Annual Report 2016

Raiffeisen BANK
Kosovo

Survey of key data

Raiffeisen Bank Kosovo J.S.C.			
Monetary values are in € million	2016	2015	Change
Income statement	1/1-31/12	1/1-31/12	
Net interest income after provisioning	33.0	36.7	-10.0%
Net commission income	9.6	9.2	4.3%
Net income from financial instruments at fair value through profit or loss	0.4	0.1	321.4%
Trading profit/loss	0.6	0.4	42.3%
Other operating income	1.5	0.3	325.7%
General administrative expenses	(25.8)	(26.0)	-0.7%
Profit before tax	19.3	20.8	-7.1%
Profit after tax	17.0	18.6	-8.7%
Earnings per share	N/A	N/A	N/A
Balance sheet			
Loans and advances to banks	40.6	40.4	0.3%
Loans and advances to customers	495.7	450.6	10.0%
Deposits and borrowings from banks	0.5	2.2	-76.8%
Deposits from customers	725.0	675.2	7.4%
Equity (incl. minorities and profit)	122.8	125.3	-2.0%
Balance-sheet total	879.5	831.4	5.8%
Local regulatory information			
Risk-weighted assets B1, incl. market risk	572.9	546.3	4.9%
Total own funds	117.5	118.0	-0.4%
Total own funds requirement	68.7	65.6	4.9%
Excess cover ratio	71.0%	80.0%	-9.0 PP
Core capital ratio (Tier 1)	16.8%	17.4%	-0.6 PP
Total own funds ratio	20.5%	21.6%	-1.1 PP
Performance			
Return on equity (ROE) before tax	17.4%	17.7%	-0.3 PP
Return on equity (ROE) after tax	15.3%	15.8%	-0.5 PP
Cost/income ratio	53.2%	53.5%	-0.3 PP
Return on assets (ROA) before tax	2.3%	2.6%	-0.3 PP
"Net provisioning ratio (average risk-weighted assets B3 in banking book)"	0.8%	0.5%	0.3 PP
Risk/earnings ratio	9.3%	4.2%	5.1 PP
Resources			
Number of staff (FTE)	711	693	2.6%
Business outlets	50	50	0.0%

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Report of the Supervisory Board

Ladies and Gentlemen,

The 2016 financial year was dominated by two key issues: Firstly, the market environment, which remained challenging due to the very low interest rate level and continuing high regulatory and political pressures; secondly, the start of the process of evaluating a merger of RBI and RZB.

The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. February 2015 saw the implementation of a transformation program designed to strengthen the capital base – it targeted a CET1 ratio (fully loaded) of at least 12 per cent, a reduction of complexity and a substantial reduction of costs. With a CET1 ratio (fully loaded) of 13.6 per cent at 31 December 2016, RBI achieved its target ahead of schedule.

Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RBI and RZB. The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The merger is effective once it has been entered in the commercial register, which is expected by the end of March 2017 at the latest.

The strengths of the merged entity will build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria. The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

As far as Raiffeisen Bank Kosovo is concerned, in 2016 it achieved a net profit amounting to € 17 million which generated a return on equity after tax of 15.3 per cent. The Bank continued to remain number one bank in the country, not just for net profit but across a wide range of criteria such as total assets, net loans, deposits, and the number of branches. 2016 was also a year of the Bank's focus on increasing the usage of alternative channels, which recorded positive developments.

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

2016 was another very good 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 above 3 per cent, which has consistently been the case for several years now. This contributed to another very good year for the Bank with a net profit after tax of € 17 million which was particularly pleasing given the additional unbudgeted provisions of € 1.3 million which were taken in advance of the introduction of IFRS9 on January 1st 2018.

Loan growth in all our customer segments was impressive and even though we took a prudent and sensible approach to our lending, our portfolio grew by € 45.1 million, to € 495.7 million at the year-end representing a 10 per cent increase on 2015. Our cautious approach to lending for several years now has resulted in an excellent non performing loans ratio of 6.3 per cent at the end of 2016, and the Kosovo banking system has the lowest NPL ration in South East Europe. Our deposits grew by 7 per cent to € 725 million and this is a clear demonstration of the trust customers have in our brand and their satisfaction with our customer service. Cost management and improved efficiency continued to be considered in 2016 and our Cost Income Ratio reduced slightly from 53.5 per cent in 2015 to 53.2 per cent in 2016.

