Annual Report 2015

Raiffeisen BANK

Kosovo

Survey of key data

Raiffeisen Bank Kosovo J.S.C.			
Monetary values are in € million	2015	2014	Change
Income statement	1/1-31/12	1/1-31/12	
Net interest income after provisioning	36.7	35.1	4.6%
Net commission income	9.2	7.9	16.5%
Net income from financial instruments at fair value through profit or loss	0.3	(0.2)	284.1%
Other operating income	0.5	0.2	198.8%
General administrative expenses	(26.0)	(25.3)	2.8%
Profit before tax	20.8	17.8	16.7%
Profit after tax	18.6	15.8	17.8%
Earnings per share	N/A	N/A	N/A
Balance sheet			
Loans and advances to banks	40.4	71.0	-43.0%
Loans and advances to customers	450.6	446.8	0.9%
Deposits and borrowings from banks	2.2	3.7	-40.3%
Deposits from customers	675.2	604.3	11.7%
Equity (incl. minorities and profit)	125.3	122.8	2.1%
Balance-sheet total	831.4	760.8	9.3%
Local regulatory information			
Risk-weighted assets B1, incl. market risk	546.3	520.3	5.0%
Total own funds	118.0	106.7	10.6%
Total own funds requirement	65.6	62.4	5.0%
Excess cover ratio	80.0%	70.9%	9.1 PP
Core capital ratio (Tier 1)	17.4%	16.0%	1.4 PP
Total own funds ratio	21.6%	20.5%	1.1 PP
Performance			
Return on equity (ROE) before tax	17.7%	16.9%	0.8 PP
Return on equity (ROE) after tax	15.8%	14.7%	1.1 PP
Cost/income ratio	53.5%	54.6%	-1.1 PP
Return on assets (ROA) before tax	2.6%	2.5%	0.1 PP
"Net provisioning ratio (average risk-weighted assets B3 in banking book)"	0.5%	0.6%	0.1 PP
Risk/earnings ratio	4.2%	6.6%	-2.4 PP
Resources			
Number of staff (FTE)	693	687	0.9%
Business outlets	50	50	0.0%

Content

Report of the Supervisory Board

Ladies and Gentlemen,

At the beginning of 2015, Raiffeisen Bank International announced a review of the corporate strategy which the market received very positively. An emphasis on markets in which RBI can generate sustainable returns due to a strong position is also being welcomed, as is the action taken so far to achieve these goals. The plan to become a more focused universal bank with strong customer relationships by reducing complexity and risk as well as through bolstering the capital buffer is well on track and valued by market participants.

More than ever before, a bank today needs a focus – and RBI's is on CEE and Austria. RBI, therefore, needed to look at all operations unrelated to that focus, even when, in some cases, they have been highly successful in the past. The footprint in CEE was also reviewed at this time. All of this took place against the backdrop of higher regulatory capital ratio requirements, which were taken into account while determining the target CET1 and total capital ratios.

In 2015, RBI significantly strengthened its capital base, with the fully loaded CET1 ratio standing at 11.5 per cent at year-end, and also achieved a consolidated profit of € 379 million. The primary reason for the result being so positive was lower net provisioning for impairment losses. Furthermore, general administrative expenses were reduced by 4 per cent compared to 2014, in line with RBI's cost cutting initiative.

As far as Raiffeisen Bank Kosovo concerned, in 2015 it achieved its highest ever net profit amounting to € 18.6 million which generated a return on equity after tax of 15.8 per cent. The year was also notable because the Bank became the number one bank in the country, not just for net profit but across a wide range of criteria such as total assets, gross loans, deposits, and the number of branches. 2015 was also a year of significant investment in leading edge electronic banking services to enable our customers to bank with us 24 hours a day 7 days a week.

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 of the Supervisory Board

Report of the Management Board

2015 was another excellent year for Raiffeisen Bank Kosovo J.S.C. The country's macro economic environment was better than many other countries in South East Europe and the estimated Gross Domestic Product for Kosovo was an impressive 3 per cent. This contributed to the Bank achieving a range of positive key performance indicators in 2015 including a Net Profit After Tax of € 18.6 million which represents a 17.8 per cent increase compared to €15.8 million in 2014.

We continued to take a prudent and sensible approach to our lending in all customer segments in 2015 and our total gross loan portfolio amounted to € 472 million by the year end close to our year end volume of 471 million in 2014. Our cautious approach was reflected in the quality of our lending and our new loan provisions actually decreased compared to 2014.Our customer deposits grew significantly in 2015 to a total of € 675 million which is a 11.7 per cent increase on € 604 million in 2014 and 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 and I am pleased to report that our Cost Income Ratio reduced from 54.6 per cent in 2014 to 53.5 per cent in 2015.

One of the key priorities in 2015 was the further development of our digital banking services in line with global industry trends. Apart from enhancing the functionality of our digital channels, significant effort was dedicated to raising awareness of the convenience they provide. We supported a Digital Festival in Prishtina, the first of its kind in the market, in cooperation with the Innovation Center of Kosovo, a community - driven event which was primarily focused on the advantages of digital banking, trends, security, opportunities as well as potential risks. Working on both fronts, improving functionality as well as increasing customer awareness, proved to be very successful as we reached some very important milestones in 2015. For example we had over 1 million transactions on our point of sale terminals for the first time, a 45 per cent increase compared to 2014, we had over 4 million ATM transactions, a 43 per cent increase compared to 2014 and 380 thousand e-banking transactions, a 44 per cent increase compared to 2014.

During 2015 we have managed to meet our customers expectations and also increase their satisfaction with our products and services. Our promise to our customers is that "Your voice is what matters" and using customer feedback as a starting point for each initiative in 2015 ensured positive progress and further enhancements of our Voice of Customer management strategy. In 2015 the bank also continued with its commitment to the principles of Corporate Social Responsibility with a wide range of activities in sport, healthcare, education and the arts. Of particular note was our cooperation with the Herbert Stepic Fund resulting in a donation of 32,000 euros to an education center for Roma children in Fushe Kosove.

In summary 2015 was a year with a high focus on customer satisfaction across all segments and all distribution channels. This enabled us to deliver an impressive range of financial results and for the first time in our history we were the number one bank in Kosovo for assets, loans, deposits and net profit.

Finally, on behalf of the Management Board I would like to thank all our staff for achieving another excellent year. None of this would be possible without their skills, commitment, loyalty and dedication.

On behalf of the Management Board,

Robert Wright

Robert Wright
Chairman of the Management Board

Raiffeisen Bank Kosovo Management Board

Robert Wright

Chairman of the Management Board

Shukri Mustafa

Member of the Management Board

Iliriana Toçi

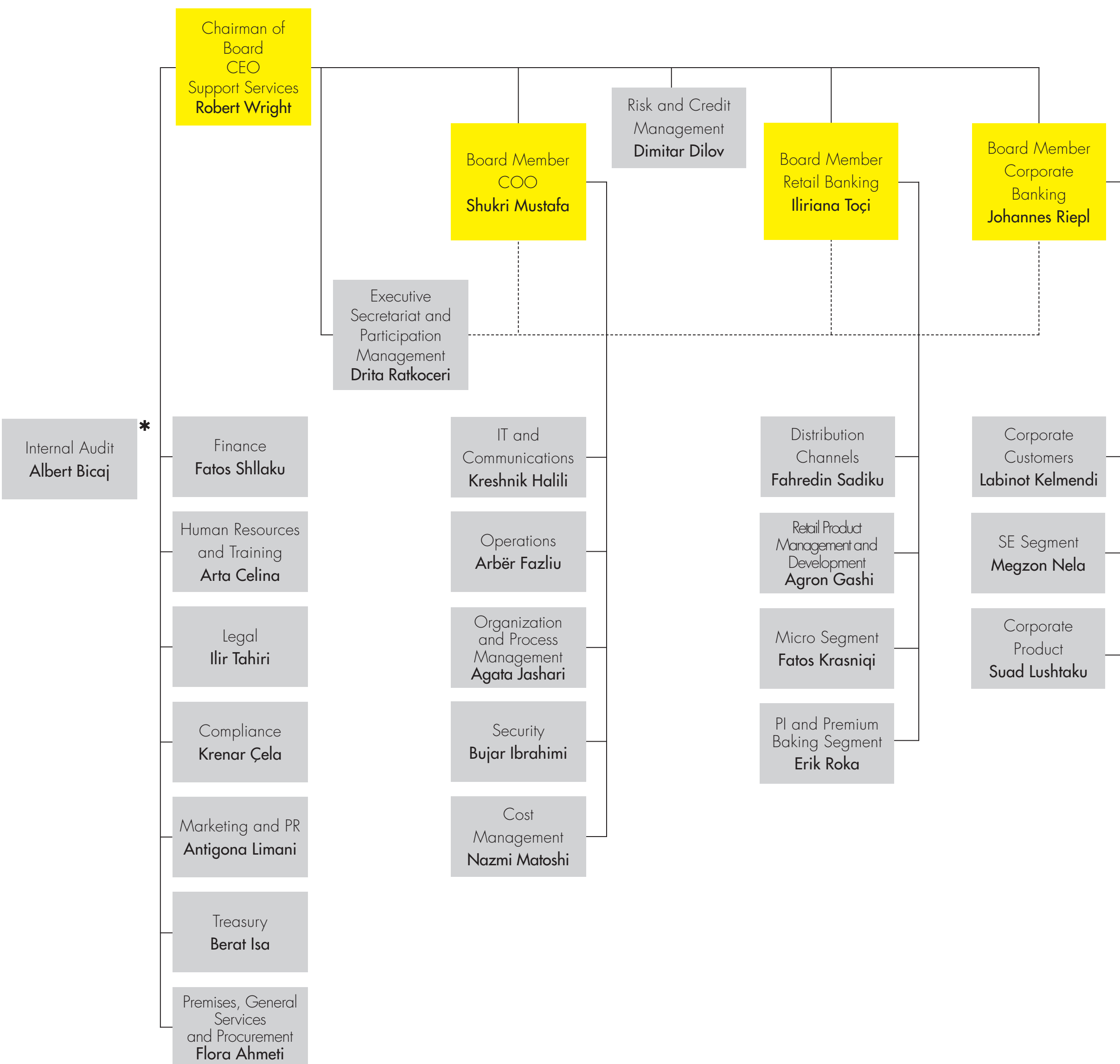
Member of the Management Board

Johannes Riepl

Member of the Management Board

Raiffeisen Bank Kosovo Organisational Structure

As of 31 December 2015



* 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

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. In CEE, at the end of 2015, around 48,000 RBI employees served some 14.9 million customers in around 2,700 business outlets. 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 51,000 employees and has total assets of approximately € 114 billion.

RZB was founded in 1927 as "Genossenschaftliche Zentralbank". The RZB founded its first subsidiary bank in CEE already back in 1987. Since then, further own 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 Vienna 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. At year-end 2015, RZB – which functions as the central institution of the Austrian Raiffeisen Banking Group – held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float.

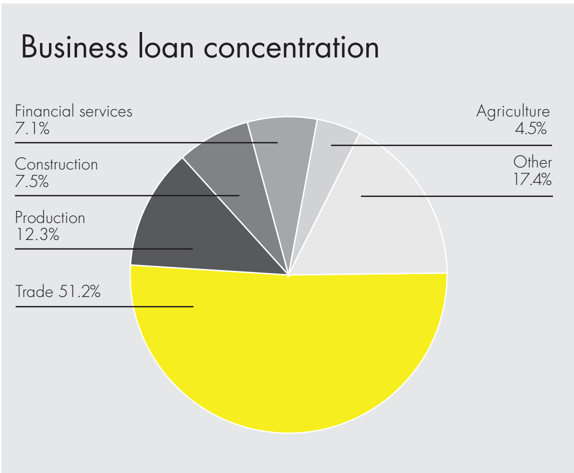
Banking Sector in Kosovo

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 be one of the main sectors contributing to the expansion of financial activities in the country. There were a total of ten licensed banks operating in the market in 2015, out of which, eight are foreign owned. The assets of foreign owned banks comprise 90 per cent of total assets in the market.

Total assets of the banking sector reached € 3.39 billion in December 2015 (2014: € 3.19 billion). The growth of total assets in 2015 was 6 per cent and is higher than previous year growth of 4 per cent. The growth of the banks' total assets was mainly driven by an increase in loans and advances to customers followed by investments in securities.

Investments in securities grew by 23 per cent in 2015. The growth was dominated by foreign government bonds which as of 31 December 2015 grew by 29 per cent as compared to previous year. Investments in Kosovo government Treasury Bills increased by 17 per cent which is much lower than the increase a year before at 93 per cent.



The lending activity of banks in 2015 continued to grow at a faster rate that than in the previous year. Total loans and advances achieved a value of € 2.02 billion (2014: € 1.88 billion), which is an annual increase of 7 per cent compared to 4 per cent in 2014. This increase in growth was caused by decreasing interest rates in the market and an increase in the amount and maturity of lending products. The largest contribution to the loans growth was from loans and advances to businesses which also comprise the largest percentage of the loans and advances portfolio at 66 per cent of the total market loan.

The economic sector concentration of new loans and advances to businesses continued to be dominated by the trade sector with an overall share of 51.2 per cent, followed by production 12.3 per cent and construction with 7.5 per cent. *(Source: Vlerësimi Tremujor i Ekonomisë Nr. 13, Tremujori IV/2015)*

Loans and advances to private individuals increased by 10 per cent (2014: 10 per cent). The increase in loans and advances to individuals is mainly due to increase of mortgage loans, which was influenced by a decrease in interest rates for such loans by 0.9 percentage points when compared to the previous year.

Customer deposits continue to be the main contributor in the financing of banking activities. As of December 2015 customer deposits comprised 80 per cent of total banking sector liabilities. A high reliance on financing from local deposits, especially from private individuals makes it the most sound way for financing and it is immune from international fluctuations in the financial markets.

