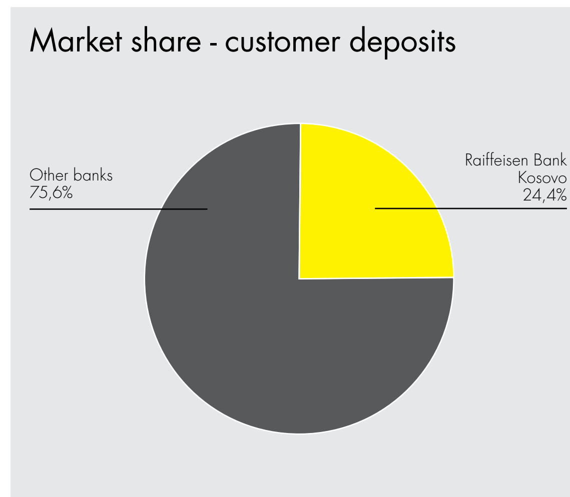
Market share - customer loans and advances



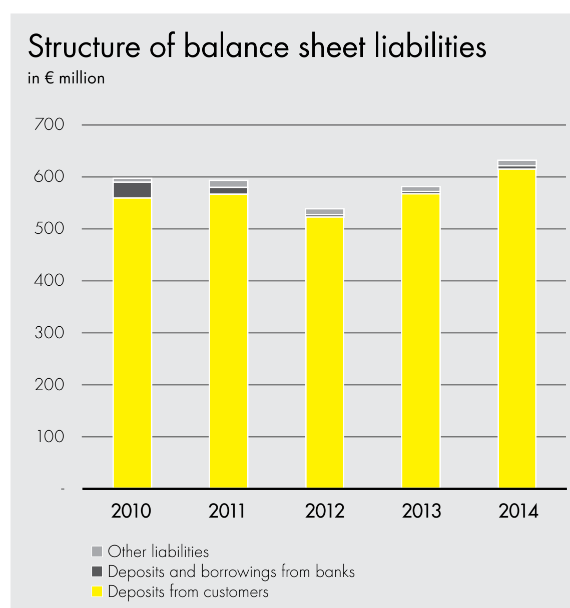
The total gross loans and advances of Raiffeisen Bank Kosovo as of 31 December 2014 were € 470.7 million (2013: € 456.6 million). This is an increase of 3.1 per cent from 2013. The market share in loans and advances as of 31 December 2014 was 24.7 per cent (2013: 26 per cent). Raiffeisen Bank Kosovo also made allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 23.9 million (2013: € 24.3 million). These allowances are for specifically assessed and portfolio assessed credit portfolio and reflect the Raiffeisen Bank Kosovo assessment of risk on the credit portfolio on 31 December 2014.

The deposits base was mainly from local depositors while the financing from abroad including multinational development banks remains low. The domestic generation of finances also contributed toward greater stability in the banking sector and reduced the impact of any volatility in the international markets. The largest contributor in deposits from customers was current accounts with a share of 60.3 per cent, an increase from 46.1 per cent in 2013. The increase in current account balances could also be explained by the market decrease of interest rates of saving accounts and term deposits, which at the end of 2014 were approaching zero percent.



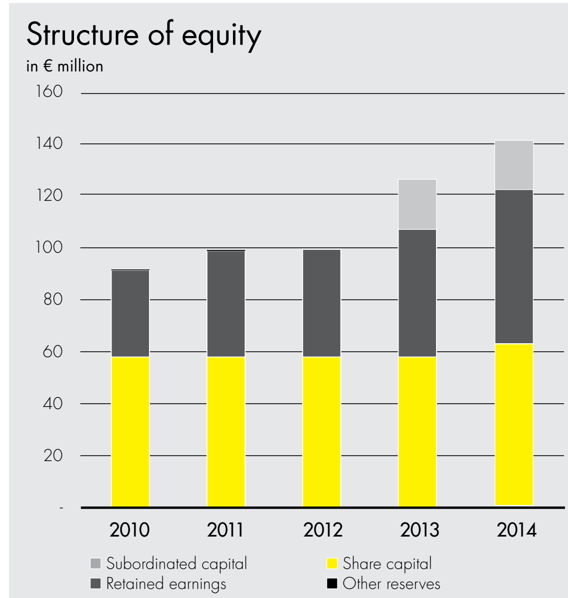


The liabilities structure of the bank was dominated by customer deposits, as was also the case for the Kosovo market.

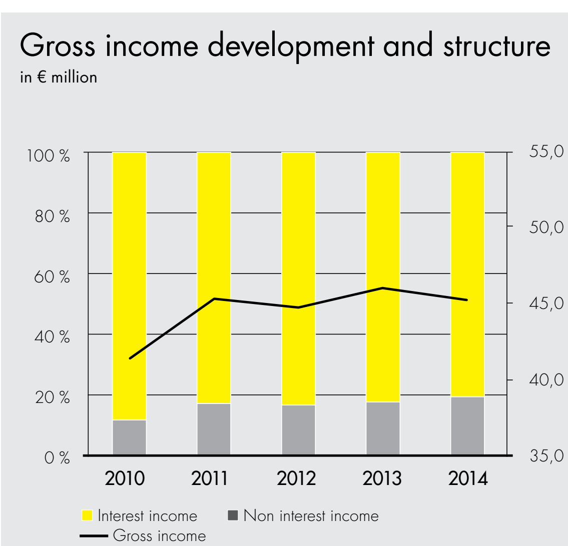


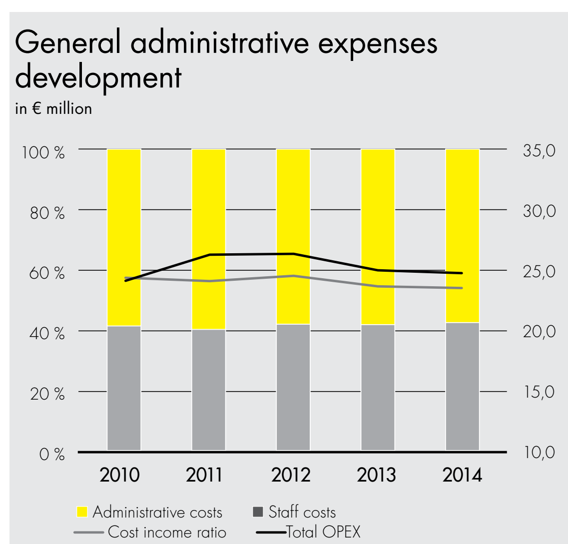
In 2014, Raiffeisen Bank Kosovo further increased its share capital by another € 5 million in the form of a capital contribution from the Bank's sole shareholder Raiffeisen SEE Region Holding GmbH, to € 63 million (€ 58 million in 31 December 2013). The total equity as at 31 Dec 2014 was € 122.8 million (€ 107 million as at 31 December 2013) , also including € 59.8 million in the form of retained earnings. The bank paid a dividend from its retained earnings in 2014 to the value of € 5 million.

Net income after tax in 2014 was € 15.8 million (2013: € 15.2 million). Raiffesen Bank income is strongly dominated by income generated from loans and advances to local customers. Income from interest remained stable despite falling rates for loans in the market as well as very low yields and sometimes negative yields on OECD government issued bonds. This was partially offset by falling rates for bank deposits from customers.



The general and administrative expenses as of 31 December 2014 were € 24.7 million (2013: € 25 million). The cost income ratio was 55.2 per cent (2013: 54.5 per cent). Staff costs also include staff related costs, such as training and other professional development. These costs continued to represent a significant part of operational expenses as the Bank considers it very important to invest in the professional development of the staff.





Treasury, asset and liability management

Asset liability management

2014 was a successful year as far as the collection and consolidation of deposits was concerned. Raiffeisen Bank Kosovo managed to retain its core deposit customers. Building on the increased trust in the financial system, especially the brand of Raiffeisen Bank Kosovo, the Bank's liquidity remained at stable levels, thus lowering the funding costs on a year on year basis. The liquidity position of the bank remained at 40.1 per cent of treasury assets compared to total assets of the Bank.

Prudent asset and liability management made it possible for the Bank to keep the lowest cost of funds in the market, which in turn enabled lower lending rates for certain products. To a large extent, the reduction in interest expense was achieved through quantitative modeling in assets and liabilities management. The Bank utilizes quantitative modeling to discover customer deposits stickiness, for its non-maturing assets and liabilities, for both retail and non-retail customers.

The Bank's funding sources came from stable retail deposits to the amount of 84 per cent of total deposits, which points to very high stickiness ratio of retail deposits. The compound effect of a high liquidity position, and a high stickiness position produced a stable liquidity position.

The interest rates basis point value (BPV) in 2013, decreased to sub eight thousand BPV in 2014 for the overall balance sheet interest rate sensitivity.

Government securities

The Bank's bonds portfolio in foreign and local government securities increased to above € 144 million by the end 2014.. 77% of the portfolio is high quality OECD investment grade government securities, and the remainder is allocated to exposure in Kosovo Government Securities.

Government Securities	Allocation
Austria	4.2%
Denmark	10.6%
Finland	7.1%
France	10.8%
Germany	11.2%
Kosovo	22.7%
Netherlands	10.2%
Poland	5.8%
Sweden	9.9%
USA	7.4%

In parallel, the total market for Kosovo Treasury Bills continued to increase. Having a primary dealer role, Raiffeisen Bank Kosovo and its customers continued to be one of the most significant contributors to the creation of the Kosovo Secondary Government Debt Market.

Financial derivatives

The Bank's interest rate swaps portfolio is an important risk mitigation tool for its long term portfolio. The yields in the market had a negative effect on the performance of this portfolio in 2014. Interest rate swaps are used to mitigate the risks from the probability of the increased cost of funds mostly concerning the long term macro hedge of the long term portfolio of loans. Due to a drop in Euro interest rates curve, the Bank incurred a small loss in the portfolio, which was offset by lower interest expense on the bank level.

The Bank expects that the market rates will move from the current historical low rates, although the Bank does not anticipate this event to occur in the short term but rather in the mid to long term. Taking into consideration that the Kosovo banking industry has predominantly fixed rate loans, the financial derivatives of this nature (interest rate swaps), increase the sensitivity of the balance sheet, which is prudent since the interest rate risk at this point of the Euro Curve, is asymmetric. The BPV of the current exposure in financial derivatives is less than seven thousand euro / BPV.

Foreign exchange business

Foreign exchange business contributed more than € 1.28 million in total revenues in 2014. The revenue is slightly lower than in previous years. Raiffeisen Bank Kosovo desk is the most profitable desk in the banking industry in Kosovo. In addition, foreign exchange business has fostered the Raiffeisen Bank Kosovo turnover in the funds transfer commission income business.

Revenues in foreign exchange	2010	2011	2012	2013	2014
Forex income in thousands euro	1,326	1,766	1,543	1,407	1,283

Custody business

In 2014, Raiffeisen Bank Kosovo marked its fourth year in custody business. The Bank's customers are able to place trades in almost all exchanges in the world. This feature enables customers to buy and sell securities such as bills, bonds and stocks in the world markets.