Our focus on increasing the usage of alternative channels lead to positive results and we processed 480 thousand private individual e-banking transactions which was a 26 per cent increase compared to 2015. Usage of our mobile banking service increased by 104 per cent and payments through this channel increased by 70 per cent. We also processed over 1.2 million transactions on our point of sale terminals, which was a 20 per cent increase compared to 2015. 4.6 million transactions were performed on our ATMs which is a 15 per cent increase compared to 2015. In our small enterprises (SE) and corporate business segments the positive trend of increased usage continued. During the year, 287 thousand e-banking transactions were processed, representing 73 per cent of all processed payments, an increase of 11 per cent compared to 2015. At the beginning of the year we introduced an innovative SMS payment service for customs payments, that has created a completely different customer experience with remarkable market penetration. During the year over € 238 million of customs payments were processed representing 73 per cent in corporate and 35 per cent in SE, of all customs payments processed.

Customer service continued to be a very important competitive advantage and as always, we focused on improving our customer satisfaction with all our products and services. We made significant investments in technology and staff training to meet and exceed our customer expectations and ensure that we deliver positive and memorable experiences at each interaction. Our customer centric culture is a great enabler and is the basis on which we develop everything to meet our customers' needs and expectations. By being active on social media, we also managed to stay close and engaged with our customers with relevant and motivating communications and responses to our customers' enquiries and questions in a timely manner.

In the field of Social Corporate Responsibility, we adopted and approved the IFC standards and guidelines to manage environmental and social risk and the policy was applied internally from the beginning of 2016. We continued to support the health sector, by donating equipment in six regional hospitals in Kosovo, with an amount of 50,000 euros. Our projects included the cooperation with the H. Stepic CEE Charity further supporting the education center for Roma children in Fushe Kosove (€ 37,000). Another new initiative taken in the second half of 2016 was the utilization of a space in the biggest shopping center in Kosovo for the promotion of art works of young artists. This began in October 2016 and will remain open for one year, having a new young artist promote his or her work each month.