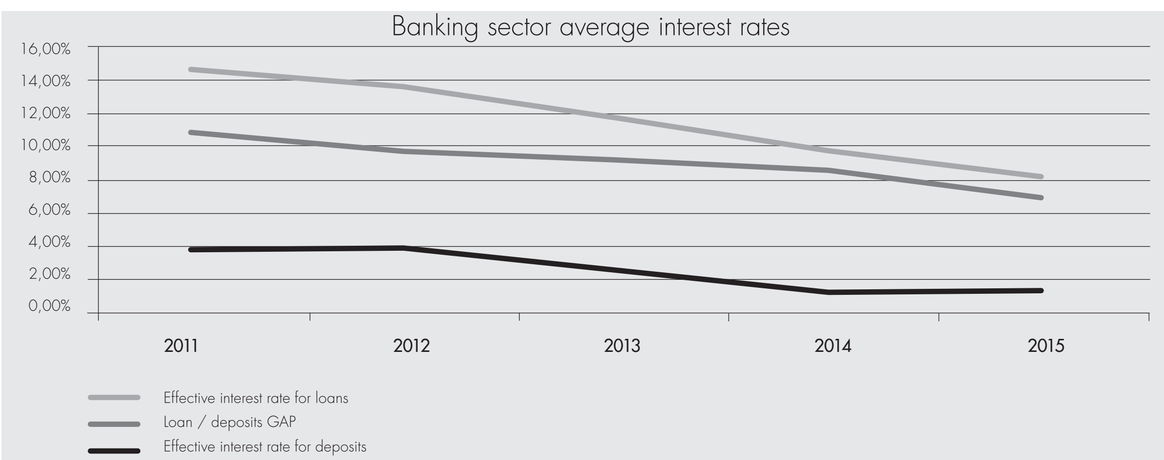
Total deposits in the banking sector reached € 2.70 billion. An annual increase of 7 per cent which is larger when compared to the growth rate of 4 per cent in 2014. The structure of deposits is dominated by deposits from Private individuals which make 72.7 of total deposits. The highest contributor in the increase of deposits continued to be the deposits of private individuals which achieved an annual growth of 6 per cent (4 per cent in 2014). Also deposits from businesses had an annual increase of 4 per cent when compared to a decrease of 1 per cent in 2014.

The term deposits maturity profile also continues to change as the percentage of term deposits is shifting towards current accounts. Term deposits reduced to 25 percent from 32 per cent in December 2014. This decrease is as a result of decreasing interest rates in term deposits in the last few years.

Interest rate for loans has been decreasing for some years now. But, in 2015 the average interest rate for loans decreased significantly to 7.7 per cent from 9.3 per cent in December 2014. The opposite was true for deposits. The average rate in deposits increased slightly to 1.2 per cent from 1.1 per cent in December 2014.

The interest rates for loans decreased in 2015 for businesses as well as for private individuals. The average interest rate for businesses in December 2015 was 7.4 per cent down from 9.6 per cent in December 2014. The average interest rate for private individuals also decreased in 2015, though the decrease was not as substantial as for businesses. The average interest rate in December 2015 decreased to 8.4 per cent from 8.9 per cent in December 2014.

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 2015, the banking sector improved its financial performance and achieved the best results since its existence in Kosovo for a second consecutive year. By 31 December 2015, net profit of the banking sector was € 94.7 million (2014: € 60.1 million). The increase of profit took place following a decrease in bank's noninterest expenses, while the gross income also decreased.

Within noninterest expenses the largest decrease was provisioning for impaired loans which decreased by 141.1 per cent when compared to the previous year. The decrease is mainly attributed to a decrease in nonperforming loans.

Even though loans outstanding continued to increase at a faster pace, interest income decreased by 6 per cent in 2015. This decrease is mainly attributable to a decrease in interest rates. Other non interest income increased in 2015. This increase is mainly from banks fee and commission income charged to clients for banking payment transfers and other banking services.

The cost income ratio in the banking sector has improved in 2015 to 60 per cent compared to 75 per cent in 2014. Good financial results of banks in 2015 have also helped improve some key performance indicators in 2015. ROAA (Return on Average Assets) improved to 2.9 per cent from 2.0 per cent while ROAE (Return on Average Equity) was 26.3 per cent, up from 20.3 per cent a year before.

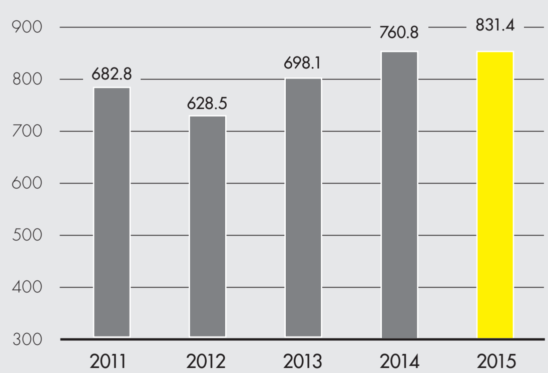
In 2015 the nonperforming loan ratio improved and at the same time the nonperforming loan provision coverage ratio also improved. In December 2015 the nonperforming loan to total loan ratio had dropped to 6.2 per cent (2014, 8.3 per cent). Also, the nonperforming loan coverage ratio improved to 115 per cent when compared to 114 per cent in December 2014.

Raiffeisen Bank Kosovo performance and financials

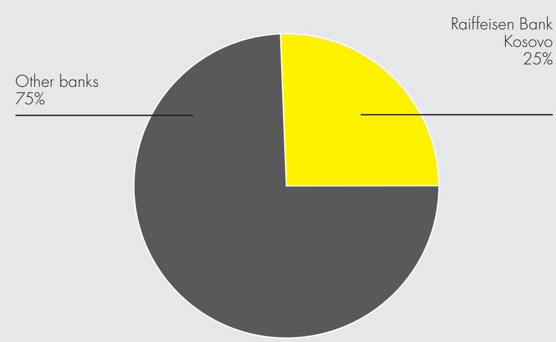
Note: *The market analysis is based on preliminary published financial results of commercial banks prepared in compliance with the Central Bank of Kosovo (CBK) rules.*

Total assets of Raiffeisen Bank Kosovo J.S.C. at 31 December 2015 were € 831.4 million. This is an increase of 9 per cent when compared to the previous year (2014: € 760.8 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 25 per cent (2014: 24 per cent).

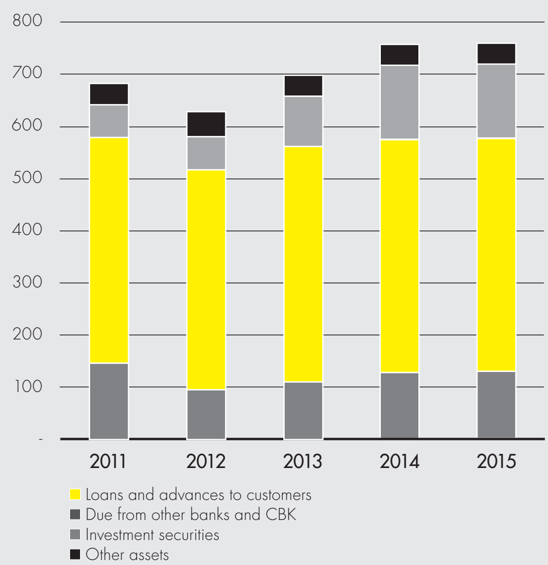
Total assets
in € million



Market share - total assets



Structure of balance sheet assets
in € million



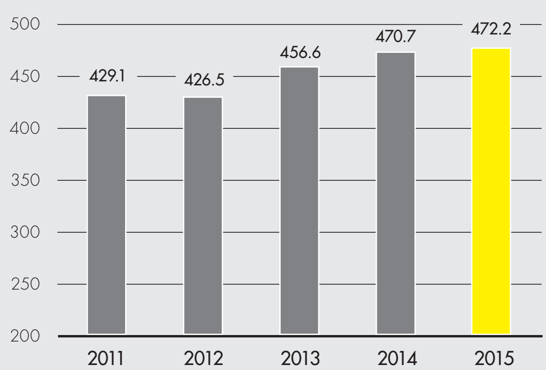
The structure of Raiffeisen Bank Kosovo assets continues to be dominated by loans and advances to customers. As of December 2015, 54 per cent of total assets were concentrated in loans and advances to customers after provisioning for loan losses. That is followed by 28 per cent in investment securities.

Investment securities include investments in Government Bonds of EU countries and the US, as well as treasury bills issued by the Kosovo Government.

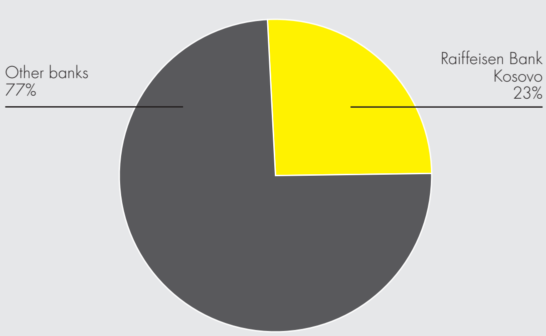
The investments in securities increased in 2015 by 59 per cent. This increase is a result of increased liquidity in the market. Investments in Kosovo Government treasury bills were € 43.1 million, which is an increase of 31 percent when compared with the previous year. (2014: € 32.8 million).

Customer loans and advances - gross

in € million



Market share - customer loans and advances



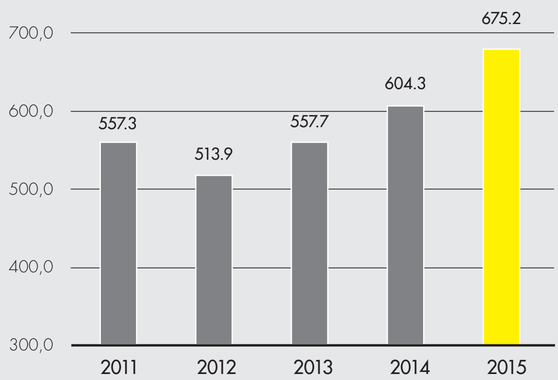
The total gross loans and advances of Raiffeisen Bank Kosovo as of 31 December 2015 were € 472.2 million (2014: € 470.7 million). The market share in loans and advances as of 31 December 2015 was 23 per cent (2014: 25 per cent). Raiffeisen Bank Kosovo also made allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 21.6 million (2014: € 23.9 million). These allowances are for specifically assessed and portfolio assessed credit portfolio and reflect Raiffeisen Bank Kosovo assessment of risk on the credit portfolio on 31 December 2015. The balance of provision is lower than the year before and this is as a result of the improvement of the bank's non-performing loan ratio. The loan provision to nonperforming loan ratio also improved in December 2015 reaching 73 percent from 47 per cent in December 2014.

Total customer deposits reached € 675.2 million in December 2015 up from € 604.3 million in December 2014. That is an increase of 12 per cent. This increase is much higher than the market average which reflects the trust that Raiffeisen Bank Kosovo has earned in the market.

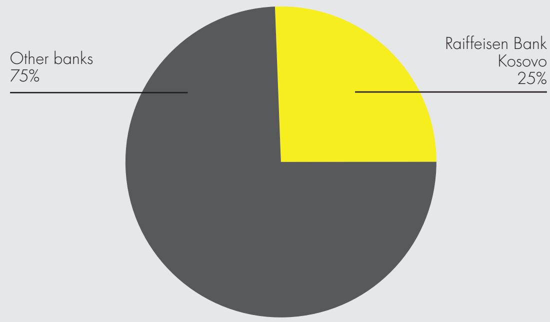
The deposits base was mainly from local depositors while the financing from abroad including multinational development banks remains low. The domestic generation of finances also contributed towards greater stability in the banking sector and reduced the impact of any volatility in the international markets. The largest contributor in deposits from customers was current accounts with a share of 69 per cent, an increase from 60 per cent in 2014. The increase in current account balances could also be explained by the market decrease of interest rates for saving accounts and term deposits.

Customer deposits

in € million



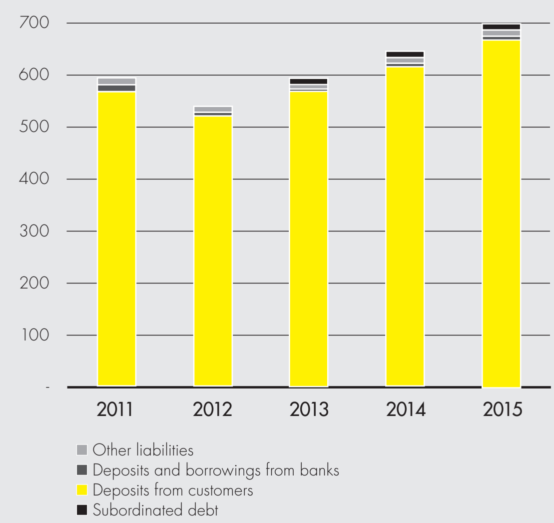
Market share - customer deposits



The liabilities structure of Raiffeisen Bank Kosovo was dominated by customer deposits, and this was also the case for the Kosovo market.

Structure of balance sheet liabilities

in € million

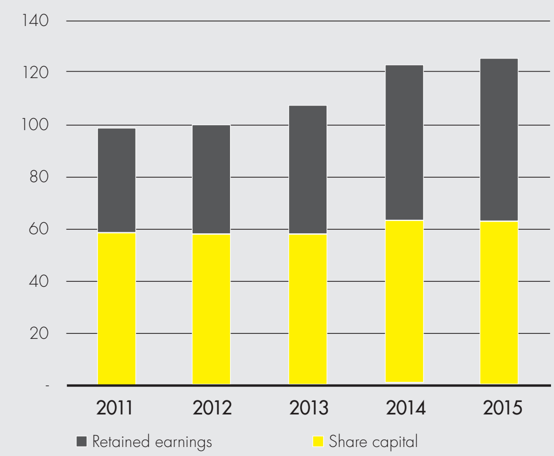


In 2015, the Raiffeisen Bank Kosovo's share capital remained unchanged at € 63 million. The total equity as at 31 Dec 2015 was € 125.3 million (2014: € 122.8 million), also including € 62.4 million in the form of retained earnings. Raiffeisen Bank Kosovo paid a dividend from its retained earnings in 2015 to the value of € 16 million.

This payment did not reflect in the value of total equity or in the regulatory capital requirements. Raiffeisen Bank Kosovo continues to be well capitalized which is also reflected in the regulatory capital ratios of Tier 1 to total risk weighted assets ratio of 17.4 per cent (legal requirement 12 per cent) and a total capital (including Tier 2) to risk weighted assets ratio of 21.6 per cent (legal requirement 12 per cent). In the calculation of Tier 2 capital the bank has included the amount of € 19 million subordinated debt with an original maturity of ten years.