Business segments

Corporate

In 2014, Raiffeisen Bank Kosovo played a very active role in the corporate banking sector. The Bank became the bank of choice for corporate customers serving nearly 500 customers, delivering comprehensive financial products; adding value to their business and supporting their business developments. The expertise and vast experience of the Bank's relationship managers supported the successful closing of several very important mergers and acquisitions.

Despite the macroeconomic and political situation, Raiffeisen Bank Kosovo continued to record an annual growth of its corporate loan portfolio. The average loan volume grew from € 171 million in 2013 to € 188 million in 2014, an increase of 9.7 per cent. RoRAC (Return on Risk Adjusted Capital) remained very strong at 190 per cent.

During 2014 the approach of prudent lending was reflected by lower risk costs which reduced by 11.2% compared to 2013.

On the other side of the balance sheet, the liquidity position remained strong despite decreasing interest rates for deposits on the market. Average volume liabilities reached € 91 million which is a 26 per cent increase compared to the previous year. This shows the trust and loyalty of our customers towards the Raiffeisen Bank brand.

Raiffeisen Bank Kosovo's aim is to continue to lead the corporate sector by providing efficient and tailor made products to customers through business operations of the highest standard. This means that the Bank wants to be recognized not only for its performance, but also for the values it represents in everything it does.

Small and micro enterprises

Financing of the small and micro enterprises with competitive conditions was also the objective of the Bank during 2014. The Bank worked on extending the application of risk based pricing in order to price more customers based on risk and their performance.

It also upgraded the small enterprises application processing system which resulted in more efficient and faster services for our customers. A consistent priority was given to financing small and micro enterprises projects and working capital financing.

In 2014, Raiffeisen Bank Kosovo continued its cooperation with the Ministry of Agriculture and USAID for the developing, supporting and financing of agro businesses. In December 2014, the Bank, Raiffeisen Brokers Insurance, USAID project "New Opportunities for Agriculture" and SIGAL insurance company finalized a project for cattle insurance, which is now offered for the first time in Kosovo.

Private individuals

In 2014, Raiffeisen Bank provided is banking products and services to more than 259.000 private individual customers. The number of customers increased by 11 per cent compared to the previous year (2013: 233,000 customers). The assets portfolio increased by 16 per cent (from 113,113 to 130,780) while net loans increased by 25 per cent to 88.9 million Euro (2013: 71.1 million Euro). Creative lending campaigns and special offers provided during 2014 had a significant impact on the loan portfolio growth.

Regarding the liabilities, the Bank managed to preserve a strong deposit portfolio and the Bank continued to be the brand of choice for many new savings customers.

In Premium Banking, the Bank continued to conduct a holistic approach. The Bank ensured that Premium Banking customers have the opportunity to discuss their financial plans and investment opportunities in detail with their dedicated premium relationship manager by providing superior customer service in an exclusive area that is designated specifically for Premium Banking customers. In addition to prioritized treatment in the branches, Premium customers enjoy a range of additional benefits such as products and services tailored exclusively to their requirements. A dedicated and tailored advisory approach remains the core of the Bank Premium customer proposition.

Banking products and services

In 2014, Raiffeisen Bank Kosovo offered a wide range of competitive products and a high standard of service for all its customers: corporate and retail.

For its corporate customers, the Bank continued to focus on offering comprehensive, tailor made products and financial advice through a multi-channel approach. The business model of the Corporate Product Division is based on an efficient collaboration between relationship managers and product experts. During 2014, despite stalling investments in residential and commercial real estate due to construction regulatory requirements in Prishtina as well as political stalemate, the project finance portfolio showed a positive trend. The Bank has successfully completed several projects as well as serviced and maintained the current portfolio of project financing with the best local developers of real estate projects in prime locations.

Experience, maturity and expertise in corporate trade finance continued to uphold Raiffeisen Bank as the market leader. Providing comprehensive tailored products accompanied by professional advice, enabled the Bank to mitigate the customer's different risks. The Bank continued to work closely with well known financial institutions in accepting direct securing instruments such as guarantees and letters of credit issued on behalf of customers in their cross border transactions. Locally the Bank has received less requests in 2014 due to the fact that Customs and Government authorities now accept guarantees issued by insurance companies.

In Corporate cash management, the main development was the implementation of a new small enterprise tariff scheme. The objectives of the new tariff scheme are better management of customers' liquidity, the increased use of electronic channels for execution of transactions and optimization of cash payments.

During 2014, Raiffeisen Bank Kosovo was the only bank to offer factoring in Kosovo to both corporate and small enterprise customers. The objective is to have a portfolio of customers for whom the product best suits their needs and provides additional liquidity based on account receivables. Factoring customers were able to get additional liquidity and maximum flexibility which increased their competitive advantage and further developed their business.

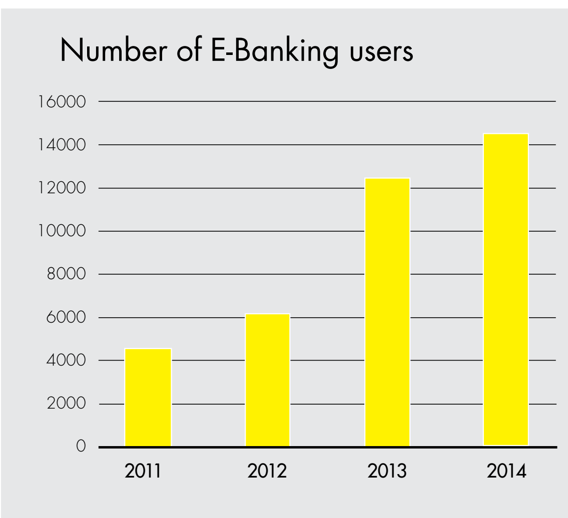
During 2014 in addition to the regular Customer Relationship Management (CRM) activities and sales performance management, the Bank was focused on the development of new structured lending products, active portfolio analysis and management, further improvement of risk based pricing models, introduction of new sales management tools and the training of relationship managers.

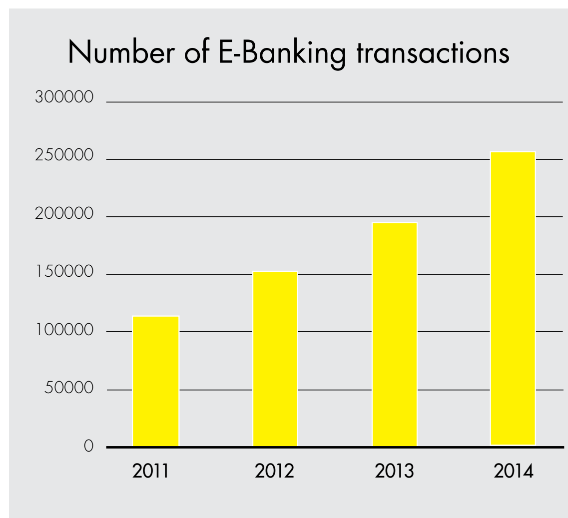
Advancing electronic services

Having a customer - centric approach, the Bank ensures its customers are always engaged and their feedback provides an important cornerstone of every initiative the Bank carries out. Therefore, in line with customer demands and market and technology developments, the Bank was primarily focused in 2014 on advancing electronic product offerings and raising customer awareness on the benefits of electronic banking channels.

The Bank launched a new generation of e-banking and m-banking services with a completely new user friendly layout and new features such as the possibility to set-up standing orders, book term deposits, locate the nearest ATM or branch, and process utility payments through advanced photo payment technology. In addition, E-corners and dedicated spaces with touch screen monitors were introduced in 40 of our branches. These corners can either be used by customers to access their E-Banking accounts or as a training tool where our customers can be trained by our branch staff on how to use any of the numerous features of E-Banking.

The Bank's effort to encourage and educate the customers about electronic services resulted in an increase of usage of E-Banking services. This was also the case with payments where the preference of customers continued to move from traditional payments in the branches to electronic channels/E-banking. In 2014, the number of E-banking users increased for 14.4 per cent compared with the previous year. While, the total number of E-Banking transactions increased by 41 per cent compared to 2013.





2014 was also a year of numerous activities related to debit and credit card usage. Throughout the year, the Bank organized regular discount and prize draw campaigns for customers and launched a charity campaign where a portion of each transaction was donated to charity. In addition, supplementary features were also added to existing card products such as a bonus on debit cards, and an installment feature for business credit cards.

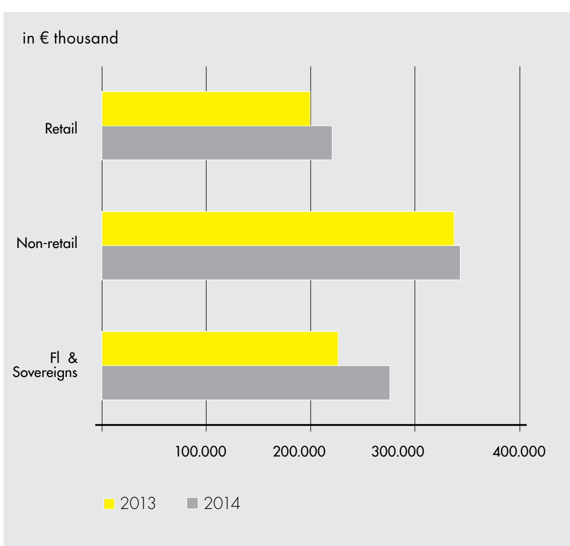
Risk management

In order to effectively manage risk, Raiffeisen Bank Kosovo utilizes comprehensive risk management and controlling techniques.

The risk management function ensures that credit risk, market risk, liquidity risk, investment risk, as well as operational risk are effectively identified, measured, monitored and controlled, in order to ensure an appropriate risk-reward ratio.

Loan portfolio strategy

The following graph shows Raiffeisen Bank Kosovo outstanding exposure by business area at the end of the reporting period. The portfolio remained very stable throughout 2014 and thus reflected our business model. At the end of 2014, the total credit exposure was € 812 million which was diversified between business segments. This amount includes exposures on and off balance sheet, prior to the application of credit conversion factors and thus represents the total credit exposure.



Management of non-performing loans

In order to manage the non-performing loans, the Bank has implemented an Early Warning System in order to prevent problem loans, and has dedicated teams for the early and late phases. Early team has the aim of improving the portfolio quality by curing loans, while late team is focused mainly on collecting loans. It should be mentioned that introduction of private bailiffs has significantly improved the results in managing the non-performing loans, particularly in the second half of 2014. The Bank expects this positive trend to continue in 2015.

Liquidity risk

Raiffeisen Bank Kosovo liquidity position continued to remain stable and revealed a comfortable liquidity buffer during the 2014 financial year.

To manage its liquidity risk, Raiffeisen Bank Kosovo uses a long-established and proven limit model of RBI group which requires high excess liquidity for short-term maturities and is based on contractual and historically observed inflows and outflows. Limits have also been established for medium and long-term maturities, to lessen the negative impact of a possible refinancing cost increase on the operating result. In addition to the limit models, daily liquidity stress tests are also undertaken to evaluate and limit the effects of potential reputation and market crisis scenarios.

Market risk

Raiffeisen Bank Kosovo defines market risk as the risk of possible losses arising from changes in market prices of trading and banking book positions. The Bank has no exposure to equity and commodity price movements and it has limited its exposure to interest rate and currency rates movements.