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

On behalf of the Management Board,

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

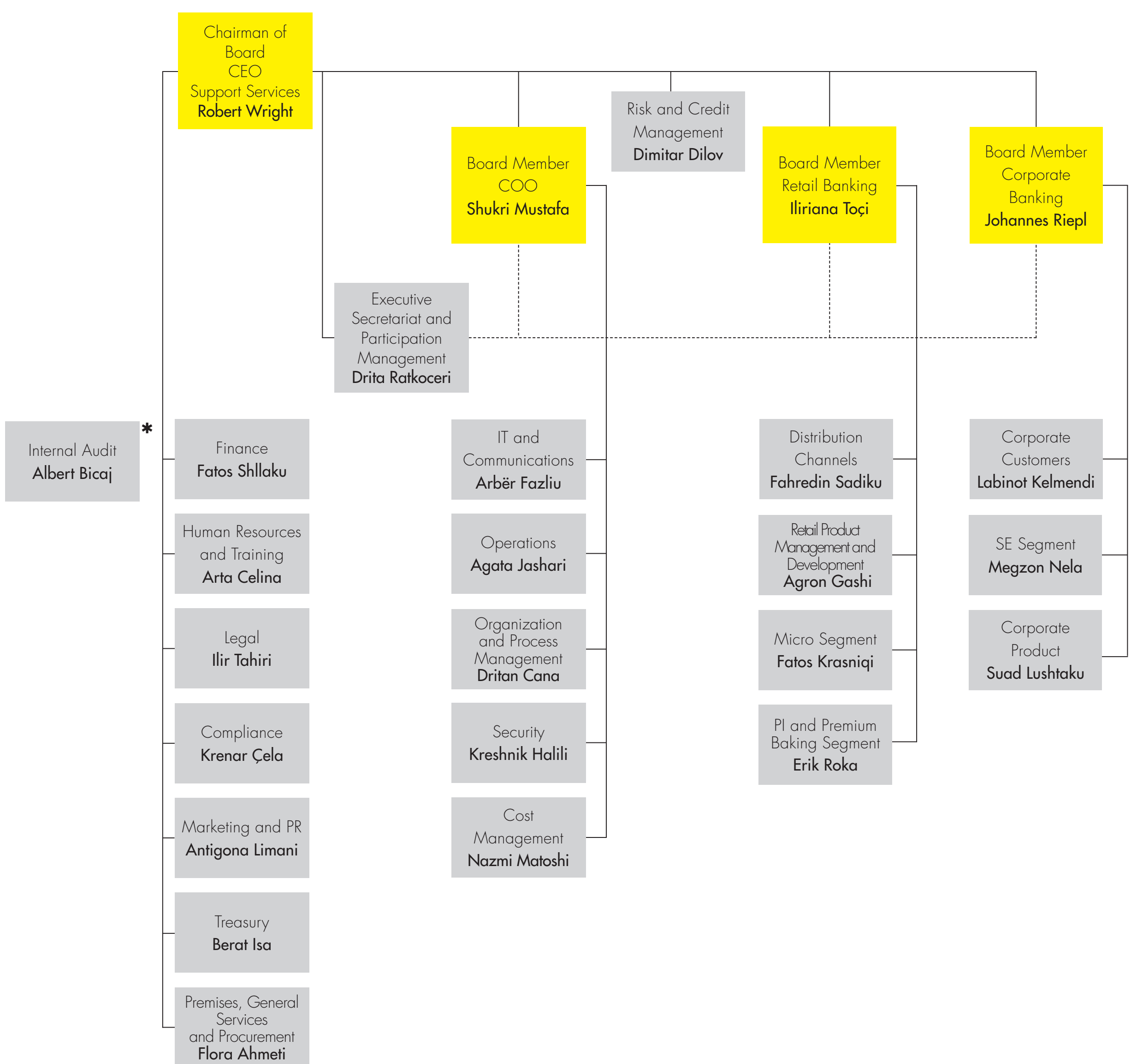
Member of the Management Board

Johannes Riepl

Member of the Management Board

Raiffeisen Bank Kosovo Organisational Structure

As of 31 December 2016



* 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 30 years, RBI has been operating in 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 2016, around 46,000 RBI employees served some 14.1 million customers in around 2,500 business outlets. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and large multinational corporate customers operating in CEE. All in all, RBI employs about 49,000 people and has total assets of approximately € 112 billion.

Raiffeisen Zentralbank Österreich (RZB AG) was established in 1927 as "Girozentrale der österreichischen Genossenschaften" and at that time served as the liquidity balancing center for Austria's agricultural cooperatives, as envisioned by social reformer Friedrich Wilhelm Raiffeisen.

RZB AG had one of the largest banking networks in CEE through its subsidiary, Raiffeisen Bank International (RBI AG), which has been listed on the stock exchange since 2005. At the end of 2016, RZB AG held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float. RZB AG was primarily owned by the eight Raiffeisen regional banks and served as their central institution pursuant to the Austrian Banking Act (BWG). Following the merger between RZB AG and RBI AG, effective retroactively as of 30 June 2016, RBI AG will assume the role of RBG's central institution by way of universal succession.

Merger of RBI and RZB

Merger rationale

The market environment for banks has changed significantly in recent years. The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. While this has benefited the overall stability of the European financial system, at the same time, the administrative burden and complexity for banks increased markedly. Stricter requirements and regular bank stress tests, for example, require extensive preparation and tie up resources. In addition, there have been further burdens, such as bank levies in many Central and Eastern European countries. These do not contribute to the stabilization of the financial system, but negatively impact banks' resources and thereby reduce the potential for strengthening equity by internal generation.

In this context, the Management Board believes more than ever that it has a responsibility to continuously evaluate the company's position and prospects, as well as to identify options for adjusting to the changed market environment and resulting challenges for optimal positioning in the future. Also part of these considerations was the evaluation of the merger of RBI and RZB and the potential benefits resulting for the entire Group.

Strengths of the Combined Bank

The key objectives of the transaction are, on the one hand, to retain the proven business model and, on the other, to optimally position the organization for the aforementioned challenges. The main focus is on three issues:

- Firstly, it should improve the capitalization of the Group from a regulatory perspective. Capital planning and allocation are to be optimized. In addition, the minority interest deduction for the Combined Bank is eliminated and conserves capital. RZB had to deduct minority interests after Basel III was adopted.

- Secondly, the internal and external transparency of the Group will be increased: the harmonization of shareholder interests and regulatory requirements will become much simpler. At the same time, transparency is improved for all stakeholders by simplifying the Group structure, which was previously highly complex.

- Thirdly, the merger has a positive impact on Corporate Governance policies: Leaner organizational and governance structures facilitate more focused and efficient decision-making processes throughout the organization. Previously overlapping functions between the two companies will be eliminated.

The strengths of the Combined Bank build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria. The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

Cost control will remain a high priority, and the more streamlined organizational structure will help improve efficiency and transparency.

Progress of the merger

On 10 May 2016, the Management Boards of RBI and RZB resolved to examine a merger of RBI and RZB. The objectives of a merger should be the simplification of the corporate structure and adapting of the Group to increased regulatory requirements.

Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RZB and RBI. In connection with this, preliminary valuation ranges were also defined for the merging entities. RZB, as the transferring company, is to merge with RBI, the acquiring company; through absorption by way of universal succession by transferring all of RZB's assets as at 30 June 2016, and based on RZB's closing balance at 30 June 2016, with a capital increase for RBI. The Combined Bank will operate under the name of Raiffeisen Bank International AG, as was previously the case for RBI, and RBI shares will continue to be listed on the Vienna Stock Exchange.