Structure of equity

in € million



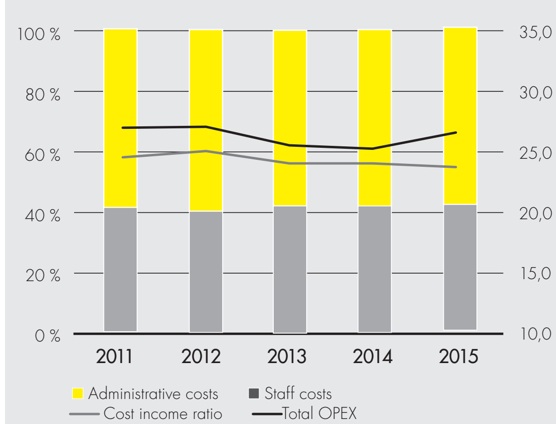
Net income after tax in 2015 was € 18.6 million (2014: € 15.8 million). This result is calculated based on IFRS Financial Statements as included in the report. Raiffeisen Bank Kosovo also produces financial reports based on IFRS reflecting additional requirements from the Central Bank Regulations and sends it to the Central Bank of Kosovo. These statements are also published on a quarterly basis on the Raiffeisen Bank Kosovo web site and in local daily newspapers. Raiffesen Bank Kosovo 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.

Gross income development and structure

in € million

General administrative expenses development

in € million



The general and administrative expenses as of 31 December 2015 were € 26 million (2014: € 25.3 million). The cost income ratio was 53.5 per cent (2014: 54.6 per cent). This shows a slight improvement in efficiency as the cost income ratio improved by 1.1 percentage points in 2015. 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 Raiffeisen Bank Kosovo considers it very important to invest in the professional development of the staff.

Treasury, asset and liability management

Asset liability management

2015 was a successful year as far as the collection and consolidation of deposits was concerned. Raiffeisen Bank Kosovo (the Bank) managed to increase further its core deposit customers. Building on the increased trust in the financial system, especially the brand of Raiffeisen Bank, the Bank's liquidity remained at stable levels, thus lowering the funding costs on a year on year basis.

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 of assets and liabilities management. The Bank utilizes quantitative modeling to measure customer deposits stickiness, for its non-maturing assets and liabilities, both for interest rate risk purposes but also for liquidity risk purposes, for both retail and non-retail customers.

The Bank's funding sources came from stable retail deposits amounting to 81 per cent of total deposits, which points to a very high stickiness ratio. 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 2015, showed an average BPV position of around 8,000 to 14,000.

Government securities

The Bank's bonds portfolio in foreign and local government securities increased to above 210 million by the end 2015. 80 per cent of the portfolio is high quality OECD investment grade government securities, and the remainder is allocated to exposure in Kosovo.

Government Securities	Allocation
Austria	11%
Bulgaria	4%
Europe an Investment Bank	9%
Finland	10%
France	8%
Germany	1%
KfW	9%
Kosovo	21%
Netherlands	7%
Poland	4%
Slovakia	0%
Sweden	7%
USA	9%

In parallel, the total market for Kosovo Treasury Bills continued to increase. Having a primary dealer role, the Bank and its customers continued to define the creation of the Kosovo Secondary Government Debt Market, by contributing almost € 20 million.

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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 2015. 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 the 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 occurring 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 € 1.849 million in total revenues in 2015. As far as FX income is concerned this is the best year on record. It has fostered turnover in the Bank's funds transfer commission income business.

Revenues in Foreign Exchange	2011	2012	2013	2014	2015
Forex income in Thousands Euro	1,766	1,543	1,407	1,283	1,849

Custody business

In 2015, 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

Raiffeisen Bank Kosovo similar to previous years, maintained the leading position in the corporate segment, providing comprehensive and tailor made financial products and services to corporate customers. The relationship concept as the backbone of the Bank's business model prevailed in the retention of long term relationships with customers even in times of a different macroeconomic, financial and political situation.

Despite the harsher economic environment, increased regulatory requirements and decreasing interest rates that characterized the year of 2015, corporate banking with an exceptional collateralized lending portfolio remained stable at €191 million (average loan volumes). The portfolio was prudently managed, with a focus on credit quality and sustainable profitability rather than on market share.

Prudent lending during 2015 was reflected in lower risk costs which decreased by 12.4 per cent compared to 2014. Moreover during 2015 several cases of non-performing loans (NPL) were resolved which enabled the NPL ratio to drop.

The size of the bank, expertise and experience of the relationship managers supported by product specialists and backed by advanced technology gives us the advantage to serve bank customers. By ensuring that the Bank's customers are in the center of the Bank's attention together with the delivery of superior quality financial products, the Bank is adding value to their business and supporting their growth. The aim is to be the main bank of corporate customers in Kosovo.

Small Enterprises

During 2015, Raiffeisen Bank Kosovo served a customer base of over 1,100 small enterprises (SE) delivering comprehensive financial products, such as transactional cash management, trade finance, structured working capital financing, factoring and investment loans adding value to their business and supporting their business growth.

To best leverage value proposition to SE customers, the Bank is serving the customers in four main regions through highly experienced relationship managers, under a lean credit process that includes fast credit decisions and efficient credit monitoring. This concept reaches small enterprise needs and helps us realize significant efficiency gains.

During 2015 there was consolidation of the SE portfolio by focusing on high value customers for the bank with on acceptable risk profile.

Having a prudent risk approach and very close monitoring of the portfolio during 2015 reflected in low risk costs.

Micro Enterprises

Raiffeisen Bank Kosovo offers a wide range of banking products and services, standard and tailored to micro enterprises.

Throughout 2015, there were many initiatives for the customers. One of these initiatives was organizing special visits in customers' business premises. During this initiative, Head Office and Branch staff spent an entire working day working together with the customers.

This has enforced the Bank's commitment towards the customers by understanding their everyday business obstacles and needs. Later, the Bank has tailored a special training session from different banking departments involving Business and Cost Management, Work Efficiency, Staff Motivation and Marketing. Most of these customers were invited to the Bank's Training Center and held one day of training. The feedback was very good and it was possible to see the improvements deriving from this training in customers' business, as they are improving their business processes and conditions for themselves and their employees.

Moreover, the Bank is continuously in the process of tailoring products and services to match the specific needs of micro and agro customers and the Bank was present with marketing campaigns for most part of the year.

The Bank managed to improve the micro loan portfolio through prudent lending and various collection activities. This result is meaningful having in mind that Micro customers are the most volatile in the small Kosovo market, prone to having difficulties and becoming potential default customers

Private Individuals and Premium Banking

In 2015, Raiffeisen Bank provided its banking products and services to more than 266.000 private individuals and premium banking customers. The number of customers increased by 3 per cent compared to the previous year (2014: 259,596 customers versus 2015: 265,878 customers). A number of lending campaigns and special offers provided during 2015 had significant impact on the loan portfolio growth.

As the Bank brand continues to be the brand of choice for many new savings customers it has, in addition to traditional savings products, introduced treasury bills in order to continue delivering financial advisory services to deposit customers.

Premium Banking 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 meet premium banking customer's requirements.

A dedicated and tailored advisory approach remains the core of the Premium Banking customer proposition.

Banking products and services

Corporate and SE

The market in 2015 remained demanding, reflecting challenging market conditions, a decreasing trend of interest rates and a still weak legal framework. As a result the industry further intensified its efforts to increase operational efficiency adapting its electronic banking plans. The comprehensive portfolio of products and services was aimed at the needs of the Corporate and SE customers. Raiffeisen Bank Kosovo is using integrated and highly efficient technological platforms that are supporting the business model which is based on a relationship concept.

Business steering, projects, portfolio analysis and composition, segregation of customers based on the value creation, sales tools and lean credit processes were touch points of sales management during 2015. Developing and upgrading of products, streamlining of processes, provision of real time information, performance tracking and other customer relationship management (CRM) activities are services and tools provided to corporate and SE sales force aiming to enhance their sales potential.

In 2015, the Bank progressed in adapting electronic banking, in order to meet the expectations of customers by offering convenience, speed, transparency and highly innovative products. SMS for customs payments ticks all the boxes of the above mentioned expectations. Customers are able today to conduct customs payments at a speed of less than 10 seconds, from anywhere in the country only by having a mobile phone. Being exposed to highly dynamic markets such as FX requires speed in making the decision and conducting the transaction. Therefore a full phone – dealer approach was introduced offering a very different customer experience. Overall, the Bank has reached of over 70 per cent of e-banking transactions versus branch transactions, showing a great confidence in customers towards the Bank technological solutions.

During 2015, the Bank's objective in project finance was to support the development of real estate projects in prime locations by developers who have shown a track record of quality building, timely delivering of the projects, and sustainable profitability. In 2015 the Bank has concluded the syndicated financing of a major commercial real estate project.

The Bank continued to hold the leading position in trade finance. In a difficult economic and political environment, the expertise in trade finance, providing comprehensive tailored products accompanied by professional advice, has gained great importance for the Bank customers. Being part of a big banking group that has established a network of banks throughout the world has facilitated the acceptance of securing instruments such as guarantees and LCs. The trade finance portfolio during 2015 has shown dynamic movements, the Bank issued over 370 products in the amount of over € 20 million. Comparing to a year before the volumes have increased by 5.5 per cent to € 45.1 million year-on-year (2014: € 42.8 million).

Factoring, as a unique product is offered only by the Bank and continued to complement the product range of working capital financing to corporate and small enterprise customers. The offer was extended to customers, who need additional financing to help grow their business but are lacking additional collateral. Factoring offered additional liquidity and flexibility enabling customers to increase their competitive advantage and further develop their business.

Retail

One of the Raiffeisen Bank Kosovo's main priorities in 2015 was to preserve and enhance the development of the electronic banking services in line with the global industry trends. Apart from enhancing the functionalities of electronic channels, the Bank has added a lot of efforts in raising awareness on the convenience they provide. Working on both fronts, improving functionalities as well as awareness proved to be very successful as the Bank reached some very important milestones, such as surpassing 1 million transactions in the point of sales terminals for the first time in 2015, a 45 per cent increase compared to 2014, over 4 million ATM transactions, a 43 per cent increase compared to 2014 and 380 thousand e-banking transactions, 44 per cent increase compared to 2014.

During 2015 credit and debit card business has remained one of the Bank main priorities. By having a good portfolio throughout the year, the Bank organized regular monthly discount and prize draw campaigns in order to increase the usage on debit and credit cards. One of the projects that will help increase card usage in the future is the implementation of an e-commerce project. Considering the fact that ATMs are the most utilized channel by customers the Bank has updated ATM features and by enabling the customers to deposit funds in ATMs, and they can also transfer funds from one account to another.

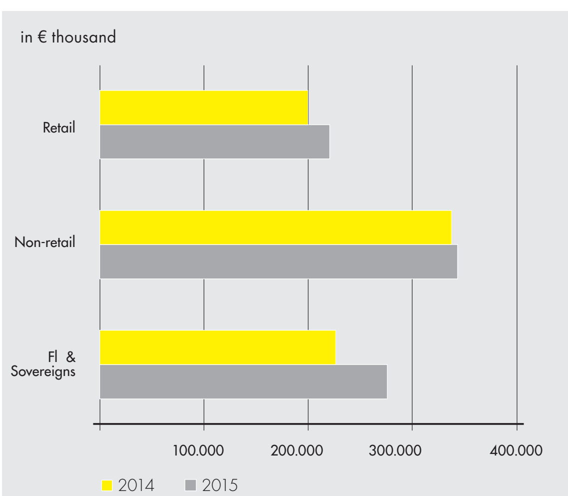
Risk management

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 the Bank's outstanding exposure by business area at the end of the reporting period. Total credit risk exposure was € 906.8 million in December 2015. That is an increase of 8 per cent when compared to December 2014 (2014: € 839.1 million). This portfolio is diversified between business segments and includes exposures on and off balance sheet, prior to the application of impairment provision and credit conversion factors and thus represents the total credit exposure.



Management of non-performing loans

Non-performing loans are monitored by a specialized team of workout and credit collection (retail and non-retail). This dedicated team is divided early and late collections. The Early team is mainly focused on prevention by using different tools for recovery and is supported at a very early stage by the Early Warning Signals (EWS) unit. EWS is the unit monitoring any signs to prevent significant deterioration of customers. The Early team is mainly focused on developing a tailored strategy in line with client needs by supporting and suggesting changes for the customers in order to recover their business and improve their performance. The Late team is mainly driven toward cash collection of loans using several tools such as debt settlements, voluntary asset sale and foreclosure via private bailiff.

2015 was a very good year of recoveries considering the number of accounts closed as well as the amount, and the Bank expects a similar trend to continue considering that private bailiffs continue to be one of the successful stories of the banking system in Kosovo.

Liquidity risk

The Bank's liquidity position continued to remain stable and revealed a strong liquidity buffer during 2015. To manage its liquidity risk, the Bank 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

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

Limit System

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.

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

Operational risk is defined as the risk of unexpected losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In this risk category internal risk drivers like unauthorized activities, fraud or theft, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or consciously conducted human fraud are managed and controlled as well. This risk category is analyzed and managed on the basis of own historical loss data and the results of self-assessments. Another management tool is the incentive system implemented in internal capital allocation. This system rewards high data quality and active risk management.

As with other risk types the principle of firewalling between risk management and risk controlling is also applied to operational risk. Operational risk controlling unit is mainly responsible for the implementation and refinement of methods for operational risk management (e.g. performing risk assessments, defining and monitoring key risk indicators, etc.). Business line managers are responsible for controlling and mitigating operational risks. They decide on pro-active operational risk steering actions, such as buying insurance, and the use of further risk mitigating instruments

Risk identification

Identifying and evaluating risky areas that might endanger the bank's existence if a loss occurs (but where losses are highly unlikely to be realized) and also areas where losses are more likely to happen frequently (but cause only smaller losses) are important tasks for controlling operational risks. Operational risk assessment is executed in a structured manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well. The Bank grades the impact of high probability/low impact events and low probability/high impact incidents according to its estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quantified by an analytical tool with specific scenarios.

Monitoring

In order to monitor operational risks, key risk indicators (early warning indicators) are used that allow prompt identifying and mitigating of operational risks. A common catalog of key risk indicators, which is defined by the Group Head Office for internal benchmarking purposes, is mandatory for the Bank also.