The following values are measured and limited on a daily basis in the market risk management system:

• Value-at-risk (confidence level 99 per cent, risk horizon one day)
Value-at-risk (VaR) is the main steering instrument in liquid markets and normal market situations. VaR is measured based on a hybrid simulation approach, where 5,000 scenarios are calculated. The approach combines the advantages of a historical simulation and a Monte-Carlo simulation and derives market parameters from 500 days historical data. Distribution assumptions include modern features like volatility declustering, random time change, and extreme event containers. This helps in reproducing fat-tailed and asymmetric distributions accurately. Value-at-risk results are not only used for limiting risk but also in the internal capital allocation.

• Sensitivities (to changes in exchange rates and interest rates)
Sensitivity limits shall ensure that concentrations are avoided in normal market situations and are the main steering instrument under extreme market situations and in illiquid markets or in markets that are structurally difficult to measure.

• Stop loss
This limit strengthens the discipline of traders such that they do not allow losses to accumulate on their own proprietary positions but strictly limit them instead. RBKO uses a high-watermark limit on year to date stop loss. The loss is calculated versus the maximum profit in the year-to-date period. A comprehensive stress-testing concept complements this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio.

Operational risk

Internal risk factors, e.g., unauthorized actions, theft and fraud, clearing and process errors, operational disturbances and system failures, as well as external risk factors, such as damage to physical assets and fraudulent acts, are both controlled and managed within the area of operational risk. These risks are analyzed, managed and controlled on the basis of the RBI Group historic loss data collection, as well as the results of risk assessments.

Early warning indicators for operational risks are intended to ensure that possible losses can be recognized and prevented early on. Standardized scenario analyses are used to ascertain the effects of possible events, which have a low probability of occurrence but lead to extensive damage.

Changes in the regulatory environment

Raiffeisen Bank Kosovo followed closely the current and the upcoming regulatory developments in 2014. Kosovo banking sector remains very dynamic with changes in legislation. The focus, during the second half of 2014, was on preparing for the anticipated changes of the Banking Law, Regulation on Emergency Liquidity Assistance, Regulation on Mortgage Loans, Regulation on Large Exposures and Regulation on Appraisal of Immovable Property.

As part of RBI group, Raiffeisen Bank Kosovo is subject to the changes in the regulatory environment in the European Union. One of the most important subjects was the preparation for the amended legal regulations, which came into effect with the EU directives on Basel III (CRD IV/CRR) at the beginning of 2014, and corresponding analysis of their impact. An internal project to ensure good data quality was implemented to ensure optimum preparation for the asset quality review pan-European stress test during the first half of 2014 conducted by the ECB and. The Bank also made additional preparation in relation to Basel II and III regulations.

Distribution channels

Branch network

In 2014, Raiffeisen Bank Kosovo had 50 branches and sub-branches. This number of branches ensures the Bank has a geographical range that covers all customers.

In order to offer the best possible service and advice to its growing customer base, the Bank has continued to invest substantially in its existing branch network. In 2014, the Bank remodeled five branches. A branch in Prishtina and the Terminal of Hani i Elezit on the border with Macedonia were closed since the Bank agreed with customers to execute the customs payment through electronic services.

Direct sales unit

The Bank established a Sales Agent Network which will enable immediate access to the Bank target market with the aim to be close to potential customers. Now, customers will benefit from the direct personal presentation and sale of products or services usually in their homes or at their working places.

Contact center

During 2014, the Bank changed its Call Center to a Contact Center since it increased the volume of banking services offered through this channel, including services through e-mail, sms etc. With the segmentation of teams, the Bank sustained two activity streams responsible for handling inbound queries as well as providing outbound telemarketing for segments. The Contact Center as an alternative channel continued to play an important role in product selling and providing information for customers.

ATMs and points of sales

In 2014, the number of ATMs was 114. The Bank introduced new features on ATMs, such as Cash In and Card to Card transfers. To increase customer engagement, the Bank also improved the ATM experience through creating new more user friendly designs for ATM screens, increasing withdrawal limits and achieving 97 per cent service up-time. The Bank plans for 2015 include further expanding of ATM network with the main focus on ATMs with cash in functionality.

The Point of Sale network remained one of the largest networks in the banking sector in Kosovo. In 2014, the number of active Point of Sale terminals at merchants was 1,764 and Raiffeisen Bank Kosovo continued the trend of expanding this network. The number of POS transactions in 2014 was 748 thousand, an increase of 60 per cent compared to the previous year (2013: 469 thousand). In order to ensure a reliable and efficient service, the Bank has a dedicated team which ensures that customers' requests are addressed accordingly.

Customer experience

Delivering consistent experiences through all points of customer interactions was a top priority in the Bank's customer service agenda for 2014. By determining and closely monitoring the performance of key interactions/Moments of Truth, the Bank managed to meet expectations and increase customer satisfaction. Promising to customers "Your voice is what matters" and using customer feedback as a starting point for each initiative ensured a positive progress and further enhancements of the Voice of Customer management.

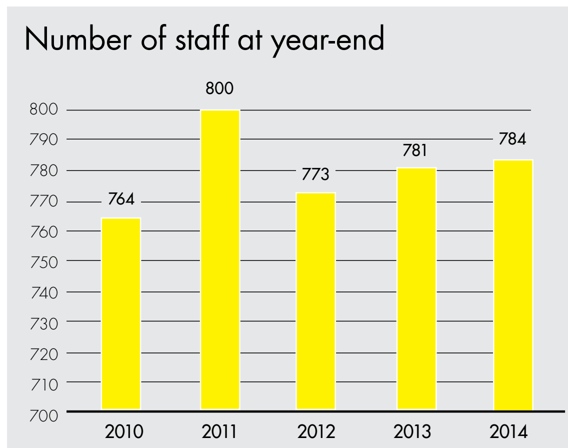
By putting a substantial effort into complaints management in order to understand and eliminate causes of dissatisfaction, the Bank established a completely new process for customers that enabled better experiences through prompt, fast and efficient complaint resolution.

Human resources and training

Being the employer of choice in Kosovo is the mission of Raiffeisen Bank Kosovo which demonstrates a major commitment towards the Bank's employees.

The Bank continued to ensure that right people are performing the right roles and that their capacities are enriched via development activities that support the achievement of corporate objectives. As of 31 December 2014, the Bank had 784 employees which marked a slight increase from last year, whereas total number of new employees who joined the Bank was 58. The number of internees who were part of the internship program in 2014 was 68.

The average age of employees was 34 years, indicating a relatively young human capital and 51 per cent of employees were women.



Talent management

In 2014, it was also invested in increasing the awareness and skills of bank managers toward human capacities development. Talent management activities were organised throughout the Bank through a process that is hand to hand linked with internal promotion and focused development. The Bank continued to run the development initiatives "Diamond Academy" and Leadership Academy program. These very highly rated internal programmes aim to develop the knowledge and expertise of the most talented Bank employees and managers through a bright combination of practical, alternative and academic methods of learning.

Professional development

The Bank is committed to ensuring that its employees develop their knowledge and skills by offering them a variety of learning and development opportunities through on-job-training, internal and external classroom training, eLearning, assignments and involvement in challenging local and international projects. These projects resulted in knowledge improvements in the field of banking products and services. This way, the Bank gains a competitive advantage in the market by offering a more professional and efficient service to its customers.

During 2014, 78 per cent of the employees participated in various training programs and almost 100 per cent took part in workshops. The figures show an excellent level of achievement exceeding European standards, with an average of 3.16 training days per employee in 2014. During 2014, the number of training days was 2,564 days, and 251 sessions took place within the year.

By expanding the range of training offers, maintaining the number of internal trainers, and continuously improving on the quality of training delivery, the Bank managed to organize a large number of courses for its employees.

The Bank cooperates with various training providers in and out of Kosova for specific training programs. Training needs identification is done continuously in order to have tailored programs that meet employees' needs. There are also individual development plans supported by individual coaching for a number of employees, which focus specifically on the competencies of an individual and increase the chance of personal development.

E-Learning has now become a very well accepted learning platform by most employees. In its fourth year of existence there was an impressive level of interest and support by Bank employees to design and attend internally created courses. During 2014, we had almost 4000 staff enrollments in Raiffeisen Bank Kosovo self designed sessions and Raiffeisen Bank International courses. Through e-Learning and blended learning, the Bank already became more efficient and cost-effective in delivering programmes to all employees in a very short period of time. Webinars, callinars and electronic knowledge testing were additional new eLearning methods used in 2014.

In addition to the activities already mentioned, Raiffeisen Bank Kosovo continued to sponsor employees for the take up of master studies, finances and special courses on a wide range of topics from technical to soft skills training as part of its specific support for capacity building. Lifelong learning remains one of the key messages in the Bank.

Employee satisfaction and engagement

One of the key activities of year 2014 was associated with an employee engagement survey as a part of a group-wide initiative throughout Raiffeisen Bank International. This activity ensured the inclusion of all employees at all levels with the aim of identifying improvement opportunities that would support the achievement of the bank's mission to be the employer of choice in Kosovo.

Other initiatives

During 2014, representatives of the Bank Human Resources and Training Department participated in two job fairs organized by the Career Center of the University of Prishtina and American Chamber of Commerce aiming to be closer with the job-seekers of Kosova.

Further, an initiative in including marginalized groups of our society commenced in 2014 aiming to provide internship opportunities for Roma, Ashkali and Egyptian community. Through this activity the bank intends to reach all potential job-seekers and to provide them opportunities that would increase their employment chances.

Corporate social responsibility

Social commitment has been an integral part of the Bank strategy since it began its operations in Kosovo back in 2003. Its social commitment is focused in five main areas: education, health, social welfare, sport and culture. An important focus is also extended to the voluntary activities supported by the Bank employees.

Following the 10th anniversary of its operation in Kosovo, Raiffeisen Bank donated 100,000 Euro to the Gynecology Clinic in Prishtina. The health sector was chosen in cooperation with customers who had the opportunity to select the area online through Raiffeisen web page and Facebook page. The year 2014 was the third year in a row that Raiffeisen Bank Kosovo supported the project "ATOMI". The aim of this project is to identify early gifted students (with high intelligence), and to provide opportunities, conditions, treatment, care and distinctive education for these students.

During 2014, Raiffeisen Bank Kosovo continued to support various projects with the aim of supporting and developing culture in Kosovo: PriFest (Prishtina International Film Festival), National Gallery – Gjon Mili Prize and Muslim Mulliqi Exhibition, Kamer Fest, Chopin Fest. While in sports, the support for the Football Federation of Kosovo continued in 2014 as well. It was the seventh year in a row that the Bank has supported the Football Federation to achieve its objective and be part of UEFA and FIFA. Given the fact that one of the key objectives of the Bank's sponsorship was the internalization of Kosovo Football, is very pleasure to note that in 2014 Kosovo began to play friendly international games.

A few voluntary activities by Raiffeisen Bank employees also took place in 2014. About 100 Bank employees participated in a Blood Donation action that took place in Prishtina. The employees were also part of the cleaning initiative "Let`s clean Kosovo". While at the end of the year, the employees of the Bank were involved in the initiative "Surprise in a box". This initiative consists of donating and packing presents for children by each employee. The employees 150 presents in cooperation with humanitarian association "Mother Theresa" were delivered to children in need all over Kosovo.