The documents required to vote on the merger at the Extraordinary General Meeting were published on 21 December 2016, following publication of the final exchange ratio on 16 December 2016 and the completion of the legally required examinations by the merger auditor and Supervisory Boards of the merging entities. On 23 January and 24 January 2017, RZB and RBI held Extraordinary General Meetings to pass resolutions on the merger. The merger resolutions required the majority votes of three-quarters of the share capital present to be passed. This majority was exceeded by a wide margin in both cases. A webcast of RBI's Extraordinary General Meeting can be viewed online at www.rbinternational.com → Investor Relations → Presentations & Webcasts. The merger is expected to be entered in the commercial register on 18 March 2017.

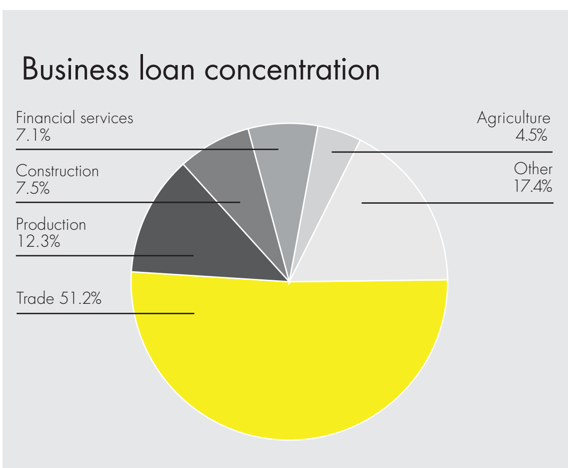
The determined exchange ratio was supported by relative company valuations conducted by two internationally recognized appraisers In keeping with Austrian merger law; the fairness of the exchange ratio was also verified by an independent, court-appointed merger auditor, also a recognized appraiser. In order to compensate RZB's shareholders for their shares in the bank, RBI will issue new shares and thereby increase its total number of shares from 292,979,038 to 328,939,621.

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 continues to be the main sector contributing to the stability and expansion of financial activities in the country. It also dominates the Kosovo financial system, contributing to 68 per cent of total assets. There were a total of ten licensed banks operating in the market in 2016, out of which, eight are foreign owned. The assets of foreign owned banks comprise 90 per cent of total assets and 92 per cent of bank's total capital in the market.

Total assets of the banking sector reached € 3.64 billion on 31 December 2016 (2015: € 3.39 billion). The growth of total assets in 2016 was 7.4 per cent and is higher than the previous years growth of 6.3 per cent. The growth of the banks total assets was mainly driven by an increase in loans and advances to customers, which continues to be the main asset category. The lending activity of banks in 2016 continued to grow at a faster rate that than in the previous year. Total loans and advances achieved a value of € 2.23 billion (2015: € 2.02 billion), which is an annual increase of 10.4 per cent compared to 7.3 per cent in 2015. This increase in growth was caused by decreasing interest rates in the market, an overall favorable lending conditions by banks and increased demand for loans.



The largest contribution to the loans growth was from loans and advances to both businesses and individuals. Loans and advances to individuals continued to have an important impact in the total loan portfolio growth for the second year in a row. The main increase in loans and advances to individuals came from individual consumer loans which was higher than the demand for mortgage loans, which showed a slower trend of increase in 2016.

The percentage allocation of loans and advances as of 31 December 2016 was 64 per cent to non-financial corporations and 36 per cent to individuals.

The economic sector concentration of new loans and advances to businesses continued to be dominated by the trade sector with an overall share of 50.2 per cent, followed by production 12.0 per cent and construction with 7.4 per cent. (*Source: Quarterly Assessment of Economy, No. 16, Quarter III/2016*).

New loans issued to businesses in 2016 showed a decrease of 15 per cent compared to the year before. While new loans issued to individuals in 2016 increased by 11 per cent compared to the year before, the largest increase being in new consumer loans which increased by 18 per cent in 2016 when compared to 2015.

Banking sector investments in government bonds and T-bills reached € 510.3 million in 2016 (2015: € 473.3 million), an increase of 8 per cent. The increase is slower than the year before when the annual increase was 23 per cent.