Loss data is collected in a database called ORCA (Operational Risk Controlling Application). Collecting losses stemming from operational risks is a prerequisite for implementing a statistical loss distribution model and a minimum requirement for implementing the regulatory Standardized Approach. Furthermore, loss data is used to create and validate operational risk scenarios and for exchange with international data pools to further develop advanced operational risk management tools as well as to track further on measures and control efficiency. The results of the analyses as well as events resulting from operational risks are reported in a comprehensive manner to the Operational Risk Management Committee on a regular basis.

Quantification and mitigation

The Bank currently calculates regulatory capital requirements for operational risks according to Basel III using the Standardized Approach (TSA). Operational risk reduction is initiated by business managers who decide on preventive actions like risk mitigation or risk transfer. Progress and success of these actions is monitored by risk controlling. The former also define contingency plans and nominate responsible persons or departments for initiating the defined actions if losses in fact occur. In addition, a dedicated organizational unit provides support to business units for reducing operational risks. An important role is taken on by fraud management which reduces potential fraud related losses through proactive monitoring and preventive actions. The Bank also executes an extensive staff training program and has different emergency plans and back-up systems in place.

Changes in the regulatory environment

The Bank followed closely the current and the upcoming regulatory developments in 2016. Kosovo banking sector remains very dynamic with changes in legislation. The focus, during the second half of 2015, was on changes on Regulation on Emergency Liquidity Assistance. In 2016 the Regulation on Mortgage Loans, Regulation on Appraisal of Immovable Property and Regulation on Management of Interest Rate Risk in Banking Book will enter into force. The Bank is fully prepared to comply with these new regulations.

In 2016 Central Bank of the Republic of Kosovo will introduce the regulatory requirements for Internal Capital Adequacy Assessment Process. As part of RBI group, the Bank is subject to the changes in the regulatory environment in the EU. This enables us to be already adapted to changes in local regulations which aim to be harmonized with EU regulations.

Distribution channels

Through a branch network, Raiffeisen Bank Kosovo continues to offer a highly varied range of financial service and products to a very broad customer base.

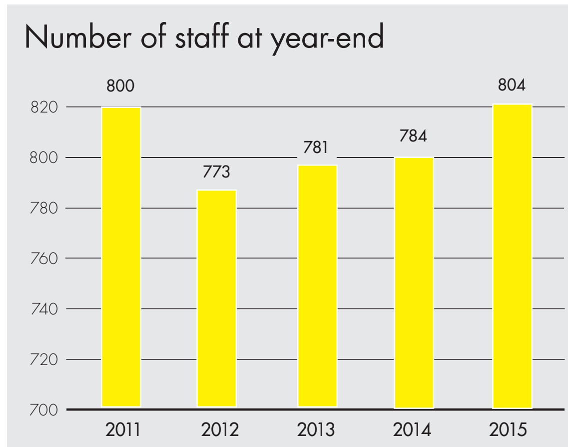
The Bank's branch network includes 50 branches and sub-branches which provides products and services to all customer segments. In order to improve the branch network, the Bank has continued to invest in its existing branch network. In 2015, the Bank has remodeled 9 branches according to new standards. During this period the Bank also introduced a self service facility which enables customers to seamlessly use alternative channels like internet banking and cash recycle machines 24 hours a day and 7 days a week.

The Bank has introduced Customer Experience Management in order to manage and improve experiences through all channels of customer interaction. Customer insight and customer engagement continues to play an important role in all customer experience activities throughout the year and a high focus was attributed to effortless customer experiences. Enhancement of complaint handling process by improving speed of resolution for all customer claims and complaints was one of the main priorities during 2015 and it resulted in an increase in the satisfaction level of complaining customers.

The Bank has initiated a multichannel approach to retail banking with the aim of providing channel availability and customer convenience and ensuring consistent cross channel experiences at all customer interaction points. It continued to develop its Direct Sales agent network that provides consultancy services at the convenience of customers. With a network of 50 agents, available in all regions of Kosovo, the DSA was an important distribution channel during 2015, responsible for retail products sales and services that contributed approximately 60 per cent of card product sales and 10 per cent of other retail products.

The Contact Center in the Bank serves as an alternative channel for 24/7 customer servicing, facilitating both existing and potential customers in day-to-day communication with the Bank. The Contact Center serves as an important support center handling a wide variety of customer enquiries and consultations with customers regarding bank products through various communication channels – Phone, E-mail, Chat, and communication center through internet banking. In order to respond faster to customers, during 2015 the Contact Center established a new free service for receiving customer complaints. Professional agents also actively conduct outbound cross-sell campaigns, to existing and potential customers.

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 department of Human Resources and Training at the Bank is responsible to ensure that the right people are performing the right roles and that their capacities are enriched via development activities. The achievement of corporate objectives through professional, highly motivated, engaged and satisfied employees is the mission of Human Resources and Training Department.

As of 31 December 2015, the Bank had 804 employees (660 Full Time, 144 Part Time), and the additional 47 Direct Sales Agents. Compared to 2014, the total number of employees in 2015 had an increase of 2.16 per cent, which is the highest number of employees in the Bank since 2008 (805 employees). The number of new employees who joined was 58, the same as in 2014. The number of internees who were part of the internship program aiming to support under-graduate students of Kosovo was 93, including two students from other ethnics groups, that indicates the Bank's commitment towards the development and inclusion of a skilled workforce regardless of their ethnicity and nationality.

The average age of employees was 34 years, indicating a relatively young human capital. 52 per cent of total employees were women.

Talent management

During 2015 resources were 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" Development Assessment Centre and Rotation and cross-functional programs. These very highly rated internal programs aim to develop the knowledge and expertise of the most talented Bank employees and managers through an initiative 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 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 gained a competitive advantage in the market by offering a more professional and efficient service to its customers, leading ultimately to the desired end result, becoming Bank number 1 in the Kosovo market.

During 2015, 83 per cent of the employees participated in various training programs and almost 100 per cent took part in workshops. The figures showed a level of achievement at European standards, with almost 2.8 training days per employee in 2015. During 2015, the number of training days was 2, 275 days. 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 Kosovo 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 fifth year of existence there was an impressive level of interest and support by Bank employees to design and attend internally created courses. During 2015, there were almost 3000 staff enrollments in the Bank 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 methods used through the platform in 2015.

In addition to the activities already mentioned, the Bank continued to support employees for the specific professional and licencing courses on a range of topics from technical to soft skills, as part of its capacity building. Lifelong learning remains one of the key messages in the Bank.

Other initiatives

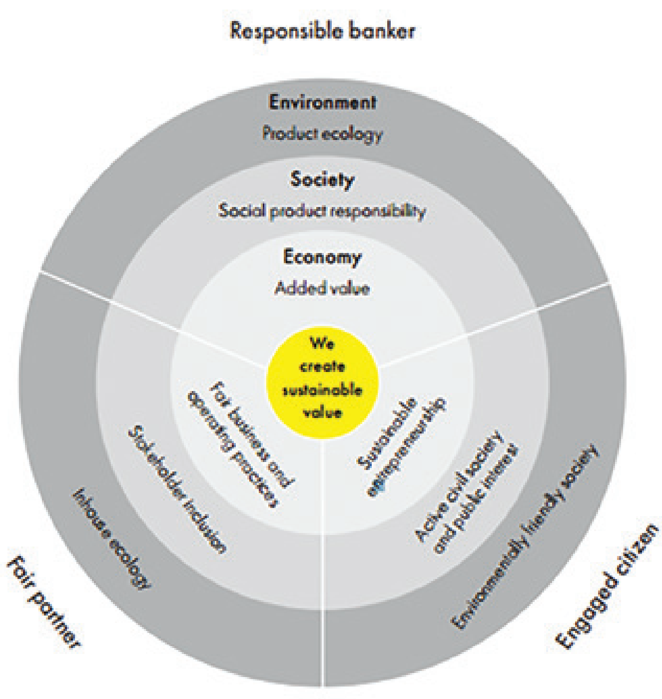
During 2015, representatives of Human Resources and Training Department participated in four Job and Career Fairs organized by American Education in Kosovo, the Austrian – Kosovo Society, EU information and Cultural Centre and University "Haxhi Zeka" aiming to be closer to job-seekers of Kosova. In these interactive events, bank representatives aimed to inform graduates and undergraduates on Raiffeisen Bank employment opportunities, and raise awareness to job-seekers on self investment and development in order to be competitive in today's challenging market.

Sustainability and corporate responsibility

Raiffeisen Bank Kosovo J.S.C as a subsidiary of Raiffeisen Bank International (RBI) and being part of the Group is committed to comply with the UN Global Compact[1].

Sustainability has always been a fundamental principle for the RZB Group and a measure of corporate success. For 130 years Raiffeisen, has combined financial success with socially responsible action. The Bank understands sustainability to mean responsible corporate activities for long-term economic success in consideration of key societal and environmental aspects.

The Bank therefore commits to aligning its management structures and processes with this attitude. In the three sustainability areas of "Responsible banker", "Fair partner" and "Engaged citizen", which are closely linked to business activities, the Bank endeavors to optimally apply values and abilities to fostering sustainable development in company and in society.



Our approach as designers of a sustainable company and society

Being led by sustainability guiding principles the Bank works to make business sustainable, and wish to create sustainable value for stakeholders. The Bank's operational business activities are connected with environmental impacts that the Bank strives to keep as low as possible by means of systematic environmental management. As an employer, the Bank is responsible for ensuring safe and attractive working conditions for employees. As a member of society, the Bank wants to contribute to the common good even beyond business activities and take action in line with the Bank's capabilities.

1 A call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. www.unglobalcompact.org

Responsible banker

Governance and compliance
Raiffeisen Bank Kosovo J.S.C. places great value on responsible and transparent business management in order to strengthen and maintain the understanding and trust of its stakeholders. This is a prerequisite for the performance of the banking group. The traditional Raiffeisen values provide the basis for this as does the Code of Conduct which is applied across the Group.

Lending policy and lending decision policy
Our business model is oriented around the high level strategic goal of creating long-term value. Responsible lending is a significant component of this model. The Bank achieves this with a lending policy that is based on continuity. The Bank remains a fair and reliable lender to businesses with future prospects, even in difficult times. The Banks holds a clear position regarding the handling of sensitive areas of business. It has introduced an environmental and social management system, including associated policy. This policy's aim is to conduct business as a good and responsible corporate citizen. Accordingly, the Bank strives to comply with all the laws and regulations of Kosovo, including those dealing with environmental and social issues and is driven to improve environmental and social (E&S) risk management capacity to reduce credit and liability risks.

Responsible lending
The Bank is committed to responsible lending policies. This means that the Bank seeks to lend customers only as much as their financial situation can bear. If customers nonetheless fall into financial difficulties, the Bank supports them as best as it can with information and advice.

Customer satisfaction
The satisfaction of the customers is top priority. This is therefore measured regularly within the RBI Group, both in the retail and corporate businesses, in order to enable appropriate action when necessary. Customer satisfaction and service quality in the retail business have been measured for several years. The Net Promoter Score (NPS) has been used as the key indicator for satisfaction.

Responsible sales practices and marketing
Financial affairs are a matter of trust. The Bank therefore strives for clear and transparent labeling of products and services for all customers and stakeholders. When advertising and marketing the products, the Bank adheres to strict principles intended to protect the customers. False or misleading advertising is something that the Bank feels is unacceptable.

Fair partner

Corruption and money laundering
The Bank takes all the actions in order to avoid any form of corruption, money laundering, fraud or insider trading. A prerequisite in the Bank's business and operational practices is the fair, ethical and legally compliant behavior of all members of staff. Mechanisms for complying with is through Code of Conduct (CoC) and clear, detailed regulations contained in the Compliance Manual.

Human Resources
Self-responsibility is an important part of the corporate culture. The executive management demonstrates responsible and sustainable business behavior. The Bank measures managers and employees not only by their results, but also by their behavior.

Health and safety
Healthy and performing employees form the basis for the success of every company. In addition to the legally prescribed measures, the Bank offers numerous voluntary activities such as health checks, stress management training. The Bank considers its duty to deploy people in line with their skills and abilities and to develop their performance. The statutory standards for occupational health and safety are complied in the Bank.

Inhouse ecology
The Bank's inhouse ecology is a matter of optimizing the use of energy and resources, and as such is a task of sustainable resource utilization and compliance with the Bank high standards.

Engaged citizen

The Bank considers itself to be an engaged corporate citizen who actively champions sustainable development in the society. The Bank's commitment as corporate citizen goes beyond the core business and aims to counteract health and social problem; promote cultural life, education and sports.

Supported projects and initiatives
During 2015, the Bank continued to be traditional sponsor of different projects in five mains areas: education, health, social welfare, sport and culture.

For eight years in a row the Bank continued to support the Football Federation of Kosovo with the aim of international recognition of Kosovo football, and there has been significant positive progress. The Bank continued to support cultural project, such as: National Gallery – Gjon Mili Prize, Chopin Piano Fest, Sculp Fest in Prizren, Pejas Theatre, Professional Theatre in Ferizaj. For four years in a row 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.

2015 was the first year that the Bank supported the "Business Ideas Competition – Green and Innovative 2015" organized by the Forum for civic initiatives. This project's aim is to identify creative, innovative and socially responsible business ideas by young entrepreneurs in Kosovo, that present a more social approach to entrepreneurship, rather than concentrating on profits and capital for personal gain.

During 2015, the Bank also supported a "Digital Festival" which is a community-driven grassroots festival celebrating digital trends. The festival support an expansive and diverse program of events, workshops, conferences, training courses, panels, talks, information sessions and hackathons that were developed by the Innovation Centre Kosovo and supported by Raiffeisen Bank Kosovo.

For the first time, H. Stepic CEE Charity[2] during 2015 supported one project in Kosovo. The project is "Making Change for Children in Fushë Kosovë", from The Idea Partnership organization (TIP). Kindergarten and other educational activities are part of the project that was initiated and managed by the organization TIP and financed by H. Stepic CEE Charity, based in Vienna and Raiffeisen Bank Kosovo. This project will provide new opportunities for the education of children from Roma, Ashkali and Egyptian (RAE) community in Kosovo.

The Bank ended the year with the joy of spreading gifts to seven shelters, in seven cities in Kosovo. The shelters are for mothers and children from abusive families.

Several voluntary activities by the Bank employees also took place in 2015. About 100 employees participated in a blood donation action that took place in Prishtina. Many employees were also part of the cleaning initiative "Let`s clean Kosovo".