Financial statements

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

Statement of Management's Responsibilities

To the Shareholders and the Supervisory Board of Raiffeisen Bank Kosovo J.S.C.

We have prepared the financial statements as at 31 December 2014 and for the year then ended, which presents fairly, in all material respects the financial position of Raiffeisen Bank Kosovo J.S.C. (the "Bank") as at 31 December 2014 and the results of its operations and its cash flows for the year ended. Management is responsible for ensuring that the Bank keeps accounting records that comply with the Kosovo banking regulations and can be suitable amended to disclose with reasonable accuracy the financial position of the Bank and the results of its operations and cash flows in accordance with International Financial Reporting Standards that include International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for related accounted periods. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Bank and prevent and detect fraud and other irregularities.

Management considers that, in preparing the financial statements, the Bank has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgment and estimates, and the appropriate International Financial Reporting Standards have been followed.

The financial statements are hereby approved on behalf of the Management Board.

Pristina, Kosovo
March 20, 2015

The Management Board

Robert Wright
Chief Executive Officer
Management Board Chairman

Shukri Mustafa
Chief Operations Officer
Management Board Member

Iliriana Toçi
Retail Banking
Management Board Member

Johannes Riepl
Corporate Banking
Management Board Member

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Independent Auditors' Report

To the shareholders and Board of Directors of Raiffeisen Bank Kosovo J.S.C

We have audited the accompanying financial statements of Raiffeisen Bank Kosovo J.S.C ("the Bank"), which comprise the statement of financial position as at 31 December 2014, the statement of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Pristina,
20 March 2015

Separate statement of financial position

(amounts in € 000)	Notes	As at December 31, 2014	As at December 31, 2013
Assets			
Cash and cash equivalents and mandatory reserve	6	89,972	77,474
Loans and advances to banks	7	70,957	63,194
Loans and advances to customers	8	446,796	432,251
Other loans	9	-	19,322
Investment securities	10	144,308	95,920
Investments in subsidiaries	11	336	336
Other assets	12	1,584	3,124
Leasehold improvements, equipment and intangible assets	13	6,881	6,514
Total assets		**760,834**	**698,135**
Liabilities			
Deposits from customers	14	604,273	557,667
Deposits and borrowings from banks	15	3,688	4,542
Other liabilities	16	7,402	6,843
Deferred tax liability	23	3,371	2,832
Subordinated loan	17	19,336	19,283
Total liabilities		**638,070**	**591,167**
Shareholders' equity			
Share capital	18	63,000	58,000
Retained earnings		59,764	48,968
Total shareholders' equity		**122,764**	**106,968**
Total liabilities and shareholders' equity		**760,834**	**698,135**

Approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 20 March 2015.

Shukri Mustafa
Chief Operations Officer
Management Board Member

Robert Wright
Chief Executive Officer
Management Board Chairman

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 36 - 67.

Separate statement of profit or loss and other comprehensive income

(amounts in € 000)	Notes	For the year ending December 31, 2014	For the year ending December 31, 2013
Interest income	19	45,137	46,800
Interest expense	19	(7,311)	(9,100)
Net interest income		**37,826**	**37,700**
Provision for loan impairment from customers	8	(3,818)	(5,456)
Provision for loan impairment from banks		(13)	-
Recoveries from loans written off		1,252	1,183
Provision for losses on commitments and contingent liabilities		(113)	102
Net interest income after provisions		**35,134**	**33,529**
Fee and commission income	20	11,054	11,112
Fee and commission expense	20	(3,108)	(3,153)
Net trading income		54	93
Net valuation of financial instruments held for trading		(251)	799
Net valuation of equity investments		-	-
Other operating income		185	134
Operating income		**43,068**	**42,514**
Staff costs	21	(10,710)	(10,764)
Other operating expenses	22	(14,540)	(14,758)
Profit before income tax		**17,818**	**16,992**
Income tax expense	23	(2,022)	(1,760)
Profit for the year		**15,796**	**15,232**
Other comprehensive income		-	-
Total comprehensive income for the year		**15,796**	**15,232**

The separate statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 36 - 67.

Separate statement of changes in equity

(amounts in € 000)	Share capital	Retained earnings	Total shareholder's equity
Balance at January 1, 2013	**58,000**	**41,236**	**99,236**
Distributed Dividend	-	(7,500)	(7,500)
Profit for the year	-	15,232	15,232
Other comprehensive income	-	-	-
Balance at 31 December 2013	**58,000**	**48,968**	**106,968**
Distributed Dividend	-	(5,000)	(5,000)
Additional Capital	5,000	-	5,000
Profit for the year	-	15,796	15,796
Other comprehensive income	-	-	-
Balance at 31 December 2014	**63,000**	**59,764**	**122,764**

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 36 - 67.

Separate statement of cash flow

(amounts in € 000)	Notes	For the year ending December 31, 2014	For the year ending December 31, 2013
Cash flows from operating activities			
Interest received on loans		44,278	45,713
Interest received on placements		-	18
Interest received on government bonds		1,269	(1,276)
Interest paid		(8,164)	(7,882)
Fees and commissions received		10,052	11,178
Fees and commissions paid		(3,108)	(3,153)
Other income received		189	138
Staff costs paid		(10,749)	(10,992)
Other operating expenses paid		(12,177)	(11,972)
Income tax paid		(700)	(250)
Cash flow from operating activities before changes in operating assets and liabilities		**20,890**	**21,522**
Changes in operating assets and liabilities			
Net (increase) / decrease in mandatory liquidity reserve		(9,916)	734
Net (increase) in loans and advances to banks		(7,778)	(17,091)
Net decrease in loans and advances to customers		136	(33,590)
Net (increase) in government bonds		(48,341)	(29,502)
Net (increase) decrease in other assets		957	(1,261)
Net increase in customer accounts		47,671	43,981
Net (decrease) / increase in deposits from banks		(134)	17
Net (decrease) / Increase in other liabilities		254	(2,693)
Net cash flow from / (used in) operational activities		**3,739**	**(17,883)**
Cash flows from investing activities			
Payments for leasehold improvements, equipment and intangible assets		(2,977)	(2,112)
Net cash used in investing activities		**(2,977)**	**(2,112)**
Cash flows from financing activities			
Repayment of borrowings		5,000	382
Proceeds from Subordinated loan		1,833	19,000
Dividends distributed		(5,000)	(7,500)
Net cash flow from/(used in) financing activities		**1,833**	**11,882**
Net increase in cash and cash equivalents		(14)	104
Net increase in cash and cash equivalents		**2,581**	**(8,009)**
Cash and cash equivalents at the beginning of year	6	27,345	35,354
Cash and cash equivalents at 31 December (excluding mandatory liquidity reserve)	**6**	**29,926**	**27,345**

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 36 - 67.

Notes to the separate financial statements for the year ended 31 December 2014

1. Reporting entity

Raiffeisen SEE Region Holding GmbH is the 100 per cent shareholder of Raiffeisen Bank Kosovo J.S.C. Raiffeisen SEE Region Holding GmbH is a 100 per cent indirect subsidiary of Raiffeisen Bank International AG.

The Bank was initially called the "American Bank of Kosovo". The shareholders of the Bank decided to change the name of the Bank to Raiffeisen Bank Kosovo J.S.C which was approved by the Central Bank of Republic of Kosovo (the "CBK") on 28 April 2003.

The Bank operates under a banking licence issued by the CBK on 8 November 2001. The Bank's principal business activities are commercial and retail banking operations within Kosovo.

As at 31 December 2014 the Bank has 9 branches and 41 sub-branches within Kosovo (31 December 2013: 9 branches and 43 sub-branches). The Bank's registered office is located at the following address: UCK Street No 51, 10000 Prishtina, Republic of Kosovo.

2. Basis of preparation

2.1. Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board (IASB).

2.2. Basis of preparation

The financial statements have been prepared on a historical cost basis except for the following material items:

Items	Measurement basis
Available-for-sale financial assets	Fair value
Derivative financial instruments	Fair value

2.3. Functional and presentation currency

The Bank's functional currency used in preparing the financial statements is euro 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 ("functional currency"). All amounts have been rounded to the nearest thousand, except when otherwise indicated.

2.4. Use of judgments and estimates

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the separate financial statements are described in note (3.16) "Critical accounting estimates and key sources of estimation uncertainty".

3. Significant accounting policies

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

3.1. Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. Control exists as the Bank is exposed, or has rights, to variable returns from its involvement with the investee (subsidiary) and has the ability to affect those returns through its power over the investee.

These financial statements represent the result and financial position of the Bank alone and do not include those of its subsidiaries, as detailed in Note 11.

The Bank prepares separate financial statements in accordance with IFRS. The exemption from consolidation has been made as the Bank is itself a wholly-owned subsidiary and the ultimate parent Raiffeisen Bank International produces consolidated financial statements available for public use at http://www.rbinternational.com, that comply with International Financial Reporting Standards. Interests in subsidiaries are accounted for at cost in the separate financial statements.

3.2. Foreign Currencies transactions

Foreign exchange transactions are recorded at the rate ruling at the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

3.3. Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:
- loans and receivables;
- held to maturity;
- at fair value through profit or loss;
- available-for-sale.

Please refer to note (3.3.1) "Financial assets at fair value through profit and loss" and (3.3.7) "Mandatory liquidity reserves"

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Please refer to note (3.3.1) "Financial assets at fair value through profit and loss" and (3.3.5) "Derivative financial instruments".

(iii) Derecognition

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

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

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

(iv) Offsetting

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

Impairment of loans and advances

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;

The estimated period between losses occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

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. 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 and 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit and loss against impairment charge for credit losses.

Impairment of available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of debt investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss.

3.3.1 Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading ("trading assets"), including the derivatives held, and financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting. The Bank has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise;

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

a) financial assets held for trading

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

b) Designated at fair value through profit and loss

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related instruments were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit and loss.

3.3.2. Available for sale financial assets

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.
Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

3.3.3. Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to banks and loans and advances to customers are classified as loans and receivables. All loans and advances are initially recognized at fair value, being the cash advanced to borrowers. After initial recognition, these are subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

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

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's separate financial statements.

3.3.4. Investments held-to-maturity

Investments held-to-maturity, are investments in government bonds that the Bank has the intent and ability to hold to maturity.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

3.3.5. Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses arising from changes in fair value of derivatives are included in 'Gains and Losses from investment securities' in profit or loss for the period.

The Bank uses derivative financial instruments such as over the counter (OTC) interest rate options and forward currency contracts to hedge its risk arising from fluctuations of market interest rates and foreign currency fluctuations. No hedge accounting is applied for derivative instruments. Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value and the change in fair values is recognized in profit or loss.

3.3.6 Cash and cash equivalents

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

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

3.3.7. 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 per cent of the deposit base, defined as the average total deposit liabilities to the non-banking public in euro and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the euro deposits with the CBK and 50 per cent of the euro equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5 per cent 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.

3.4. Leasehold improvements and equipment

Leasehold improvements and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items of leasehold improvements and equipment.