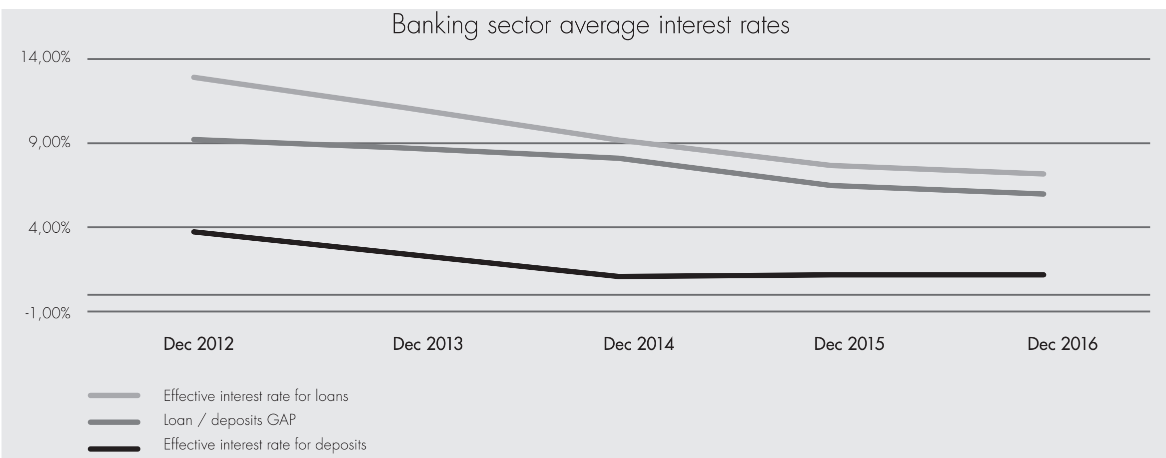
Customer deposits continue to be the main contributor in the financing of banking activities. As of December 2016 customer deposits comprised 80 per cent of total banking sector liabilities. A high reliance on financing from local deposits, especially from private individuals makes it the most reliable way for financing compared to other options and it is also very immune from international fluctuations in the financial markets.

Total deposits in the banking sector reached € 2.9 billion. An annual increase of 7.2 per cent, which is larger than the growth rate of 6.5 per cent in 2015. The structure of deposits is dominated by deposits from private individuals comprising of 73 per cent of total deposits. The deposits of private individuals continued to be the highest contributor in the increase of deposits, which achieved an annual growth of 8 per cent (6 per cent in 2015).

The structure of deposits in the banks has changed in the recent years as the interest rates reached historical lows. As a result, there were more deposits in current accounts and less in term deposits and saving accounts. As of 31 December 2016 demand deposits accounted for 52.6 per cent of total deposits, followed by term deposits with 23.9 per cent and savings deposits with 23.5 per cent.

The average interest rate for deposits remained stable in the last year and at the same rate as in 2015 at 1.2 per cent. The average interest rate for individual's deposits was 1.0 per cent while for businesses it was 1.6 per cent.

Interest rates for loans have been decreasing for some years now. In 2016, the average effective interest rate for loans decreased from 7.7 per cent to 7.2 per cent. The interest rates for loans decreased for businesses as well as for private individuals. The average interest rate for businesses on 31 December 2016 was 6.8 per cent down from 7.4 per cent on 31 December 2015. The average interest rate for private individuals also decreased during 2016 from 8.4 per cent in 2015 to 7.9 per cent by the end of 2016.



In 2016, the banking sector did not achieve such good results as in the previous year, which was a record achievement for the baking sector in Kosovo. By 31 December 2016, net profit of the banking sector was € 75.5 million (2015: € 94.7 million). Interest income was lower in 2016 by 4 per cent when compared to 2015. This was also impacted by decreasing interest rates in the market for loans and advances to customers.

Overall banking sector expenses were higher in 2016 by 8.4 per cent. This was partly influenced by higher expenses for loan loss provisions considering the fact that last year the banking sector had positive balance due to release of previously built provision reserves. So the expenses of banks increased in 2016 even though banking sector general and administrative expenses decreased by 7 per cent.

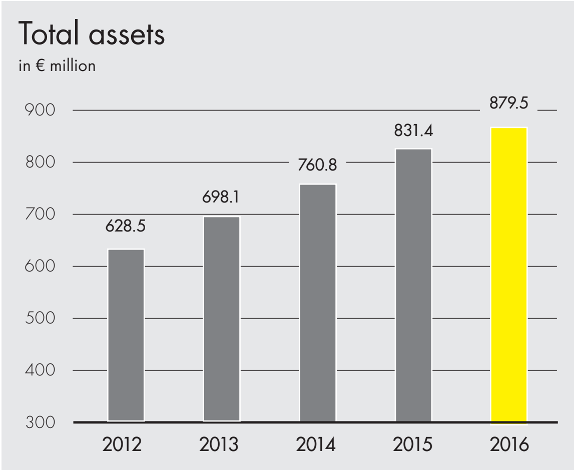
The lower income of the banking sector also influenced a number of performance ratios in 2016. Return on average assets decreased to 2.2 per cent (2015: 2.9 per cent) and return on average capital also decreased to 18.5 per cent from 26.4 per cent in 2015. The loan to deposit ratio was 77 per cent on 31 December 2016 up from 74.8 per cent on 31 December 2015. The Capital Adequacy Ratio (regulatory capital /risk weighted assets) was 17.9 per cent down from 19 per cent on 31 December 2015 and the banking sector loan to deposit ratio was 77.0 per cent on 31December 2016.