Financial education/financial literacy and other educational
Education is one of the most important issues of the 21st century. The Bank actively promotes an understanding of financial products and services and includes banking expertise as part of the Bank's advisory role in day-to-day operations. Bank's activities are closely linked with the subject of financial education, i.e. the competent handling of money and financial matters, also referred to under the term "financial literacy" due to its core business.

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2 The H. Stepic CEE Charity was founded in 2006 by Herbert Stepic, the former CEO of Raiffeisen Bank International, the charity promotes and supports people in need - especially women and children - in Central and Eastern Europe (CEE) relating to social, economic and health issues. http://www.stepicceecharity.org

Financial statements

The Independent Auditor's Report and Separate Financial Statements for the year ended 31 December 2015 are prepared in accordance with International Financial Reporting Standards (IFRS).

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 2015 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 2015 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
1 April 2016

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

KPMG Albania Sh.p.k
Kosovo Branch
6, Pashko Vasa Street
Pristina, Kosovo

Tel: + 381 (38) 246771
Fax: + 381 (38) 246772
Mail: al-kosovo@kpmg.com
www.kpmg.al

Independent Auditors' Report

To the Shareholder and Management 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 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Sh.p.k. Kosovo Branch

Pristina,
1 April 2016

Separate statement of financial position

(amounts in € 000)	Notes	As at December 31, 2015	As at December 31, 2014
Assets			
Cash and cash equivalents and mandatory reserve	6	100,916	89,972
Loans and advances to banks	7	40,442	70,957
Loans and advances to customers	8	450,596	446,796
Investment securities	9	229,204	144,308
Investments in subsidiaries	10	336	336
Other assets	11	1,732	1,584
Property, equipment and intangible assets	12	8,202	6,881
Total assets		**831,428**	**760,834**
Liabilities			
Deposits from customers	13	675,199	604,273
Deposits and borrowings from banks	14	2,202	3,688
Other liabilities	15	6,297	7,217
Current tax liability		825	185
Deferred tax liability	22	2,249	3,371
Subordinated loan	16	19,336	19,336
Total liabilities		**706,108**	**638,070**
Shareholders' equity			
Share capital		63,000	63,000
Fair value reserve		(50)	-
Retained earnings		62,370	59,764
Total shareholder's equity	17	**125,320**	**122,764**
Total liabilities and shareholder's equity		**831,428**	**760,834**

Approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 1 April 2016.

Fatos Shllaku
Head of Finance

Robert Wright
Chief Executive Officer
Management Board Member

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 38 to 73.

Separate statement of profit and loss and other comprehensive income

(amounts in € 000)	Notes	For the year ending December 31, 2015	For the year ending December 31, 2014
Interest income	18	42,138	45,137
Interest expense	18	(3,824)	(7,311)
Net interest income		**38,314**	**37,826**
Impairment losses on loans and advances to customers	8	(3,084)	(3,818)
Impairment losses on loans and advances to banks		-	(13)
Recoveries from loans previously written off		1,443	1,252
Provision for losses on commitments and contingent liabilities		39	(113)
Net interest income after provisions		**36,712**	**35,134**
Fee and commission income	19	12,640	11,054
Fee and commission expense	19	(3,454)	(3,108)
Net income from financial instruments at fair value through profit or loss		335	(182)
Other operating income		511	171
Operating income		**46,745**	**43,068**
Staff costs	20	(10,811)	(10,710)
Other operating expenses	21	(15,141)	(14,540)
Profit before income tax		**20,793**	**17,818**
Income tax expense	22	(2,187)	(2,022)
Profit for the year		**18,606**	**15,796**
Other comprehensive income		-	-
Items that are or may be reclassified to profit or loss			
Net change in fair value of available for sale financial assets		(50)	-
Total comprehensive income for the year		**18,556**	**15,796**

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 38 to 73.

Separate statement of changes in equity

(amounts in € '000)	Share capital	Retained earnings	Fair value reserve	Total shareholder's equity
Balance at January 1, 2014	58,000	48,968	-	106,968
Contributions and distributions				
Dividends to equity holders	-	(5,000)	-	(5,000)
Additional Capital	5,000	-	-	5,000
Total comprehensive income				
Profit for the year	-	15,796	-	15,796
Balance at 31 December 2014	63,000	59,764	-	122,764
Contributions and distributions				
Dividends to equity holders	-	(16,000)	-	(16,000)
Total comprehensive income				
Profit for the year	-	18,606	-	18,606
Other comprehensive income				
Other comprehensive income	-	-	(50)	(50)
Balance at 31 December 2015	63,000	62,370	(50)	125,320

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 38 to 73.

Separate statement of cash flow

(amounts in € 000)	Notes	For the year ending December 31, 2015	For the year ending December 31, 2014
Cash flows from operating activities			
Interest received on loans		41,484	44,278
Interest paid on placements		(224)	-
Interest received on investment securities		552	1,269
Interest paid on deposits and subordinated loan		(3,657)	(8,164)
Fees and commissions received		12,220	10,052
Fees and commissions paid		(3,454)	(3,108)
Other income received		1,789	189
Staff costs paid		(11,289)	(10,749)
Other operating expenses paid		(13,511)	(12,177)
Income tax paid		(3,200)	(700)
Cash flow from operating activities before changes in operating assets and liabilities		**20,711**	**20,890**
Changes in operating assets and liabilities			
- Mandatory liquidity reserve		(5,318)	(9,916)
- Loans and advances to banks		30,506	(7,778)
- Loans and advances to customers		(3,627)	136
- Investment securities		(84,466)	(48,341)
- Other assets		(149)	957
- Due to customers		71,338	47,671
- Deposits from banks		(370)	(134)
- Other liabilities		(1,399)	254
Net cash flow from operating activities		**27,227**	**3,739**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(3,909)	(2,977)
Net cash used in investing activities		**(3,909)**	**(2,977)**
Cash flows from financing activities			
Additional capital		-	5,000
Repayment of borrowings		(1,857)	-
Proceeds from borrowings		-	1,833
Dividends distributed		(16,000)	(5,000)
Net cash flow from financing activities		**(17,857)**	**1,833**
Effect of exchange rate changes		165	(14)
Net increase/(decrease) in cash and cash equivalents		**5,626**	**2,581**
Cash and cash equivalents at the beginning of year	6	29,926	27,345
Cash and cash equivalents at 31 December (excluding mandatory liquidity reserve)	**6**	**35,552**	**29,926**

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 38 to 73.

Notes to the separate financial statements for the year ended 31 December 2015

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 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 2015 the Bank has 8 branches and 42 sub-branches within Kosovo (31 December 2014: 8 branches and 42 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 Basis of accounting

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 measurement

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
Non-derivative financial instruments at fair value through profit or loss	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, 4 and 5.

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 10.

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, in accordance with International Financial Reporting Standards.

Interests in subsidiaries are accounted for at cost in the separate financial statements.

3.2 Foreign currency 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 profit or loss.

3.3 Financial assets and financial liabilities

(i) 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, as other financial liabilities.

Please refer to note (3.3.1) “Financial assets at fair value through profit and loss” and (3.3.5) “Derivative financial instruments”.

(ii) Recognition

The Bank initially recognises loans and receivables and other financial 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.

(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

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 profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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 losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

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;

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 or 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 debt securities.

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, 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 generally the cash advanced to borrowers. After initial recognition, these are subsequently measured at amortized cost 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 that the Bank has the intent and ability to hold to maturity and comprise government bonds. 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 'Net income from financial instruments at fair value through profit or loss' in profit or loss for the period.

The Bank uses derivative financial instruments such as over the counter (OTC) interest rate swaps to manage its risk arising from fluctuations of market interest rates. No hedge accounting is applied for derivative instruments.

3.3.6 Cash and cash equivalents and mandatory reserves

Cash and cash equivalents include notes and coins on hand (including restricted reserves – see below), 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 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any.

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

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

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

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 profit or loss.

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 within property are depreciated over the shorter 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 licences which are amortized during the licence term.

3.6 Repossessed property

In certain circumstances, property is repossessed following the foreclosure of loans that are in default.
Such assets are measured at the lower of their carrying amount and net realizable value.

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 profit or loss 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 Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.15 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.

3.16 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 Bank'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.

3.17 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 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. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and 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 flow of the financial asset of the group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment.

However, the loss event must have a reliably measurable effect on the present value of estimated future cash flows and be supported by current observable data. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events (triggering events):

Retail Portfolio:
- Accounts which have ever rolled into 180+ dpd - accounts with Absorbing Status
- Early Losses: Frauds, Deceased customers, Bankruptcies
- Restructured Loans: Re Aging, Extensions, Re writes and Deferrals

Non-Retail Portfolio:
- significant financial difficulty of the debtor,
- a breach of legal contract,
- default recognition due to delinquency in interest or principally payments,
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession, that the lender not otherwise consider: forgiveness of principal repayments, forgiveness of interest,
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization including foreclosure proceedings
- the disappearance of an active market for that financial asset because of financial difficulties,
- Bank's Credit Committee classifies an asset/group of assets with similar credit risk characteristics as problematic and refers the case to Problem Loan Committee (although the customer does not meet the client rating/collateral rating grid for such classification),
- the exposure is already classified as "problematic" or handled/analyzed by the Problem Loan Committee.

If it is determined that no objective evidence of impairment exists for an individual asset, than the asset is included in a group of financial assets with similar credit characteristics and the bank collectively assesses them for impairment. The reason for this approach is that impairment that cannot be identified with an individual loan may be identifiable on portfolio basis.

Assets that are individually assessed for impairment and identified as impaired are excluded from a portfolio assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

The retail portfolio is classified based on product types, for Private Individuals and Micro Entities, and it is collective assessed for impairment based on days past due categories, as listed below:

- Current 0 days
- 1 to 30 days
- 31 to 60 days
- 61 to 90 days
- 91 to 120 days
- 121 to 150 days
- 151 to 180 days
- Over 180 days

Provisions are afterwards calculated based on Flow Rate Model or Benchmarking.

For the Non-Retail portfolio, RBKO uses the RBI customer rating as the credit risk characteristic which is indicative of the debtor's ability to pay / fulfil the debt service. Corporate accounts are classified based on Customer Rating (from 1A to 10C) while Small and Medium Businesses ("SMB") accounts are classified based on SMB rating model (from 4B to 10A). For defaults rated at 10, individual impairment model will be applied.

SMB and Corporate provisioning model is based on Customer Rating and related HDRs derived from RBI statistics are applied.

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 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

The collateral value is calculated according to specified methods which include standardized calculation formulas based on market values, predefined discounts, and expert assessments.

Collateral evaluation and re-evaluation is direct responsibility of Collateral Specialist of the bank, for all type of collaterals. Real estate appraisal is updated once a year. This yearly update is performed internally by the respective Collateral Specialist. If the update of the revaluation is not done once every 18 months, the WCV of the respective mortgage is reduced by at least 10 per cent per year as long as there is no actual update performed. More frequent monitoring is required where the real estate market is subject to significant changes in conditions.

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 until sustained performance is observed. Sustained performance is defined as three consecutive contractual payments of principal and/or interest.

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.

Maximum Credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2015 and 31 December 2014 are as follows:

	Non-Derivative														Derivative	
Maximum exposure to credit risk	Cash and cash equivalents		Loans and advances to banks		Loans and advances to costumers		Investment securities		Investments in subsidiaries		Other assets		Credit related commitments		Interest Rate Swaps	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Carrying amount	100,916	89,972	40,442	70,572	450,596	446,796	229,204	144,308	336	336	945	723	-	-	19,290	31,050
Amount committed/ guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	97,868	89,878	-	-
	100,916	89,972	40,442	70,572	450,596	446,796	229,204	144,308	336	336	945	723	97,868	89,878	19,290	31,050
Neither past due nor impaired	100,916	89,972	40,442	70,572	387,925	373,098	229,204	144,308	336	336	945	723	-	-	-	-
Past due but not impaired	-	-	-	-	48,024	48,259	-	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	36,289	49,333	-	-	-	-	-	-	-	-	-	-
Total gross amount	100,916	89,972	40,442	70,572	472,238	470,690	229,204	144,308	336	336	945	723	-	-	-	-
Allowance for impairment	-	-	-	-	(21,642)	(23,894)	-	-	-	-	-	-	-	-	-	-
Net carrying amount	100,916	89,972	40,442	70,572	450,596	446,796	229,204	144,308	336	336	945	723	-	-	-	-
Off balance: maximum exposure																
Total commitment	-	-	-	-	-	-	-	-	-	-	-	-	97,868	89,878	-	-
Provision	-	-	-	-	-	-	-	-	-	-	-	-	(32)	(59)	-	-
Total exposure	-	-	-	-	-	-	-	-	-	-	-	-	97,836	89,819	-	-

Loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Bank against those assets.

	Loans and advances to customers	
	2015	2014
Maximum exposure to credit risk		
Gross amount	472,238	470,690
Allowance for impairment	(21,642)	(23,894)
Net carrying amount	450,596	446,796
Loans with renegotiated terms		
Gross carrying amount	47,548	60,437
Impaired amount	24,013	36,512
Allowance for impairment	(12,324)	(14,639)
Net carrying amount	35,224	45,798
Neither past due nor impaired and Past due but not impaired		
Non-Retail	*215,657*	*223,610*
Grade 2C	5,456	4,866
Grade 3B	-	405
Grade 3C	779	-
Grade 4A	843	222
Grade 4B	24,463	21,245
Grade 4C	28,622	22,874
Grade 5A	7,839	32,739
Grade 5B	15,161	27,269
Grade 5C	17,386	21,496
Grade 6A	31,333	11,452
Grade 6B	6,838	7,095
Grade 6C	29,301	13,327
Grade 7A	7,303	3,979
Grade 7B	7,317	10,509
Grade 7C	8,212	9,124
Grade 8A	8,332	10,642
Grade 8B	2,523	3,158
Grade 8C	3,733	11,098
Grade 9A	1,528	1,029
Grade 9B	8,532	10,170
Grade 9C	150	894
Grade Unrated	5	15

Retail	220,295	200,564
NEW VOLUME	14,196	11,066
CURRENT	193,547	177,075
1-30DPD	8,523	9,106
31-60DPD	2,078	1,316
61-90DPD	788	714
91-120DPD	348	536
121-150DPD	338	504
151-180DPD	478	247
Individually Impaired		
Non-Retail	*32,447*	*44,418*
Grade 10	32,447	44,418
Retail	*3,841*	*4,914*
180+	3,841	4,914
Allowance for impairment		
Individual	19,777	20,723
Collective	1,865	3,171
Total allowance for impairment	21,642	23,894

Ratings are performed separately for different asset classes using internal risk classification models (rating and scoring models). Default probabilities assigned to individual rating grades are calculated for each asset class separately. As a consequence the default probability of the same ordinal rating grade (e.g. corporates good credit standing 4, banks A3, and sovereigns A3) is not directly comparable between these asset classes. Rating models in the main non-retail asset classes – corporates, banks, and sovereigns – are uniform in all Group units and rank creditworthiness in 27 grades for corporate customers and ten grades for banks and sovereigns. For retail asset classes, country specific scorecards are developed based on uniform Group standards. Customer rating, as well as validation is supported by specific software tools (e.g. business valuation tools, rating and default database).