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

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

The recoverable amount of leasehold improvements and equipment is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating units (CGU) to which the asset belongs.
Impairment losses are recognized in the statement of profit and loss and other comprehensive income.
Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as per the table below:

Leasehold improvements are depreciated over the lower of useful life and the lease term.

ATMs, other bank and office equipment	5 years
Computer hardware	3 years

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

3.5. Intangible assets

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

3.6. Repossessed property

In certain circumstances, property is repossessed following the foreclosure of loans that are in default. Repossessed properties are measured at € 1,000 each and are recorded under 'Other assets'. Management intention on repossessed properties is to sell as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

3.7. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings using the effective interest method.

3.8. Provisions

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

Contingent liabilities may develop in a way not initially expected. Therefore they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. In case that the contingent liability results in a present obligation that can be measured reliably, a provision on-balance has to be made. Only irrevocable commitments give rise to a credit risk, therefore only irrevocable contingencies and commitments can be subject to provisioning. For significant exposures, the assessment is done individually. In case of portfolio-based assessment the portfolio-building and calculation of portfolio-based provisions are calculated as indicated in the impairment of Loans and Advances.

3.9. Employee benefits

The Bank pays only contributions to a publicly administered pension plan 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.

3.10. Share capital

Dividends on ordinary shares

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

3.11. Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized through profit or loss for the period within 'interest income' and 'interest expense' using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Interest income and expense presented in the statement of profit or loss and OCI include:

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

3.12. Fee and commission

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

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

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

3.13. 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 lesser by way of penalty is recognized as an expense in the period in which termination takes place.

3.14. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax

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

Deferred tax

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realized.

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

3.15. New standards and interpretations not yet adopted

New or amended standards	**Summary of the requirement**	**Possible impact on financial statements**
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15

The following new or amended standards are not expected to have a significant impact of the Branch's financial statements.

- Defined Benefit Plans: Employee Contribution (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010-2012 Cycle.
- Annual Improvements to IFRSs 2011-2013 Cycle.
- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisition of Interest in Joint Operations (Amendments to IAS 16 and IAS 38).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012-2014 Cycle-various standards.

3.16. Critical accounting estimates and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment charge for credit losses

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

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

b) Impairment of available for-sale investments

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

4. Financial risk management

4.1. Overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The internal controls and additional risk control tools set by Raiffeisen International Risk Management enable the controlled risk management of the Bank. The risk management and risk control tools have been set according to the latest risk management know-how. The main Risk Management Tools have been endorsed by Raiffeisen International and are applied for use by the Bank.

From January 2008, the Bank has been complying with and reports based on Basel II requirements at the Group level covering credit and market risks. The implementation of Basel II requirements should ensure a better management of the capital.

The simple financial and market environment in Kosovo allows for the use of simple analysis method. Future more complex factors and risks in the banking industry will be supported by the development of new methods to better manage them.

Based on the Bank policies, the Bank's total assets are classified and analysed as follows:

- Analysis of assets based on the class of asset / product (the assets are classified based on the Group Product Catalogue);
- Analysis of assets based on the credit quality (the assets are classified based on the Group Directives);
- Analysis of assets in line with the measurement basis;
- Analysis of assets based on age, which means analysis performed for assets that are past due but not impaired;
- Individual analysis of assets determined as impaired by impairment factors;
- Analysis of assets based on the collateral type and with consideration to the recoverable estimated amount;
- Analysis of assets based on the concentration of risks for industry / sector / segment / certain exposure amount.

4.2. Credit risk

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

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a monthly or more frequent review. Limits on the level of credit risk by borrower are approved by Management.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Bank holds different types of collateral as security for the credit risk. Additionally, other credit enhancement methods are applied. The main types of collateral are listed below:

- Property (land, buildings)
- Apartments
- Vehicles
- Equipment
- Personal Guarantee

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Past due but not impaired loans

Loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when Bank Problem Loans Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of financial assets past due not impaired, and impaired assets:

2014	Total gross carrying amount	Past due, but not impaired assets	Individually impaired assets (total carrying amount)	Individual loan loss provisions	Portfolio-based loan loss provisions	Fair value of the collateral
Corporate Customers	265,204	35,870	44,419	(16,145)	(1,580)	245,792
Retail Customers	205,486	12,389	4,914	(4,578)	(1,591)	182,209
Total Loans and Advances to Customers	470,690	48,259	49,333	(20,723)	(3,171)	428,001
2013	**Total gross carrying amount**	**Past due, but not impaired assets**	**Individually impaired assets (total carrying amount)**	**Individual loan loss provisions**	**Portfolio-based loan loss provisions**	**Fair value of the collateral**
Corporate Customers	267,962	65,835	35,887	(13,498)	(4,116)	218,706
Retail Customers	188,596	13,645	5,305	(5,133)	(1,560)	169,334
Total Loans and Advances to Customers	456,558	79,480	41,192	(18,631)	(5,676)	388,040

The aging analysis on both past due and impaired and past due but not impaired loans and overdrafts is as follows:

2014	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Loans and advances to customers Past Due, but not impaired	3,882	5,656	24,342	14,379	48,259
Loans and advances to customers past due and impaired past due and impaired	27,208	1,158	1,907	19,060	49,333

2013	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Loans and advances to customers Past Due, but not impaired	6,358	16,604	22,001	34,517	79,480
Loans and advances to customers past due and impaired past due and impaired	22,527	764	2,733	15,168	41,192

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2014 and 31 December 2013 for loans and advances to customers past due and impaired is shown below:

2014	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Corporate Customers	26,556	1,062	1,201	15,600	44,419
Retail Customers	652	96	706	3,460	4,914
Total Loans and advances to customers impaired	27,208	1,158	1,907	19,060	49,333

2013	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Corporate Customers	21,493	546	2,013	11,835	35,887
Retail Customers	1,034	218	720	3,333	5,305
Total Loans and advances to customers impaired	22,527	764	2,733	15,168	41,192

Loans and advances to Banks

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

A function independent from the treasury department, usually risk management, has to monitor that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank.

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

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

At 31 December	2014	2013
AAA	-	-
AA+ to AA-	63,737	68,235
A+ to A-	-	-
BBB+ to B-	20,497	5,806
	84,234	**74,041**

4.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw downs and guarantees. The liquidity risk is managed by the Management of the Bank.

The Bank holds mid to long term assets and due to market conditions, finances the majority of its portfolio with short term debt. In this process the Bank inherits liquidity risk pertaining to maturity mismatches. The risks if managed correctly are acceptable risks. The Bank issues long term assets, such as PI loans and Mortgages, and these portfolios are mainly financed by demand deposits and Term Deposits up to 1 year. The management receives on a daily basis the liquidity ratio information of the Bank, and also on a weekly basis receives a liquidity report sorted by Business segment. Since the Bank issues mid to long term assets, and finances it with short to mid-term debt, it is also exposed to interest rate risk.

The table below shows assets and liabilities as at 31 December 2014 and 2013 by their remaining contractual maturity. Some of the assets however, may be of a longer term nature; for example loans are frequently renewed and accordingly short term loans can have longer term duration.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non - Specific	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	13,992	-	-	-	75,980	89,972
Loans and advances to banks	70,957	-	-	-	-	70,957
Loans and advances to customers	53,226	58,463	133,326	201,781	-	446,796
Investment securities	33,936	22,103	71,885	16,384	-	144,308
Other assets	-	-	723	-	-	723
Total financial assets	**172,111**	**80,566**	**205,934**	**218,165**	**75,980**	**752,756**
Liabilities						
Deposits from customers	538,488	11,304	39,104	15,377	-	604,273
Deposits and borrowings from banks	3,142	-	546	-	-	3,688
Subordinated debt	336	-	-	19,000	-	19,336
Other liabilities	-	-	6,146	-	-	6,146
Total financial liabilities	**541,966**	**11,304**	**45,796**	**34,377**	**-**	**633,443**
Net gap position at 31 December 2014	**(369,855)**	**69,262**	**160,138**	**183,788**	**75,980**	**119,313**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non - Specific	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	11,180	-	-	-	66,294	77,474
Loans and advances to banks	63,194	-	-	-	-	63,194
Loans and advances to customers	55,612	47,990	144,471	184,178	-	432,251
Other Loans	734	-	2,273	16,315	-	19,322
Investment securities	15,114	12,687	61,939	6,180	-	95,920
Other assets	-	-	1,889	-	-	1,889
Total financial assets	**145,834**	**60,677**	**210,572**	**206,673**	**66,294**	**690,050**
Liabilities						
Deposits from customers	397,846	21,560	112,439	25,822	-	557,667
Deposits and borrowings from banks	3,451	-	273	818	-	4,542
Subordinated debt	283	-	-	19,000	-	19,283
Other liabilities	-	-	5,449	-	-	5,449
Total financial liabilities	**401,580**	**21,560**	**118,161**	**45,640**	**-**	**586,941**
Net gap position at 31 December 2013	**(255,746)**	**39,117**	**92,411**	**161,033**	**66,294**	**103,109**

The maturity analysis of loans to customers is based on the remaining maturity dates of the credit agreements, which means taking into account the instalments due on a monthly basis.

Liquidity reporting on a weekly basis at business segment level, monitoring of stickiness ratio separately for all business segments, banking book limits and reports which measure the interest risks and gaps, are currently the tools applied to manage and limit the underlying risk of conducting business.

Mandatory liquidity reserves are included within demand and less than one month as the majority of liabilities to which this balance relates are also included within this category.

The maturity analysis for financial liabilities is analysed as follows:

- Based on earliest contractual maturity date – worst case scenario;
- Based on contractual undiscounted cash-flows;
- Determination of the time bands;
- Expected cash-flows are used as supplementary information.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace interest-bearing liabilities as they mature at an acceptable cost are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank has a significant maturity mismatch of the assets and liabilities maturing within one year. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2014 was customer accounts being on demand and maturing in less than one month. Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

The Bank has improved the net position though other sources of funding, which provide middle-term finance and intend to continue matching assets vs. liability maturity in the periods to come. In addition, the Bank has an unused Credit Facility Agreement, which will provide support in case of liquidity needs.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

4.4 Market risk

Market risk is the risk that the value of an investment will decrease due to moves in market factors. The four standard market risk factors are:

- Equity risk or the risk that stock prices will change.
- Interest rate risk or the risk that interest rates will change.
- Currency risk or the risk that foreign exchange rates will change.
- Commodity risk or the risk that commodity prices (i.e. grains, metals, etc.) will change.