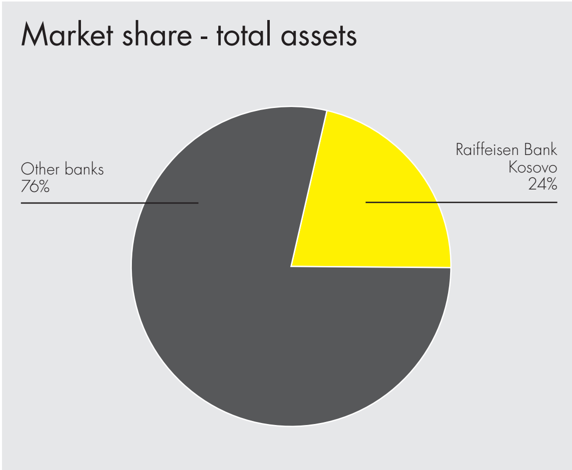
In 2016, the nonperforming loan ratio improved and at the same time the nonperforming loan provision coverage ratio also improved. As of 31 December 2016 the nonperforming loan to total loan ratio had dropped to 4.9 per cent (2015, 6.2 per cent). In addition, the nonperforming loan coverage ratio improved from 115 per cent on 31 December 2015 to 126.5 per cent on 31 December 2016.

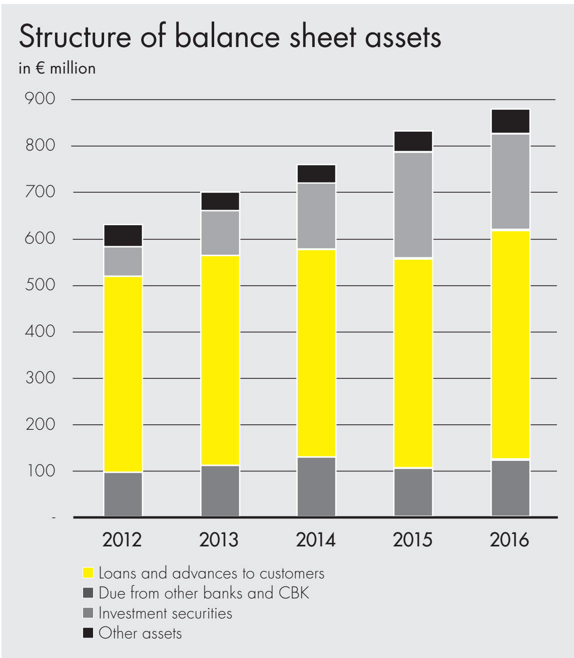
Raiffeisen Bank Kosovo performance and financials

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 2016 were € 879.5 million. This is an increase of 5.8 per cent when compared to the previous year (2015: € 831.4 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 24 per cent (2016: 26 per cent).







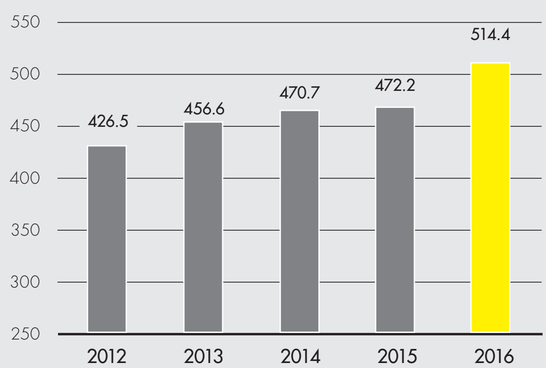
Raiffeisen Bank Kosovo assets continues to be dominated by loans and advances to customers. As of 31 December 2016, 56 per cent of total assets were concentrated in loans and advances to customers after provisioning for loan losses. That is followed by 24 per cent in investment securities.

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

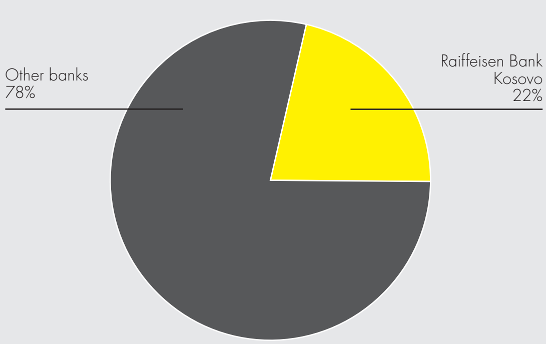
The investments in securities decreased in 2016 by 9 per cent. Total investment in securities on 31 December 2016 was € 207.7 million. Investments in Kosovo Government treasury bills were € 42 million (2015: € 43 million) and investments in other OECD country government bonds was € 168.8 million (2015: € 186 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 2016 were € 514.4 million (2015: € 472.2 million). The market share in loans and advances as of 31 December 2016 was 22 per cent (2015: 23 per cent).