Collateral held and other credit enhancements

The fair value of the collateral is evaluated by the Bank on individual basis. The assessed value represents the allocated execution value. Expected income from collateral liquidation is also taken into account in calculation of individual impairment and collective impairment.

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans and advances to customers			Fair value of collateral		
31 December 2015	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	117	3,454	3,571	117	3,454	3,572
Residential Real Estate	17,975	-	17,975	17,933	-	17,933
Movable	206,038	244,654	450,692	186,985	219,426	406,411
Total	224,130	248,108	472,238	205,035	222,880	427,916

	Loans and advances to customers			Fair value of collateral		
31 December 2014	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	238	3,058	3,296	238	3,058	3,296
Residential Real Estate	15,435	-	15,435	15,242	-	15,242
Movable	189,813	262,146	451,959	166,729	242,734	409,463
Total	205,486	265,204	470,690	182,209	245,792	428,001

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

2015	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	248,108	35,476	32,447	(16,018)	(647)	222,880
Retail Customers	224,130	12,548	3,842	(3,759)	(1,218)	205,036
Total Loans and Advances to Customers	472,238	48,024	36,289	(19,777)	(1,865)	427,916

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

2015	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	1,732	4,208	18,970	23,114	48,024
Loans and advances to customers past due and impaired	22,973	4,827	3,374	5,115	36,289

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	27,208	1,158	1,907	19,060	49,333

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2015 and 31 December 2014 for loans and advances to customers past due and impaired is shown below:

2015	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Corporate Customers	22,522	4,695	2,855	2,375	32,447
Retail Customers	451	132	519	2,740	3,842
Total Loans and advances to customers impaired	22,973	4,827	3,374	5,115	36,289

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

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	2015	2014
AAA	-	-
AA+ to AA-	30,333	63,737
A+ to A-	-	-
BBB+ to B-	24,945	20,497
	55,278	**84,234**

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.

Regulatory liquidity reserve is calculated as 10 percent of the average liabilities due within one year, which reserve is maintain by deposits at central bank and 50 percent of physical cash. As at 31 December 2015, the overage of liquidity reserve is € 4,181(2014: € 1,010 thousand).

The liquidity ratio denominated as total currencies as of 31 December 2015 is 51.83 percent (31 December 2014: 49.12 percent).

The table below shows assets and liabilities as at 31 December 2015 and 2014 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	14,812	-	-	-	86,104	100,916
Loans and advances to banks	40,442	-	-	-	-	40,442
Loans and advances to customers	50,014	44,137	140,126	216,319	-	450,596
Investment securities	3,860	29,791	125,083	70,470	-	229,204
Other assets	-	-	945	-	-	945
Total financial assets	**109,128**	**73,928**	**266,155**	**286,789**	**86,104**	**822,103**
Liabilities						
Deposits from customers	647,066	4,404	15,289	8,440	-	675,199
Deposits and borrowings from banks	2,202	-	-	-	-	2,202
Subordinated debt	336	-	-	19,000	-	19,336
Other liabilities	-	-	5,400	-	-	5,400
Total financial liabilities	**649,604**	**4,404**	**20,689**	**27,440**	**-**	**702,137**
Net gap position at 31 December 2015	**(540,476)**	**69,524**	**245,466**	**259,349**	**86,104**	**119,966**

	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	-	-	5,961	-	-	5,961
Total financial liabilities	**541,966**	**11,304**	**45,611**	**34,377**	**-**	**633,258**
Net gap position at 31 December 2014	**(370,044)**	**69,262**	**160,233**	**183,788**	**75,980**	**119,498**

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 2015 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 2015 and 2014 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	86,104	14,812	-	100,916
Loans and advances to banks	-	40,442	-	40,442
Loans and advances to customers	450,596	-	-	450,596
Investment securities	43,052	167,565	18,587	229,204
Other assets	945	-	-	945
Total financial assets	**580,697**	**222,819**	**18,587**	**822,103**
Liabilities				
Deposits from customers	625,794	21,234	28,171	675,199
Deposits from banks	972	1,230	-	2,202
Subordinated debt	-	19,336	-	19,336
Other liabilities	3,840	1,560	-	5,400
Total financial liabilities	**630,606**	**43,360**	**28,171**	**702,137**
Net gap position at 31 December 2015	**(49,909)**	**179,459**	**(9,584)**	**119,966**

	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	3,821	2,140	-	5,961
Total financial liabilities	**566,699**	**43,081**	**23,478**	**633,258**
Net gap position at 31 December 2014	**(10,402)**	**142,652**	**(12,752)**	**119,498**

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 2015 and 2014. 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	95,338	1,666	3,912	100,916
Loans and advances to banks	16,278	7,812	16,352	40,442
Loans and advances to customers	450,596	-	-	450,596
Investment securities	203,673	25,531	-	229,204
Other assets	945	-	-	945
Total financial assets	**766,830**	**35,009**	**20,264**	**822,103**
Liabilities				
Deposits from customers	620,124	32,074	23,001	675,199
Deposits from banks	2,202	-	-	2,202
Subordinated debt	19,336	-	-	19,336
Other liabilities	5,400	-	-	5,400
Total financial liabilities	**647,062**	**32,074**	**23,001**	**702,137**
Net gap position at 31 December 2015	**119,768**	**2,935**	**(2,737)**	**119,966**

	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	5,961	-	-	5,961
Total financial liabilities	**580,711**	**31,201**	**21,346**	**633,258**
Net gap position at 31 December 2014	**119,282**	**(519)**	**735**	**119,498**

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 2015	31 December 2014
1 USD	0.9158	0.8245
1 CHF	0.9246	0.8317
1 GBP	1.3605	1.2844

		US Dollar (USD)		Swiss Franc (CHF)		British Pound (GBP)
	2015	2014	2015	2014	2015	2014
Sensitivity rates	7%	9%	6%	2%	4%	3%
Profit and loss	2,618	121	(8)	0	(989)	(5)

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 partially hedged through financial derivatives. In order to ensure long term stability in the cash flow from existing loan portfolios, maturing from between 2016 to 2029 these positions are hedged through Interest Rate Swaps.
The Interest Rate Swaps are accounted for as banking book derivatives without hedge accounting. Interest Rate Swaps are measured at market value on each reporting date and any changes resulting from this are recognized in Profit and Loss of the year. 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	14,812	-	-	-	86,104	100,916
Loans and advances to banks	39,647	-	-	-	795	40,442
Loans and advances to customers	50,014	44,137	140,126	216,319	-	450,596
Investment securities	3,860	29,791	125,083	70,470	-	229,204
Other assets	-	-	-	-	945	945
Total financial assets	108,333	73,928	265,209	286,789	87,844	822,103
Liabilities						
Deposits from customers	182,810	4,404	15,289	8,440	464,256	675,199
Deposits from banks	1,230	-	-	-	972	2,202
Subordinated debt	336	-	-	19,000	-	19,336
Other liabilities	-	-	-	-	5,400	5,400
Total financial liabilities	**184,376**	**4,404**	**15,289**	**27,440**	**470,628**	**702,137**
Net gap position at 31 December 2015	**(76,043)**	**69,524**	**249,920**	**259,349**	**(382,784)**	**119,966**

	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	-	602	3,688
Subordinated debt	336	-	-	19,000	-	19,336
Other liabilities	-	-	-	-	5,961	5,961
Total financial liabilities	177,497	11,304	39,650	34,377	370,430	633,258
Net gap position at 31 December 2014	(6,102)	69,262	165,561	183,788	(293,011)	119,498

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	2015				2014			
	EUR	USD	CHF	GBP	EUR	USD	CHF	GBP
Assets								
Placements on call with other banks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Term deposits with other banks	(0.3)	0.1	(4.1)	0.3	(0.0)	0.1	(0.5)	0.3
Government Bonds HTM yield	N/A	N/A	N/A	N/A	0.8	N/A	N/A	N/A
Government Bonds AFV yield	0.4	0.8	N/A	N/A	0.7	0.2	N/A	N/A
Loans and advances to customers	8.8	N/A	N/A	N/A	9.5	N/A	N/A	N/A
Other Loans	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Liabilities								
Customer accounts	0.0	0.0	-	-	0.1	0.0	0.0	-
Term deposits	1.7	0.4	0.1	0.3	2.3	1.1	0.3	1.0
Savings accounts	0.1	0.1	0.0	0.1	0.4	0.2	0.2	0.2

From Risk Management and control perspective there are two aspects of risk:

- Risk evaluation
- Risk control

Interest Rate Risk Evaluation

Interest rate risk sensitivity is measured to quantify dependence of the present value of a position on a risk factor. The interest rate sensitivities, often referred to as basis point values (BPV), give the change of the present value in units of the reference currency, under the assumption that interest rates change by 0.01 per cent (or 1 BP). 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. Below are presented BPV data as per 2015 and 2014:

2015	Total	2014	Total
CHF	7	CHF	52
EUR	(4,338)	EUR	(4,873)
GBP	8	GBP	8
USD	(3,632)	USD	65

Value at risk as of 31 December 2015 is € (26) thousand, for 31 December 2014 € (45) thousand.

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 € 15 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 2015	31 December 2014
Total risk weighted assets	460,365	443,447
Total risk weighted off balance exposures	34,899	26,315
Total risk weighted assets for operational risk	51,058	50,577
Total	546,322	520,339
Regulatory capital (Total Capital)	118,014	106,688
Capital adequacy ratio (Total Capital)	21.60%	20.40%

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.

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:

	2015	2014
Debt	20,565	22,429
Equity	125,320	122,764
Net debt to equity ratio	16%	18%

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.

5.1 Financial instruments not measured at fair value

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.

Loans and advances to banks

Loans and advances to banks are consisted of term deposits and guarantees from other banks. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

Subordinated loan

Long term subordinated loan due to Raiffeisen Bank International has an estimated fair value approximately equal to its carrying amount because of its underlying floating interest rate. The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

Assets	Carrying value 2015	Fair value Level 3 2015	Carrying value 2014	Fair value Level 3 2014
Loans and advances to customers	450,596	451,408	446,796	450,564
Liabilities				
Deposits from customers	675,199	675,455	604,273	604,565
Deposits from banks	2,202	2,202	3,688	3,693

5.2 Financial instruments measured at fair value- fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

31 December 2015				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	229,204	186,108	43,096	-
Financial investments at fair value through profit or loss	138,519	115,469	23,050	-
Financial investments available for sale	90,685	70,639	20,046	-
Derivatives				
Derivatives held for risk management (Note 15)	1,560	-	1,560	-

31 December 2014				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	144,308	111,508	32,800	-
Financial investments at fair value through profit or loss	144,308	111,508	32,800	-
Financial investments available for sale	-	-	-	-
Derivatives				
Derivatives held for risk management (Note 15)	2,140	-	2,140	-

6 Cash and cash equivalents and mandatory reserve

	2015	2014
Cash on hand	34,172	29,846
Balances with the CBK	51,932	46,133
Correspondent accounts with other banks	14,812	13,993
Total	**100,916**	**89,972**

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of € 65,364 thousand (31 December 2014: € 60,046 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 2015 and 2014 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2015	2014
Total cash and cash equivalents and mandatory reserve	100,916	89,972
Less: Mandatory liquidity reserve	(65,364)	(60,046)
Cash and cash equivalents for the purposes of cash flow statement	35,552	29,926

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 2015 the interest was paid at the rate of 0 per cent per annum (31 December 2014: 0 per cent per annum).

7 Loans and advances to banks

Term deposits and call deposits are placed with banks operating in OECD countries. The balance loans and advances to banks includes accrued interest in the amount of € (11) thousand (31 December 2014: € (1) thousand).

Guarantee deposits include an amount of € 795 thousand as at 31 December 2015 (31 December 2014: € 716 thousand) which represent restricted deposits with Barclays Bank as card cash collateral. The Bank does not have the right to use these funds for the purposes of funding its own activities.

	2015	2014
Term deposits	39,647	70,241
Guarantee deposits	795	716
Total loans and advances to banks	40,442	70,957

8 Loans and advances to customers

	2015	2014
Corporate Customers		
Current and restructured loans	158,330	165,127
Overdraft facilities	89,778	100,077
	248,108	265,204
Retail Customers		
Current and restructured loans	209,657	192,755
Overdraft facilities	14,473	12,731
	224,130	205,486
Loans and advances to customers	472,238	470,690
Less: Allowance for impairment	(21,642)	(23,894))
Loans and advances to customers, net	450,596	446,796

Loans and advances to customers include accrued interest income in the amount of € 1,729 thousand (31 December 2014: € 1,741 thousand).
Movements in the allowance for impairment are as follows:

	2015	2014
Allowance for impairment of loans and advances to customers at the beginning of the year	23,894	24,307
Net charge for impairment of loans and advances to customers during the year	3,084	3,818
Write offs	(5,350)	(4,231)
Allowance for impairment of loans and advances to customers at the end of the year	21,628	23,894

As at 31 December 2015 the Bank has 298 borrowers (31 December 2014: 305 borrowers) with aggregated loan amounts above € 100 thousand. The aggregate amount of these loans is € 245,172 thousand or 54 per cent of the gross loan portfolio (31 December 2014: € 261,953 or 55 per cent of the gross loan portfolio).