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk

The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2014 and 2013 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	75,979	13,993	-	89,972
Loans and advances to banks	-	70,957	-	70,957
Loans and advances to customers	446,796	-	-	446,796
Investment securities	32,799	100,783	10,726	144,308
Other assets	723	-	-	723
Total financial assets	**556,297**	**185,733**	**10,726**	**752,756**
Liabilities				
Deposits from customers	562,276	18,519	23,478	604,273
Deposits from banks	602	3,086	-	3,688
Subordinated debt	-	19,336	-	19,336
Other liabilities	4,006	2,140	-	6,146
Total financial liabilities	**566,884**	**43,081**	**23,478**	**633,443**
Net gap position at 31 December 2014	**(10,587)**	**142,652**	**(12,752)**	**119,313**

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	66,294	6,474	4,706	77,474
Loans and advances to banks	-	63,194	-	63,194
Loans and advances to customers	432,251	-	-	432,251
Other Loans	-	19,322	-	19,322
Investment securities	7,738	75,730	12,452	95,920
Other assets	1,889	-	-	1,889
Total financial assets	**508,172**	**164,720**	**17,158**	**690,050**
Liabilities				
Deposits from customers	515,026	19,994	22,647	557,667
Deposits from banks	414	4,076	52	4,542
Subordinated debt	-	19,283	-	19,283
Other liabilities	3,160	2,289	-	5,449
Total financial liabilities	**518,600**	**45,642**	**22,699**	**586,941**
Net gap position at 31 December 2013	**(10,428)**	**119,078**	**(5,541)**	**103,109**

Currency risk

This is a form of risk that arises from the change in price of one currency against another. The currency risk is managed through monitoring of open FX positions. These positions are set for daily positions and also separately, for overnight positions. The sensitivity analysis is provided to the management on weekly basis.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currency and in total, which are monitored daily. The use of euro in Kosovo and limited exposure to other currencies results in a limited need to use derivatives to manage foreign currency risk.

The Market Risk Report encapsulating the Interest Rate Risk Report and the Open FX currency report is sent to the management on weekly basis. The respective report is produced by RBI Risk management based on the inputs that are provided from local reporting resources.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2014 and 2013. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currency and translated into € '000.

	EUR	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	84,172	2,317	3,483	89,972
Loans and advances to banks	38,018	14,341	18,598	70,957
Loans and advances to customers	446,796	-	-	446,796
Investment securities	130,284	14,024	-	144,308
Other assets	723	-	-	723
Total financial assets	**699,993**	**30,682**	**22,081**	**752,756**
Liabilities				
Deposits from customers	552,964	29,985	21,324	604,273
Deposits from banks	2,450	1,216	22	3,688
Subordinated debt	19,336	-	-	19,336
Other liabilities	6,146	-	-	6,146
Total financial liabilities	**580,896**	**31,201**	**21,346**	**633,443**
Net gap position at 31 December 2014	**119,097**	**(519)**	**735**	**119,313**

	EUR	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	65,331	5,735	6,408	77,474
Loans and advances to banks	35,700	14,702	12,792	63,194
Loans and advances to customers	432,251	-	-	432,251
Other Loans	19,322	-	-	19,322
Investment securities	83,468	12,452	-	95,920
Other assets	1,889	-	-	1,889
Total financial assets	**637,961**	**32,889**	**19,200**	**690,050**
Liabilities				
Deposits from customers	504,963	34,642	18,062	557,667
Deposits from banks	4,323	218	1	4,542
Subordinated debt	19,283	-	-	19,283
Other liabilities	5,449	-	-	5,449
Total financial liabilities	**534,018**	**34,860**	**18,063**	**586,941**
Net gap position at 31 December 2013	**103,943**	**(1,971)**	**1,137**	**103,109**

Foreign currency sensitivity analysis

The foreign currencies to which the Bank is mainly exposed are US Dollar (USD), Swiss Franc (CHF) and British Pound (GBP). 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 sensitivity analysis includes placements with other banks, cash with correspondent banks as well as customer deposits where the denomination of the amounts is in a currency other than the currency of the lender or the borrower.
A positive number below indicates an increase in profit and other equity where the euro strengthens with respective percentages against the relevant currency. For the respective weakening of the euro against the relevant currency, there would be approximately equal and opposite impact on the profit and other equity, and the balances below would be negative. Official spot exchange rates for major currencies used in the translation of the reporting date items denominated in foreign currencies were as follows (in euro):

Compared to €	31 December 2014	31 December 2013
1 USD	0.8245	0.7257
1 CHF	0.8317	0.8156
1 GBP	1.2844	1.1976

		US Dollar (USD)		Swiss Franc (CHF)		British Pound (GBP)
	2014	2013	2014	2013	2014	2013
Sensitivity rates	9%	5%	2%	2%	3%	3%
Profit and loss	121	(101)	0	1	(5)	(1)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. US Dollar, Swiss Franc and British Pound denominated transactions are infrequent and are only for transactions and placements with non-EU financial institutions.

Interest rate risk

This is the risk that the relative value of an interest-bearing asset will lose in value. The Bank's assets being largely in mid to long fixed term loans, and liabilities being mainly short term deposits, exposes the Bank to a mismatch in interest rates, and consequently the corresponding gaps exposed the Bank to interest rate movements in the market.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates. In practice interest rates are generally fixed on a short-term basis. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. Under the interest rate SWAP contracts, the Bank agrees to exchange the difference between the fixed and floating rate interest amount calculated on agreed notional principal amounts. Cash in hand and balances with CBK on which no interest is paid are included in the "non-interest bearing" column in the below table as well as non-interest bearing deposits of customers.

In order to hedge for the gaps in fixed-mid to long term loans vs. variable short to mid-term debt, financial derivatives called Interest Rate Swaps are used, whereby Raiffeisen Bank Kosovo is mainly a fixed side interest payer, whereas in return the counterparty is variable rate payer, and the variable side is indexed to 6 Month EURIBOR, to ensure optimal sensitivity.

Raiffeisen Bank Kosovo applies active risk management to hedge against market risk positions. Interest rate risk is hedged through financial derivatives. In order to ensure long term profitability on existing loan portfolios, maturing from between 2015 to 2029 these positions are hedged through Interest Rate Swaps. The positions are measured using basis point value method.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	13,992	-	-	-	75,980	89,972
Loans and advances to banks	70,241	-	-	-	716	70,957
Loans and advances to customers	53,226	58,463	133,326	201,781	-	446,796
Investment securities	33,936	22,103	71,885	16,384	-	144,308
Other assets	-	-	-	-	723	723
Total financial assets	**171,395**	**80,566**	**205,211**	**218,165**	**77,419**	**752,756**
Liabilities						
Deposits from customers	174,621	11,304	39,104	15,377	363,867	604,273
Deposits from banks	2,540	-	546	19,000	602	3,688
Subordinated debt	336	-	-	-	-	19,336
Other liabilities	-	-	-	-	6,146	6,146
Total financial liabilities	**177,497**	**11,304**	**39,650**	**34,377**	**370,615**	**633,443**
Net gap position at 31 December 2014	**(6,102)**	**69,262**	**165,561**	**183,788**	**(293,196)**	**119,313**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	11,180	-	-	-	66,294	77,474
Loans and advances to banks	62,861	-	-	-	333	63,194
Loans and advances to customers	55,612	47,990	144,471	184,178	-	432,251
Other Loans	734	-	2,273	16,315	-	19,322
Investment securities	15,114	12,687	61,939	6,180	-	95,920
Other assets	-	-	-	-	1,889	1,889
Total financial assets	**145,501**	**60,677**	**208,683**	**206,673**	**68,516**	**690,050**
Liabilities						
Deposits from customers	142,933	20,621	111,892	25,292	256,929	557,667
Deposits from banks	980	-	273	818	2,471	4,542
Subordinated debt	283		-	19,000	-	19,283
Other liabilities	-	-	-	-	5,449	5,449
Total financial liabilities	**144,196**	**20,621**	**112,165**	**45,110**	**264,849**	**586,941**
Net gap position at 31 December 2013	**1,305**	**40,056**	**96,518**	**161,563**	**(196,333)**	**103,109**

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using annual effective rates.

In percentage	2014				2013			
	EUR	USD	CHF	GBP	EUR	USD	CHF	GBP
Assets								
Placements on call with other banks	N/A	N/A	N/A	N/A	(0.0)	0.0	0.0	0.4
Term deposits with other banks	(0.0)	0.1	(0.5)	0.3	(0.0)	0.1	(0.4)	0.3
Government Bonds HTM yield	0.8	N/A	N/A	N/A	2.2	1.7	N/A	N/A
Government Bonds AFV yield	0.7	0.2	N/A	N/A	1.2	0.0	N/A	N/A
Loans and advances to customers	9.5	N/A	N/A	N/A	10.3	N/A	N/A	N/A
Other Loans	N/A	N/A	N/A	N/A	1.8	N/A	N/A	N/A
Liabilities								
Customer accounts	0.1	0.0	0.0	-	0.3	0.0	0.0	0.0
Term deposits	2.3	1.1	0.3	1.0	3.5	1.3	0.9	1.2
Savings accounts	0.4	0.2	0.2	0.2	1.4	0.2	0.1	0.2

From risk management and control perspective there are two aspects of risk:

- Risk evaluation
- Risk control

Interest risk evaluation

The Interest Rate risk is measured using VaR (Value at risk) approach. This approach implies a measurement scenario using 10 days duration and 99 per cent confidence interval. The VaR is measured at stress of 1bps shift in the Yield curve. This Scenario assumes the implication on Profit and loss account of the Bank, in case the yield curve moves in one or the other direction by one basis point or 0.01 per cent.

The results of the sensitivity analysis are presented to the management on a weekly basis, and are independently reviewed by RZB Vienna Risk Management.

Interest rate risk control

The mechanism of control interest rate risk is utilized through the daily Basis Point Value (BPV) reports. The Bank currently has a BPV limit of € 55 thousand. For the purpose of measuring BPV, administered rate products are modelled using replicating portfolio. The Basis Point Value is measured per currency and per time band. The limits are also set for each currency and for different time bands.

4.5 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

4.6 Capital risk management

Regulatory capital

The Bank manages its capital to ensure that it 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 Bank's overall strategy remains unchanged from previous year. The capital structure of the Bank consists of debt, which includes borrowings, and equity attributable to equity holders, comprising issued capital and retained earnings.

Capital requirements for operational risk

The capital requirements for operational risk are calculated based on CBK regulation "on operational risk management", using the basic indicator approach. Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15 per cent (fifteen per cent) of the relevant indicator. The relevant indicator is the average over three years of the sum of net interest income and net non-interest income.

Capital adequacy ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, off balance-sheet items and other risks, expressed as a percentage. The minimum required Capital Adequacy Ratio is 8 per cent for Tier 1 capital and 12 per cent for total own funds. The Bank has met these regulatory requirements during the year.

Risk-weighted assets (RWAs)

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

	31 December 2014	31 December 2013
Total risk weighted assets	443,447	431,769
Total risk weighted off balance exposures	26,315	21,540
Total risk weighted assets for operational risk	50,577	51,101
Total	**520,339**	**504,410**
Regulatory capital (Total Capital)	106,688	86,934
Capital adequacy ratio (Total Capital)	20.40%	17.23%

The modified capital adequacy ratio is equal to the capital adequacy ratio.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

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

Gearing ratio

The Bank's risk management committee reviews the capital structure on a continuous basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. The gearing ratio at the year ended was as follow:

	2014	2013
Debt	22,429	23,357
Equity	122,764	106,968
Net debt to equity ratio	**18%**	**22%**

5. Fair value of financial instruments

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Cash and cash equivalents and mandatory reserve

Cash and cash equivalents include inter-bank placements and items in the course of collection. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount. Had all the declines in fair value below carrying value been considered significant or prolonged, the Bank would realise an additional € 3,471 thousand profit in its 2014 financial statements (2013: € 7,184 thousand loss), being the transfer of the total fair value reserve to the profit and loss.