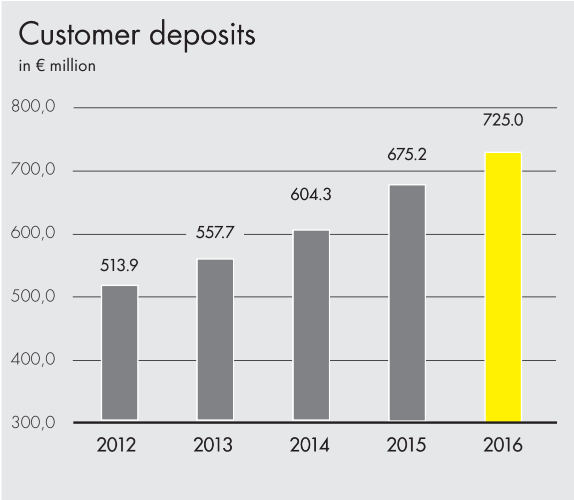
Raiffeisen Bank Kosovo also made allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 18.7 million (2015: € 21.6 million). These allowances are for specifically assessed and portfolios assessed credit portfolio and reflect Raiffeisen Bank Kosovo assessment of risk on the credit portfolio as at 31 December 2016.

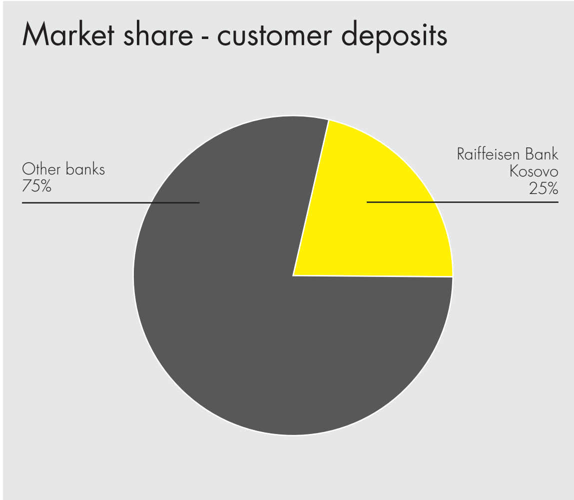
The balance of provisions is lower than the year before and this is as a result of the improvement of the bank's non-performing loan ratio.

The ratio of total loan provisions, including individual loan loss provisions and portfolio based loan loss provisions, to nonperforming loans in December 2016 was 58 per cent.

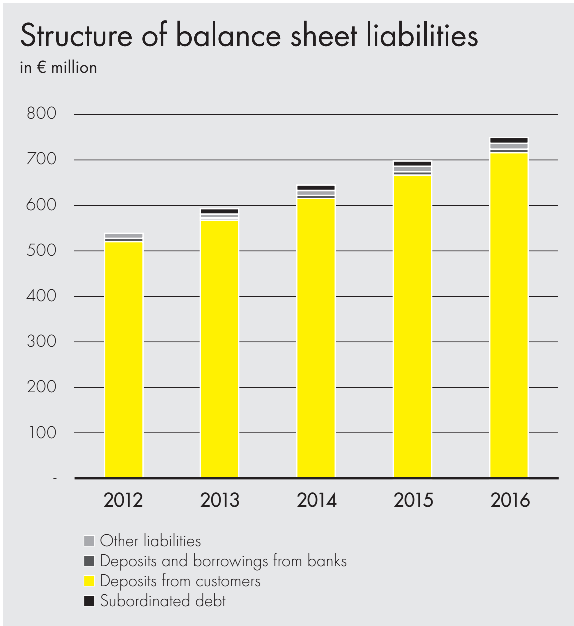
Total customer deposits reached € 725 million on 31 December 2016 up from € 675.2 million on 31 December 2015. That is an increase of 7 per cent.

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 76 per cent, an increase from 69 per cent in 2015. Savings accounts have a share of 21 per cent of total bank customer deposits. Term deposits from customers account for only 3 per cent of the total deposit base. The increase in current account balances could also be explained by the drop in market interest rates for saving accounts and term deposits in recent years.



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

In 2016, the Raiffeisen Bank Kosovo share capital remained at € 63 million. The total equity as at 31 December 2016 was € 122.8 million (2015: € 125.3 million) including € 59.9 million in the form of retained earnings. Raiffeisen Bank Kosovo distributed a dividend to its shareholder from its retained earnings in 2016 to the value of € 19.5 million.