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

	2015		2014	
	Amount	%	Amount	%
Trade	173,926	37%	194,151	41%
Individuals	213,778	45%	150,836	32%
Manufacturing, chemical and processing	50,112	11%	52,239	11%
Service	13,649	3%	15,558	3%
Construction and construction servicing	13,505	3%	20,911	4%
Food industry and agriculture	7,187	2%	8,643	2%
Other	81	0%	28,352	6%
Total loans and advances to customers before allowance for loan impairment	472,238	100%	470,690	100%

9 Investment securities

	2015	2014
Financial Investments at fair value through profit or loss	138,519	144,308
Available for sale debt securities	90,685	-
Total investment securities	229,204	144,308

	2015	2014
Kosovo Government Treasury Bills and Bonds	43,096	32,800
Other OECD Treasury Bills and Government Bonds	186,108	111,508
Total investment securities	229,204	144,308

Financial Investments at fair value as at 31 December 2015 represent one month to-five year bonds and treasury bills denominated in euro and US dollar issued by Germany, Republic of France, Austria, United States of America, Sweden, Denmark, Netherlands, Finland, Poland, Slovakia, Bulgaria and Republic of Kosovo (Government Treasury Bills).

10 Investment in subsidiaries

	2015	2014
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		2015	2014
Raiffeisen 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

	2015	2014
Prepayments and advances for services	444	827
Fees receivables	946	723
Repossessed properties	342	34
Total other assets	1,732	1,584

12 Property, 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 2014	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
Additions	750	1,480	277	1,402	3,909
Disposals	(409)	(118)	(44)	-	(571)
Cost as at 31 December 2015	5,141	12,732	3,133	11,701	32,707
Accumulated Depreciation and Amortization Opening Balance as at 1 January 2014	3,615	8,794	2,304	7,133	21,846
Depreciation/amortisation charge for the year (Note 21)	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
Depreciation/amortisation charge for the year (Note 21)	263	899	198	1,218	2,578
Eliminated on disposals	(399)	(117)	(45)	-	(561)
Accumulated Depreciation and amortisation as at 31 December 2015	2,569	9,991	2,665	9,280	24,505
Net book value at 31 December 2015	2,572	2,741	468	2,421	8,202
Net book value at 31 December 2014	2,095	2,161	388	2,237	6,881

13 Deposits from customers

	2015	2014
Corporate customers:		
Current accounts	116,212	93,805
Savings accounts	10,160	9,727
Term deposits and margin accounts	1,145	10,860
	127,517	114,392
Retail customers:		
Current accounts	348,043	270,063
Savings accounts	169,524	156,675
Term deposits and margin accounts	30,115	63,143
	547,682	489,881
Total customer accounts	675,199	604,273

As at 31 December 2015, customer accounts include accrued interest in the amount of € 801 thousand (31 December 2014: € 1,214 thousand).

As at 31 December 2015 the Bank has 788 customers each with balances above € 100 thousand (31 December 2014: 705 customers). The aggregate balances of these customers are € 236,774 thousand or 35 per cent of total customer accounts (31 December 2014: € 211,582 thousand or 35 per cent of total customer accounts).

14 Deposits and borrowings from banks

	2015	2014
Borrowings		
Supranational institutions and development banks	1,229	3,086
Deposits		
Other commercial banks – non OECD Countries	972	602
Total deposits and borrowings from banks	**2,202**	**3,688**

15 Other liabilities

	2015	2014
Clearing deposits from payment transfer business	98	597
Deferred income	734	1,055
Accrued staff costs	220	829
Payables	1,198	1,046
Accrued operating expenses	707	456
Interest Rate Swap payable	1,560	2,140
Provision for litigations and off balance sheet credit exposures (see below)	162	201
Other taxes payable	157	114
Liabilities on leased assets	67	88
Other	1,394	691
Total other liabilities	**6,297**	**7,217**

Clearing deposits comprise clearing accounts for debit and credit cards, payments and other items. Clearing deposits from payment transfer business comprise bank's suspense accounts which result in debit balance in amount of € 98 thousand as at 31 December 2015 (31 December 2014: € 597 thousand). Deferred income as at 31 December 2015 represents the amount of deferred loan fees.

The Bank uses other derivatives, not designated in a qualifying hedge relationship to manage its exposure to interest rate risks. The instruments used include interest rate swaps. Details of related party balances are presented in Note 24.

Movements in the provision for litigations and off balance sheet credit exposures are as follows:

	2015	2014
Provision for litigations and off-balance sheet credit exposures at the beginning of the year	**201**	**147**
Provision / (release of provision) for litigations and off balance sheet credit exposures	(39)	113
Usage of previous year provisions	-	(60)
Provision for litigations and off-balance sheet credit exposures at the end of the year	**162**	**201**

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

	2015	2014
Provision for off balance sheet credit exposures	32	59
Provision for litigations	130	142
Total Provision	**162**	**201**

For more details regarding off balance sheet credit commitments, refer to Note 23.

16 Subordinated loan

Subordinated loan consist of the loan issued by Raiffeisen Bank International, the following are the balances for year 2015 and 2014:

	2015	2014
Subordinated loan	19,336	19,336
Total	19,336	19,336

17 Shareholder's equity

Share capital

Authorised and registered share capital of the Bank comprises 100 shares of common stock. The structure of the share capital of the Bank as at 31 December 2015 and 2014 is as follows:

	2015			2014		
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	63,000	100%

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

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

18 Interest income and expense

	2015	2014
Interest income		
Loans and advances to customers	41,444	44,250
Loans and advances to banks	(233)	(2)
Other loans – funded participations	-	160
Financial investments	927	729
Total interest income	42,138	45,137
Interest expense		
Deposits from customers	(1,133)	(4,023)
Deposits from banks	(210)	(350)
Derivative financial instruments (non-trading)	(541)	(1,042)
Subordinated loan	(1,918)	(1,858)
Other interest expense	(22)	(38)
Total interest expense	(3,824)	(7,311)
Net interest income	38,314	37,826

Beginning from October 2014, the Bank has decreased interest rates for term deposits, which has led to decrease in interest expense and decrease in term deposits from customers.

19 Fee and commission income and expense

	2015	2014
Payments transfer business	10,051	8,215
Loan administration and guarantee business	933	1,124
Foreign currency business	1,611	1,283
Agency services for third party products	-	399
Other banking services	45	33
Total fee and commission income	12,640	11,054
Payment transfer business	(2,989)	(2,801)
Other banking services	(465)	(307)
Total fee and commission expense	(3,454)	(3,108)

20 Staff costs

	2015	2014
Salaries and wages	9,400	9,885
Pension contributions	530	512
Other voluntary social expenses	854	305
Share incentives	27	8
Total staff cost	10,811	10,710

The remuneration of directors and key executives is determined by the Raiffeisen Bank International management having regard to the performance of individuals and market trends. The Managing Board related expense for 2015 amounted to € 771 thousand (2014: € 752 thousand).

21 Other operating expenses

	2015	2014
Office space expenses (rental, maintenance, other)	3,038	3,152
Depreciation of property and equipment	1,360	1,604
IT cost	2,170	2,429
Advertising, PR and promotional expenses	1,213	1,220
Security expenses	1,165	1,093
Amortization of intangible assets	1,218	929
Other administrative expense	317	585
Communication expenses	340	498
Office supplies	321	399
Legal, advisory and consulting expenses	2,809	1,431
Training expenses for staff	223	225
Deposit insurance fees	576	535
Car expenses	272	322
Travelling expenses	119	118
Total other operating expenses	15,141	14,540

22 Income taxes

	2014	2013
Current tax charge	3,308	1,483
Deferred taxation	(1,121)	539
Income tax expense for the year	**2,187**	**2,022**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2014: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

	2015	2015	2014	2014
Profit before taxation		20,793		17,818
Tax charge for the year at the applicable statutory rate	10%	2,079	10%	1,781
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	5.9%	1,229	(1.7%)	(298)
Current tax charge	**15.9%**	**3,308**	**8.3%**	**1,483**

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. The temporary differences in impairment provisions is calculated as the difference between IFRS impairment provision and the impairment as per Central Bank Regulations which are also deductible for tax purposes. These differences are represented in the table below.

	2014	Movement during 2015	2015
Tax effect of deductible temporary differences			
Leasehold improvements, equipment and intangible assets	(257)	172	(86)
Term deposits – accrued interest	96	(29)	67
Staff bonuses	52	(30)	22
Gross deferred tax asset/(liability)	(109)	113	3
Tax effect of taxable temporary differences			
Loan impairment provision	(3,243)	1,091	(2,150)
Provision for off-balance sheet credit exposure	(19)	(83)	(102)
Total net deferred tax (liability)	**(3,371)**	**1,121**	**(2,249)**

22 Contingencies 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 2015 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 decision, the Bank has made a provision of € 130 thousand as the nearest estimate of possible cash outflows arising from possible court decisions.

Capital commitments. As at 31 December 2015 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2014: Nil).

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

	2015	2014
Not more than 1 year	302	309
More than 1 year and not more than 5 years	-	14
Total operating lease commitments	**302**	**323**

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:

	2015	2014
Commitments to extend credit	46,368	47,062
Guarantees (credit facility)	41,326	33,458
Guarantees (cash covered)	959	1,470
Letters of credit (credit facility)	385	212
Trade Finance line of credit	6,337	7,529
Stand by letter of credit	2,493	147
Total credit related commitments	**97,868**	**89,878**

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 2015, the Bank has 22 interest rate SWAP contracts with a notional amount of € 19,290 thousand (2014: € 31,050 thousand). The Bank pays fixed and receives variable interest rates. The net valuation result of these contracts for the year ended 31 December 2015 was € 307 thousand (2014: € 111 thousand). Fair value of SWAP contracts as at 31 December 2015 was loss of € 1,227 thousand (2014: loss of € 1,535 thousand).

23 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:

	2015		2014	
	Parent	Other related party	Parent	Other related party
Statement of financial position				
Cash and cash equivalents and mandatory reserve	2,035	-	2,280	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	5,456	-	4,844
Other Loans	-	-	-	-
Other assets	100	22	-	338
Liabilities				
Customer accounts	-	535	-	57
Deposits and borrowings from banks	1,229	448	2,541	391
Subordinated debt	19,336	-	19,336	-
Other liabilities	2,671	90	2,773	94
Statement of profit and loss and other comprehensive income				
Interest income	6	73	168	305
Interest expense	(2,459)	(74)	(2,900)	-
Net fees and commission	(222)	(449)	(194)	(332)
Net valuation result financial instruments carried at fair value	158	-	111	-
Other operating expenses	(810)	-	(60)	(213)
Purchase of intangible assets	(317)	(247)	442	-
Management Remuneration	-	771	-	752
Off Balance Sheet				
Guarantees	-	-	-	-
Letter of credit	-	-	-	-

24 Subsequent events

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

Addresses and contacts

Raiffeisen Bank Kosovo Branch Network

Raiffeisen Bank Kosovo J.S.C.

Head Office
UÇK Street, no. 51
10000 Prishtina
Tel: +381 (0)38 222 222, ext. 142
Fax: +381 (0)38 20 30 11 25
SWIFT Code: RBKOXKPR
IBAN Code: XK05
E-mail: info@raiffeisen-kosovo.com

Office for corporate
Eqrem Çabej Street, no. 8
10000 Prishtina
Tel: +381 (0)38 222 222 ext. 412

Office for premium customers
Agim Ramadani Street, no. 15
10000 Prishtina
Tel: +381 38 222 222, ext. 405

Regional Branch in Prishtina
Nena Tereze Street, no. 52
10000 Prishtina
Tel: +381 38 222 222, ext. 482

Branch in Prishtina
Bulevardi Bill Clinton, n.n.
10000 Prishtina
Tel: +381 (0)38 222 222, ext. 401

Branch in Prishtina
Gazmend Zajmi Street, n.n., Bregu i Diellit
10000 Prishtina
Tel: +381 (0)38 222 222, ext. 420

Branch in Prishtina
Vëllezërit Fazliu Street, Kodra e Trimave
10000 Prishtina
Tel: +381 38 222 222, ext. 465

Branch in Prishtina
Dadania Boulevard, b 5/7 Dardani
10000 Prishtina
Tel: +381 38 222 222, ext. 455

Branch in Prishtina
Nazim Gafurri Street, n.n. next to Technical School
10000 Prishtina
Tel: +381 38 222 222, ext. 427

Branch in Prishtina
Ahmet Krasniqi Street, Dragodan
10000 Prishtina
Tel.: 038 222 222, ext. 490

Branch in Fushë Kosovë
Nena Tereze Street, No. 80
12000 Fushe Kosova
Tel: +381 (0)38 222 222, ext. 470

Branch in Aeroport
Prishtina International Airport J.S.C.
Vrella, Lipjan
Tel: +381 (0)38 222 222, ext. 390

Branch in Obiliq
Hasan Prishtina Street, n.n.
12000 Obiliq
Tel: +381 (0)38 222 222, ext. 467

Branch in Drenas
Skenderbeu Street, n.n.
13000 Gllogovc
Tel: +381 (0)38 222 222, ext. 460

Branch in Gracanica
Main Street, n.n.
Tel: +381(0) 222 222 ext 450

Branch in Lipjan
Shqipëria Street, n.n.
14000 Lipjan
Tel: +381 (0)38 222 222, ext. 441

Branch in Podujeva
Zahir Pajaziti Street, n.n.
11000 Podujeva
Tel: +381 (0)38 222 222, ext. 430

Regional Branch in Ferizaj
Dëshmorët e Kombit Street, no. 39
70000 Ferizaj
Tel: +381 (0)38 222 222, ext. 655

Branch in Ferizaj
Rexhep Bislimi Street, no. 28
70000 Ferizaj
Tel: +381 (0)38 222 222, ext. 667

Branch in Ferizaj
Aradha e Sharrit Street, n.n.
Ferizaj – Prishtina Highway
Tel: +381 (0)38 222 222 ext. 665

Branch in Han të Elezit
Agim Jashari Street
71510 Hani i Elezit
Tel: +381 (0)38 222 222, ext. 486

Branch in Kaçanik
Agim Bajrami Street, n.n.
71000 Kaçanik
Tel: +381 (0)38 222 222, ext. 670

Branch in Shtime
Prishtina Street, n.n.
72000 Shtime
Tel: +381 (0)38 222 222, ext. 680

Branch in Shtrpce
Main Street, n.n.
73000 Shtërpce
Tel: +381 (0)38 222 222, ext. 690