	2014		2013	
Assets	Carrying value	Fair value Level 3	Carrying value	Fair value Level 3
Loans and advances to banks	70,957	70,957	63,194	63,194
Loan and advances to customers	446,796	450,564	432,251	426,727
Other Loans	-	-	19,322	16,684
Investment securities	144,308	144,308	95,920	96,074
Liabilities				
Deposits from customers	604,273	604,565	557,667	556,866
Deposits from banks	3,688	3,693	4,542	4,519

6. Cash and cash equivalents and mandatory reserve

	2014	2013
Cash on hand	29,846	30,251
Balances with the CBK	46,133	36,042
Correspondent accounts with other banks	13,993	11,181
		-
Total	**89,972**	**77,474**

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of € 60,046 thousand (31 December 2013: € 50,129 thousand). The liquidity reserve balance requirement is calculated on the basis of a simple average over a week and should be maintained as 10 per cent of bank deposits payable within one year. It consists of balances with CBK and 50 per cent of cash on hand. As such the balance can vary from day-to-day. This balance is excluded from cash and cash equivalents for the purposes of the cash flow statement.

As at 31 December 2014 and 2013 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2014	2013
Total cash and cash equivalents and mandatory reserve	89,972	77,474
Less: Mandatory liquidity reserve	(60,046)	(50,129)
Cash and cash equivalents for the purposes of cash flow statement	**29,926**	**27,345**

The CBK pays interest on the Bank's average assets holdings with the CBK above 5 per cent of the applicable deposit base up to the amount of its average minimum liquidity reserve requirement. As at 31 December 2014 the interest was paid at the rate of 0 per cent per annum (31 December 2013: 0 per cent per annum).

7. Loans and advances to banks

Term deposits and call deposits are placed with banks operating in OECD countries. Guarantee deposits represent placements with Raiffeisen Bank Austria as at 31 December 2014 and 2013. The balance loans and advances to banks includes accrued interest in the amount of € 1 thousand (31 December 2013: € 1 thousand).

Guarantee deposits include an amount of € 716 thousand as at 31 December 2014 (31 December 2013: € 333 thousand) which represent restricted deposits with a related party in relation to guarantees issued on the Bank's behalf, for its customers. The Bank does not have the right to use these funds for the purposes of funding its own activities.

	2014	2013
Term deposits	70,241	62,861
Guarantee deposits	716	333
Total loans and advances to banks	**70,957**	**63,194**

8. Loans and advances to customers

	2014	2013
Corporate Customers		
Current and rescheduled loans	165,127	150,529
Overdraft facilities	100,077	117,433
	265,204	**267,962**
Retail Customers		
Current and rescheduled loans	192,755	178,039
Overdraft facilities	12,731	10,557
	205,486	**188,596**
Loans and advances to customers	**470,690**	**456,558**
Less: Provision for loan impairment	(23,894)	(24,307)
Loans and advances to customers, net	**446,796**	**432,251**

Loans and advances to customers include accrued interest income in the amount of € 1,741 thousand (31 December 2013: € 1,578 thousand).

Movements in the provision for loan impairment are as follows:

	2014	2013
Provision for loan impairment at the beginning of the year	**24,307**	**25,638**
Net charge for provision for loan impairment during the year	3,818	5,456
Write offs	(4,231)	(6,787)
Provision for loan impairment at the end of the year	**23,894**	**24,307**

As at 31 December 2014 the Bank has 305 borrowers (31 December 2013: 356 borrowers) with aggregated loan amounts above € 100 thousand. The aggregate amount of these loans is € 261,953 thousand or 55 per cent of the gross loan portfolio (31 December 2013: € 281,240 thousand or 62 per cent of the gross loan portfolio).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2014		2013	
	Amount	%	Amount	%
Trade	194,151	41%	191,786	41%
Individuals	150,836	11%	182,166	40%
Manufacturing, chemical and processing	52,239	3%	34,974	8%
Service	15,558	4%	23,000	5%
Construction and construction servicing	20,911	2%	19,586	4%
Food industry and agriculture	8,643	32%	2,339	1%
Other	28,352	7%	2,707	1%
Total loans and advances to customers before provision for loan impairment	**470,690**	**100%**	**456,558**	**100%**

9. Other loans

	2014	2013
Other loans	-	19,322
Total other loans	-	**19,322**

Other loans portfolio contained loans granted to customers in other European countries. The loan processing and administration was done by Raiffeisen Bank International in Vienna and Raiffeisen Bank Kosovo has only participated in the deals by the means of funding the financing. These loans were granted to companies with good credit rating and have been effectively risk free, guaranteed by RBI and have not been allocated any risk provisions.

Other loans – regional distribution	2014	2013
France	-	19,322
Total other loans	**-**	**19,322**

10. Investment securities

	2014	2013
Held to maturity investments (Government Bonds)	-	12,349
Financial Investments at fair value (Government Bonds)	111,508	75,833
Kosovo Government treasury bills	32,800	7,738
Total investment securities	**144,308**	**95,920**

Financial Investments at fair value as at 31 December 2014 represent 0.1-1.9 year bonds denominated in euro and US dollar issued by Germany, Republic of France, Austria, United States of America, Sweden, Denmark, Netherlands, Finland and Republic of Kosovo (Government T-bills).

11. Investment in subsidiaries

	2014	2013
Investment in Raiffeisen Leasing Kosovo	333	333
Investment in Raiffeisen Insurance Broker Kosovo	3	3
Total investments in subsidiaries	**336**	**336**

The table below provides details of the significant subsidiaries of the Bank:

	Principal place of business	Ownership interest	
Subsidiary		**2014**	**2013**
Raiffesien Leasing Kosovo	Kosovo	70%	70%
Raiffeisen Insurance Broker Kosovo	Kosovo	70%	70%

The Bank does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

12. Other assets

	2014	2013
Prepayments and advances for services	827	1,200
Fees receivables	723	1,889
Other receivables	34	35
Total other assets	**1,584**	**3,124**

13. Leashold improvements, equipment and intangible assets

	Leasehold improvements and land	ATM, other bank and office equipment	Computer hardware	Intangible assets	Total
Cost Opening Balance as at 1 January 2013	4,652	11,679	2,553	8,511	27,395
Additions	585	818	62	647	2,112
Disposals	-	(1,127)	(20)	-	(1,147)
Cost as at 31 December 2013	**5,237**	**11,370**	**2,595**	**9,158**	**28,360**
Additions	759	718	359	1,141	2,977
Disposals	(1,196)	(718)	(54)	-	(1,968)
Cost as at 31 December 2014	**4,800**	**11,370**	**2,900**	**10,299**	**29,369**
Accumulated depreciation and amortisation opening balance as at 1 January 2013	3,310	8,447	1,889	6,136	19,782
Depreciation/amortisation charge for the year (Note 22)	305	1,374	435	997	3,111
Eliminated on disposals	-	(1,027)	(20)	-	(1,047)
Accumulated depreciation and amortisation as at 31 December 2013	**3,615**	**8,794**	**2,304**	**7,133**	**21,846**
Depreciation/amortisation charge for the year (Note 22)	272	1,079	253	929	2,533
Eliminated on disposals	(1,182)	(664)	(45)	-	(1,891)
Accumulated depreciation and amortisation as at 31 December 2014	**2,705**	**9,209**	**2,512**	**8,062**	**22,488**
Net book value at 31 December 2014	2,095	2,161	388	2,237	6,881
Net book value at 31 December 2013	1,622	2,576	291	2,025	6,514

14. Deposits from customers

	2014	2013
Corporate customers:		
Current accounts	93,805	87,511
Savings accounts	9,727	6,655
Term deposits and margin accounts	10,860	31,069
	114,392	**125,235**
Retail customers:		
Current accounts	270,063	169,418
Savings accounts	156,675	120,666
Term deposits and margin accounts	63,143	142,348
	489,881	**432,432**
Total customer accounts	604,273	557,667

As at 31 December 2014, customer accounts include accrued interest in the amount of € 1,214 thousand (31 December 2013: € 2,276 thousand).

As at 31 December 2014 the Bank has 705 customers each with balances above € 100 thousand (31 December 2013: 581 customers). The aggregate balances of these customers are € 211,582 thousand or 35 per cent of total customer accounts (31 December 2013: € 195,442 thousand or 35 per cent of total customer accounts).

15. Deposits and borrowings from banks

	2014	2013
Borrowings		
Supranational institutions and development banks	3,086	4,074
Deposits		
Other commercial banks – non OECD Countries	602	468
Total deposits and borrowings from banks	**3,688**	**4,542**

Borrowings as at 31 December 2014 include accrued interest of € 7 thousand (31 December 2013: € 0 thousand).

Maturity of the loans from supranational institutions and development banks will take place during 2015.

16. Other liabilities

	2014	2013
Clearing deposits from payment transfer business	597	3
Deferred income	1,055	1,246
Accrued staff costs	829	993
Payables	1,046	888
Accrued operating expenses	641	838
Interest Rate SWAP payable	2,140	643
Provision for losses on commitments and contingent liabilities (see below)	201	147
Tax payable	114	122
Liabilities on leased assets	88	113
Other	691	204
Total other liabilities	**7,402**	**6,843**

Clearing deposits from payment transfer business comprise bank's suspense accounts which result in debit balance in amount of € 597 thousand as at 31 December 2014 (31 December 2013: € 3 thousand). Clearing deposits comprise clearing accounts for debit and credit cards, payments and other items. Deferred income as at 31 December 2014 represents the amount of loan deferred fees.

Details of related party balances are presented in Note 25.

Movements in the provision for losses on commitments and contingent liabilities are as follows:

	2014	2013
Provision for losses on commitments and contingent liabilities at the beginning of the year	**147**	**263**
Provision / (release of provision) for losses on commitments and contingent liabilities	113	(102)
Usage of previous year provisions	(60)	(14)
Provision for losses on commitments and contingent liabilities at the end of the year	**201**	**147**

Following is the breakdown of the provision as at 31 December:

	2014	2013
Provision for contingent liabilities	59	130
Provision for legal cases	142	17
Total Provision	**201**	**147**

17. Subordinated loan

Subordinated loan consists of the loan issued by Raiffeisen Bank International. The following are the balances for year 2014 and 2013:

	2014	2013
Subordinated loan	19,336	19,283
Total	**19,336**	**19,283**

18. Share capital

Authorised and registered share capital of the Bank comprises 100 shares of common stock. During 2014, the share capital amount was increased to € 63,000 thousand from € 58,000 thousand. The structure of the share capital of the Bank as at 31 December 2014 and 2013 is as follows:

	2014			2013		
Shareholder	Number of shares	Amount in thousands EUR	Voting share	Number of shares	Amount in thousands EUR	Voting share
Raiffeisen SEE Region Holding GmbH	100	63,000	100%	100	58,000	100%

All shares have equal rights to dividends and carry equal voting rights.

19. Interest income and expense

	2014	2013
Interest income		
Loans and advances to customers	44,250	45,570
Loans and advances to banks	(2)	17
Other loans – funded participations	160	353
Financial investments	729	860
Total interest income	**45,137**	**46,800**
Interest expense		
Deposits from customers	(4,023)	(6,887)
Deposits from banks	(350)	(356)
Derivative financial instruments (non-trading)	(1,042)	(1,123)
Subordinated debt	(1,858)	(706)
Other interest expense	(38)	(28)
Total interest expense	**(7,311)**	**(9,100)**
Net interest income	**37,826**	**37,700**

20. Fee and commission income and expense

	2014	2013
Payments transfer business	8,215	8,190
Loan administration and guarantee business	1,124	1,230
Foreign currency business	1,283	1,407
Agency services for third party products	399	265
Other banking services	33	20
Total fee and commission income	**11,054**	**11,112**
Payment transfer business	(2,801)	(2,900)
Other banking services	(307)	(253)
Total fee and commission expense	**(3,108)**	**(3,153)**
Net fee and commission income	7,946	7,959

21. Staff costs

	2014	2013
Salaries and wages	9,885	9,659
Expenses on retirement benefits	512	501
Other voluntary social expenses	305	375
Employee services prepayment	8	229
Total staff cost	10,710	10,764

The remuneration of directors and key executives is determined by the Raiffeisen International management having regard to the performance of individuals and market trends. The Managing Board related expense for 2014 amounted to € 752 thousand (2014: € 625 thousand).

22. Other operating expenses

	2014	2013
Office space expenses (rental, maintenance, other)	3,152	3,149
Depreciation of tangible assets	1,604	2,113
IT cost	2,429	2,060
Advertising, PR and promotional expenses	1,220	1,345
Security expenses	1,093	1,077
Amortization of intangible assets	929	998
Other administrative expense	585	632
Communication expenses	498	466
Office supplies	399	439
Legal, advisory and consulting expenses	1,431	1,184
Training expenses for staff	225	246
Deposit insurance fees	535	489
Car expenses	322	428
Travelling expenses	118	132
Total other operating expenses	14,540	14,758

23. Income taxes

	2014	2013
Current tax charge	1,483	576
Deferred taxation	539	1,184
Income tax expense for the year	**2,022**	**1,760**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2013: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

		2014		2013
Profit before taxation		17,818		16,993
Tax charge for the year at the applicable statutory rate	10%	1,781	10%	1,699
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	(1.7%)	(298)	(6.6%)	(1,123)
Adjustment on previous year tax expense		-		-
Current tax charge	**8.3%**	**1,483**	**3.4%**	**576**

Differences between IFRS financial statements and Kosovo statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 10 per cent.

	2013	Movement during 2014	2014
Tax effect of deductible temporary differences			
Leasehold improvements, equipment and intangible assets	(66)	(192)	(257)
Term deposits – accrued interest	166	(70)	96
Staff bonuses	70	(18)	52
Gross deferred tax asset/(liability)	**170**	(280)	(109)
Tax effect of taxable temporary differences			
Loan impairment provision	(2,989)	(253)	(3,243)
Off Balance sheet provision	(13)	(6)	(19)
Total net deferred tax asset / (liability)	**(2,832)**	(539)	(3,371)

24. Contigencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. As at 31 December 2014 the Bank had a number of legal cases pending in the court. On the basis of internal judgement based on previous court rulings and Management Board decision, the Bank has made a provision of € 142 thousand as the nearest estimate of possible cash outflows arising from possible court decisions. The amount of € 125 thousand was included as an additional charge during 2014.

Tax regulations. Raiffeisen Bank has calculated the tax profit and has paid to the Tax Authorities all advance payments as required by law.

Capital commitments. As at 31 December 2014, the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2013: Nil).

Operating lease commitments. The future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, are as follows:

	2014	2013
Not more than 1 year	309	388
More than 1 year and not more than 5 years	14	16
Total operating lease commitments	**323**	**404**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives. Unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, they are considered to be "regular way" transactions.

Outstanding credit related commitments are as follows:

	2014	2013
Commitments to extend credit	47,062	33,054
Guarantees and similar commitments issued (credit facility)	33,458	36,524
Guarantees and similar commitments issued (cash covered)	1,470	1,365
Letters of credit (credit facility)	212	267
Letters of credit (cash covered)	-	252
TF line of credit	7,529	8,486
Stand by letter of credit	147	93
Total credit related commitments	**89,878**	**80,041**

Commitments to extend credit represent loan amounts in which the loan documentation has been signed but the money not yet disbursed and unused amounts of overdraft limits in respect of customer accounts. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of commitments to extend credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Interest Rate SWAPs. The main purpose of these instruments is to mitigate the interest rate risk associated to the fixed rate lending. As of 31 December 2014, the Bank has 35 interest rate SWAP contracts with a notional amount of € 31,050 thousand (31 December 2013: € 42,000 thousand). The Bank pays fixed and receives variable interest rates. The net valuation result of these contracts for the year ended 31 December 2014 was € 111 thousand (2013: € 1,235 thousand). Fair value of SWAP contracts as at 31 December 2014 was loss of €1,535 thousand (31 December 2013: loss of € 1,645 thousand).

25. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, placements, deposit taking and foreign currency transactions. These transactions are priced at market rates. The outstanding balances at the year end and related income and expense items during the year with related parties are as follows:

	2014		2013	
	Parent	Other related party	Parent	Other related party
Statement of financial position				
Cash and cash equivalents and mandatory reserve	2,280	-	511	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	4,844	-	13,733
Other Loans	-	-	19,322	-
Other assets	-	338	-	9
Liabilities				
Customer accounts	-	57	-	3
Deposits and borrowings from banks	2,541	391	2,983	52
Subordinated debt	19,336	-	19,283	-
Other liabilities	2,773	94	2,520	114
Statement of profit and loss and other comprehensive income				
Interest income	168	305	361	322
Interest expense	(2,900)	-	(1,835)	-
Net fees and commission	(194)	(332)	(177)	(7)
Net valuation result financial instruments carried at fair value	111	-	1,235	
Other operating expenses	(60)	(213)	(1,668)	(187)
Purchase of intangible assets	442	-	263	-
Management Remuneration	-	752	-	625
Off Balance Sheet				
Guarantees	-	-	-	-
Letter of credit	-	-	-	-

26. Subsequent events

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

Raiffeisen Glossary

Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

Raiffeisen Bank International

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. At the end of 2014, around 52,000 RBI staff served approximately 14.8 million customers in around 2,900 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers as well as major multinational clients operating in CEE. All in all, RBI employs about 55,000 staff/employees and has total assets of approximately € 122 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger. As at year-end 2014, RZB held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float.

RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group centre for the entire RZB Group, including RBI. RZB functions as the key link between RBG and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

RZB Group

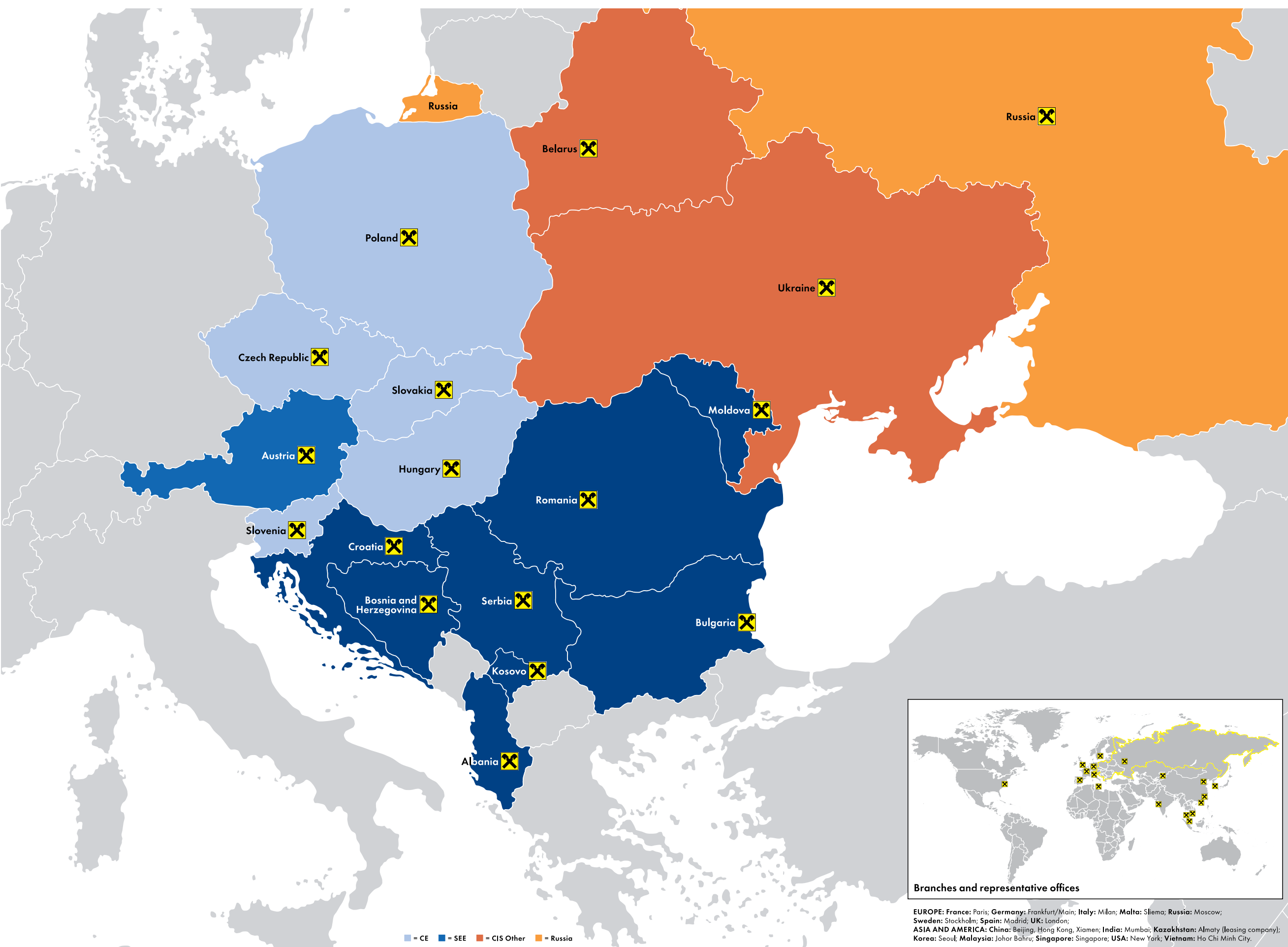
The Group owned and steered by RZB. Raiffeisen Bank International is the Group's largest unit.

Raiffeisen Banking Group

With total assets of € 285.9 billion as at 31 December 2014, RBG is Austria's largest banking group. As at this reporting date, RBG managed € 92.8 billion in domestic customer deposits (excluding building society savings), of which € 49.4 billion were held in savings deposits. RBG has thus maintained its market share of around 30 per cent and, once more, its role as market leader among Austria's banks. RBG's strong market position was achieved through healthy organic growth. RBG consists of *Raiffeisen Banks* on the local level, *Regional Raiffeisen Banks* on the provincial level and *RZB* as central institution. RZB also acts as the link between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as universal banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 90 per cent of RZB's ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer *Friedrich Wilhelm Raiffeisen* (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen's fundamental principle of self-help, the promotion of their members' interests is a key objective of their business policies.

RBI Group in Europe



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