Regional Branch in Gjakova
Mother Theresa Street, no. 328
50000 Gjakovë
Tel: +381 (0)38 222 222, ext. 701

Branch in Gjakova
Yll Morina Street, n.n.
50000 Gjakova
Tel: +381 (0)38 222 222, ext. 715

Branch in Rahovec
Avdullah Bugari Street, n.n.
21010 Rahovec
Tel: +381 (0)38 222 222, ext. 730

Regional Branch in Gjilan
Adem Jashari Street, no. 110
60000 Gjilan
Tel: +381 (0)38 222 222, ext. 750

Branch in Gjilan
Mulla Idrizi Street
60000 Gjilan
Tel: +381 (0)38 222 222, ext. 765

Branch in Kamenica
Tringë Ismajli Street, no.12/a
62000 Kamenica
Tel: +381 (0) 38 222 222, ext. 770

Branch in Viti
Adem Jashari Street, n.n.
61000 Viti
Tel: +381 (0) 38 222 222, ext. 780

Regional Branch in Mitrovica
Ali Pashe Tepelena Street, n.n.
40000 Mitrovica
Tel: +381 (0)38 222 222, ext. 555

Branch in Mitrovica
Adem Jashari Square
40000 Mitrovica
Tel: +381 (0)38 222 222, ext. 585

Branch in Vushtrri
Dëshmorët e Kombit Street, n.n.
42000 Vushtrri
Tel: +381 (0)38 222 222, ext. 560

Branch in Skenderaj
Mbreteresha Teuta Square
41000 Skenderaj
Tel: +381 (0)38 222 222, ext. 570

Regional Branch in North Mitrovica
Kralja Petra I Street, n.n.
Tel: +381 (0)38 222 222, ext. 581

Branch in Brnjak
Border with Serbia
Customs Terminal 1 in Brnjak
Tel: +381 (0)38 222 222, ext. 584

Branch in Jarinje
Border with Serbia
Customs Terminal 31 in Jarinje
Tel: +381 (0)38 222 222, ext. 588

Regional Branch in Peja
Haxhi Zeka Square
30000 Peja
Tel: +381 (0) 38 222 222, ext. 607

Branch in Peja
Bill Clinton Street, n.n.
30000 Peja
Tel: +381 38 222 222, ext. 615

Branch in Peja
Beteja e Koshares Street, no. 81
30000, Peja
Tel: +381 (0)38 222 222, ext. 610

Branch in Decan
Luan Haradinaj Street, n.n.
51000 Deçan
Tel: +381 (0)38 222 222, ext. 620

Branch in Istog
Trade Center, no. 61
31000 Istog
Tel: +381 (0)38 222 222, ext. 640

Branch in Klina
Mujë Krasniqi Square, n.n.
32000 Klina
Tel: +381 (0) (0)38 222 222, ext. 630

Regional Branch in Prizren
Nëna Terezë Street, Bazhdarhane, no. 7
20000 Prizren
Tel: +381 (0)38 222 222, ext. 507

Branch in Prizren
Shadervani Square no. 38
20000 Prizren
Tel: +381 (0)38 222 222, ext. 520

Branch in Prizren
De Rada Street, n.n.
20000, Prizren
Tel: +381 (0) 38 222 222, ext. 525

Branch in Malisheva
Rilindja Kombëtare Street, n.n.
24000 Malisheva
Tel: +381 (0)38 222 222, ext. 530

Branch in Suhareka
Brigada 123 Street, n.n.
23000 Suhareka
Tel: +381 (0)38 222 222, ext. 540

Branch in Dragash
Sheshi i Dëshmorëve, no. 22
22000 Dragash
Tel: +381 (0)38 222 222, ext. 535

Raiffeisen Bank International AG

Austria
Am Stadtpark 9
1030 Vienna
Phone: +43-1-71 707-0
Fax: +43-1-71 707-1715
www.rbinternational.com
ir@rbinternational.com
communications@rbinternational.com

Banking network

Albania
Raiffeisen Bank Sh.A.
"European Trade Center"
Bulevardi "Bajram Curri"
Tirana
Phone: +355-4-23 8 100
Fax: +355-4-22 755 99
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

Belarus
Priorbank JSC
V. Khoruzhey str. 31-A
220002 Minsk
Phone: +375-17-28 9-9090
Fax: +375-17-28 9-9191
SWIFT/BIC: PJCBBY2X
www.priorbank.by

Bosnia and Herzegovina
Raiffeisen Bank d.d.
Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Phone: +387-33-287 100
Fax: +387-33-21 385 1
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

Bulgaria
Raiffeisenbank (Bulgaria) EAD
Nikola I. Vaptzarov Blvd.
Business Center EXPO 200 PHAZE III, floor 5
1407 Sofia
Phone: +359-2-91 985 101
Fax: +359-2-94 345 28
SWIFT/BIC: RZBBBGSF
www.rbb.bg

Croatia
Raiffeisenbank Austria d.d.
Petrinjska 59
10000 Zagreb
Phone: +385-1-45 664 66
Fax: +385-1-48 116 24
SWIFT/BIC: RZBHHR2X
www.rba.hr

Czech Republic
Raiffeisenbank a.s.
Hvezdova 1716/2b
14078 Prague 4
Phone: + 420-234-405-222
Fax: +420-234-402-111
SWIFT/BIC: RZBCCZPP
www.rb.cz

Hungary
Raiffeisen Bank Zrt.
Akadémia utca 6
1054 Budapest
Phone: +36-1-48 444-00
Fax: +36-1-48 444-44
SWIFT/BIC: UBRTHUHB
www.raiffeisen.hu

Kosovo
Raiffeisen Bank Kosovo J.S.C.
Rruga UÇK, No. 51
10000 Pristina
Phone: +381-38-22 222 2
Fax: +381-38-20 301 130
SWIFT/BIC: RBKOXKPR
www.raiffeisen-kosovo.com

Poland
Raiffeisen Bank Polska S.A.
Ul. Piekna 20
00-549 Warsaw
Phone: +48-22-58 5-2000
Fax: +48-22-58 5-2585
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

Romania
Raiffeisen Bank S.A.
Calea Floreasca 246C
014476 Bucharest
Phone: +40-21-30 610 00
Fax: +40-21-23 007 00
SWIFT/BIC: RZBRROBU
www.raiffeisen.ro

Russia
AO Raiffeisenbank
Smolenskaya-Sennaya 28
119002 Moscow
Phone: +7-495-72 1-9900
Fax: +7-495-72 1-9901
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

Serbia
Raiffeisen banka a.d.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-32 021 00
Fax: +381-11-22 070 80
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

Slovakia
Tatra banka, a.s.
Hodžovo námestie 3
P.O. Box 42
85005 Bratislava 55
Phone: +421-2-59 19-1111
Fax: +421-2-59 19-1110
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

Slovenia
Raiffeisen Banka d.d.
Zagrebška cesta 76
2000 Maribor
Phone: +386-2-22 931 00
Fax: +386-2-30 344 2
SWIFT/BIC: KREKSI22
www.raiffeisen.si

Ukraine
Raiffeisen Bank Aval JSC
9, vul Leskova
01011 Kiev
Phone: +38-044-49 088 88,
Fax: +38-044-295-32 31
SWIFT/BIC: AVALUAUK
www.aval.ua

Leasing companies

Austria
Raiffeisen-Leasing
International GmbH
Am Stadtpark 3
1030 Vienna
Phone: +43-1-71 707-2071
Fax: +43-1-71 707-76 2966
www.rli.co.at

Albania
Raiffeisen Leasing Sh.a.
"European Trade Center"
Bulevardi "Bajram Curri"
Tirana
Phone: +355-4-22 749 20
Fax: +355-4-22 325 24
www.raiffeisen-leasing.al

Belarus
"Raiffeisen-Leasing" JLLC
V. Khoruzhey 31-A
220002 Minsk
Phone: +375-17-28 9-9394
Fax: +375-17-28 9-9974
www.rl.by

Bosnia and Herzegovina
Raiffeisen Leasing d.o.o. Sarajevo
Zmaja od Bosne bb.
71000 Sarajevo
Phone: +387-33-254 354
Fax: +387-33-212 273
www.rlbh.ba

Bulgaria
Raiffeisen Leasing Bulgaria OOD
32A Cherni Vrah Blvd. Fl.6
1407 Sofia
Phone: +359-2-49 191 91
Fax: +359-2-97 420 57
www.rlbg.bg

Croatia
Raiffeisen Leasing d.o.o.
Radnicka cesta 43
10000 Zagreb
Phone: +385-1-65 9-5000
Fax: +385-1-65 9-5050
www.rl-hr.hr

Czech Republic
Raiffeisen-Leasing s.r.o.
Hvezdova 1716/2b
14078 Prague 4
Phone: +420-2-215 116 11
Fax: +420-2-215 116 66
www.rl.cz

Hungary
Raiffeisen Lízing Zrt.
Vérmezö út. 4
1012 Budapest
Phone: +36-1-477 8709
Fax: +36-1-477 8702
www.raiffeisenlizing.hu

Kazakhstan
Raiffeisen Leasing Kazakhstan LLP
Shevchenko Str. 146, No. 12
050008 Almaty
Phone: +7-727-378 54 30
Fax: +7-727-378 54 31
www.rlkz.at

Kosovo
Raiffeisen Leasing Kosovo
Gazmend Zajmi n.n., Sunny Hill
10000 Pristina
Phone: +381-38-22 222 2
Fax: +381-38-20 301 103
www.raiffeisenleasing-kosovo.com

Moldova
I.C.S. Raiffeisen Leasing S.R.L.
Alexandru cel Bun 51
2012 Chisinau
Phone: +373-22-27 931 3
Fax: +373-22-22 838 1
www.raiffeisen-leasing.md

Poland
Raiffeisen-Leasing Polska S.A.
Ul. Prosta 51
00-838 Warsaw
Phone: +48-22-32 636-00
Fax: +48-22-32 636-01
www.rl.com.pl

Romania
Raiffeisen Leasing IFN S.A.
Calea Floreasca 246 D
014476 Bucharest
Phone: +40-21-36 532 96
Fax: +40-37-28 799 88
www.raiffeisen-leasing.ro

Russia
OOO Raiffeisen-Leasing
Smolenskaya-Sennaya 28
119121 Moscow
Phone: +7-495-72 1-9980
Fax: +7-495-72 1-9901
www.raiffeisen-leasing.ru

Serbia
Raiffeisen Leasing d.o.o.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-220 7400
Fax: +381-11-228 9007
www.raiffeisen-leasing.rs

Slovakia
Tatra-Leasing s.r.o.
Cernyševského 50
85101 Bratislava
Phone: +421-2-59 19-3053
Fax: +421-2-59 19-3048
www.tatraleasing.sk

Slovenia
Raiffeisen Leasing d.o.o.
Letališka cesta 29a
SI-1000 Ljubljana
Phone: +386-1-241-6250
Fax: +386-1-241-6268
www.rl-sl.si

Ukraine
LLC Raiffeisen Leasing Aval
Moskovskyi Prospect 9
Build. 5 Office 101
04073 Kiev
Phone: +380-44-590 24 90
Fax: +380-44-200 04 08
www.rla.com.ua

Branches and representative offices - Europe

France
RBI Representative Office Paris
9-11 Avenue Franklin D. Roosevelt
75008 Paris
Phone: +33-1-45 612 700
Fax: +33-1-45 611 606

Germany
RBI Frankfurt Branch
Wiesenhüttenplatz 26
60 329 Frankfurt
Phone: +49-69-29 921 924
Fax: +49-69-29 921 9-22

Sweden
RBI Representative Office Nordic Countries
Drottninggatan 89, 14th floor
11360 Stockholm
Phone: +46-8-440 5086
Fax: +46-8-440 5089

UK
RBI London Branch
Leaf C 9th Floor, Tower 42
25 Old Broad Street
London EC2N 1HQ
Phone: +44-20-79 33-8000
Fax: +44-20-79 33-8099

Branches and representative offices – Asia and America

China

RBI Beijing Branch
Beijing International Club Suite 200
2nd floor
Jianguomenwai Dajie 21
100020 Beijing
Phone: +86-10-65 32-3388
Fax: +86-10-65 32-5926

RBI Hong Kong Branch
Unit 2102, 21st Floor,
Tower One, Lippo Centre
89 Queensway, Hong Kong
Phone: +85-2-27 30-2112
Fax: +85-2-27 30-6028

RBI Representative Office Zhuhai
Room 2404, Yue Cai Building
No. 188, Jingshan Road, Jida,
Zhuhai, Guangdong Province
519015, P.R. China
Phone: +86-756-32 3-3500
Fax: +86-756-32 3-3321

India

RBI Representative Office Mumbai
501, Kamla Hub, Gulmohar Road, Juhu
Mumbai – 400049
Phone: +91-22-26 230 657
Fax: +91-22-26 244 529

Korea

RBI Representative Office Korea
#1809 Le Meilleur Jongno Town
24 Jongno 1ga
Seoul 110-888
Republic of Korea
Phone: +82-2-72 5-7951
Fax: +82-2-72 5-7988

Singapore

RBI Singapore Branch
One Raffles Quay
#38-01 North Tower
Singapore 048583
Phone: +65-63 05-6000
Fax: +65-63 05-6001

USA

RB International Finance (USA) LLC
1133 Avenue of the Americas,
16th Floor
10036 New York
Phone: +1-212-84 541 00
Fax: +1-212-94 420 93

RZB Austria Representative Office New York
1133 Avenue of the Americas,
16th Floor
10036 New York
Phone: +1-212-59 3-7593
Fax: +1-212-59 3-9870

Vietnam

RBI Representative Office
Ho-Chi-Minh-City
35 Nguyen Hue Str.,
Harbour View Tower
Room 601A, 6th Floor, Dist 1
Ho-Chi-Minh-City
Phone: +84-8-38 214 718,
+84-8-38 214 719
Fax: +84-8-38 215 256

Raiffeisen Zentralbank AG

Austria

Am Stadtpark 9
1030 Vienna
Phone: +43-1-26 216-0
Fax: +43-1-26 216-1715
www.rzb.at

Editor, Publisher
Raiffeisen Bank Kosovo J.S.C.
UÇK Street, No. 51
10000 Prishtina
Phone: +381-38-22 222 2
Fax: +381-38-20 301 130
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