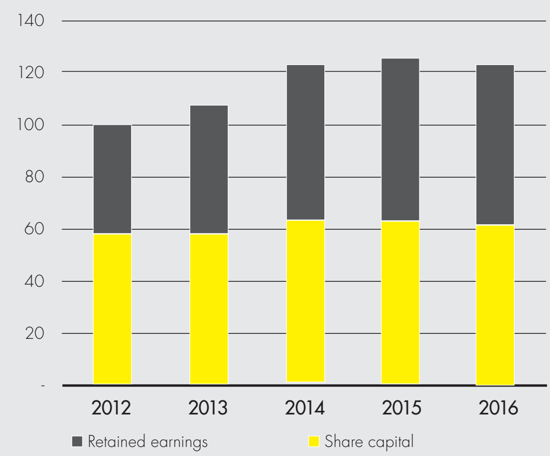
This payment did not reflect in the value of total equity or in the regulatory capital requirements. Raiffeisen Bank Kosovo continues to be well capitalized which is also reflected in the 2016 regulatory capital ratios of Tier 1 to total risk weighted assets ratio of 16.8 per cent (legal requirement 8 per cent) and a total capital (including Tier 2) to risk weighted assets ratio of 20.5 per cent (legal requirement 12 per cent). In the calculation of Tier 2 capital the bank has included € 19 million of subordinated debt with an original maturity of ten years. The above capital requirements where calculated in compliance with CBK regulation on capital adequacy and other applicable regulatory rules and regulations.

Net income after tax in 2016 was € 17 million (2015: € 18.6 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 those statements are sent to Central Bank and are also published on a quarterly basis on the Raiffeisen Bank Kosovo website and also in local daily newspapers. Raiffesen Bank Kosovo income is strongly dominated by income generated from loans and advances to local customers. Income from interest on loans and advances and securities continues to be the main source of income 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.

In 2016, the Bank was able to generate more income from fee and commission which increased by 26 per cent in 2016, though the corresponding fee and commission expense also increased offsetting a part of this increase.

Structure of equity

in € million

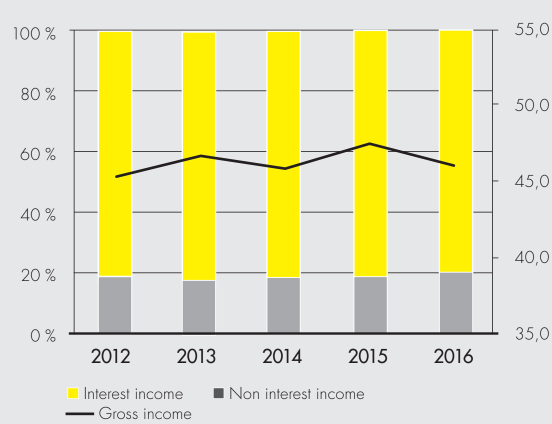


During 2016, the Bank could also see a noticeable effect from the changes in the legal environment with the licensing of private bailiffs. It managed to execute a number of pending cases at a much faster rate than before. This resulted in faster sales of the Bank's repossessed assets and as a result, the Bank has higher income in the other income position in 2016.

The general and administrative expenses as of 31 December 2016 were € 25.8 million (2015: € 26 million). The cost income ratio was 53.2 per cent (2015: 53.5 per cent). This shows a slight improvement in efficiency. 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.

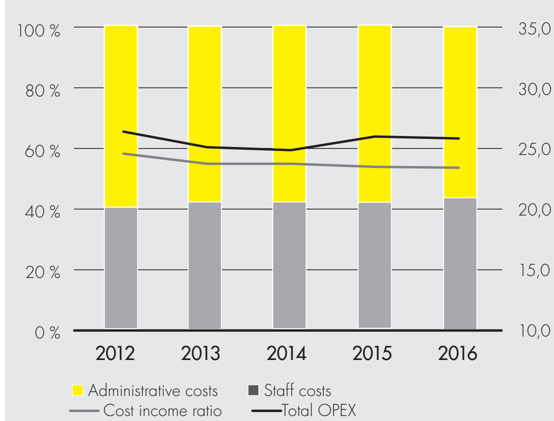
Gross income development and structure

in € million



General administrative expenses development

in € million



Treasury, asset and liability management

Asset liability management

2016 was a successful year as far as the collection and consolidation of deposits was concerned. Raiffeisen Bank Kosovo managed to increase further its core deposit position. Building on the increased trust in the financial system, especially the brand of Raiffeisen Bank Kosovo, the banks liquidity remained at stable levels, thus lowering the funding costs on a year on year basis.

Treasury/asset liability management (ALM) assets fell from € 341 million in 2015 to € 333 million at the end of 2016. The gross loans of the Bank show ample liquidity levels close to 40 per cent of the balance sheet. In 2016, the Bank experienced an increase in customer business deposits of around € 50 million and € 45 million in customer business loan assets.

Prudent asset and liability management made it possible for Raiffeisen Bank Kosovo to keep the lowest cost of funds in the market, which in turn enabled lower loan rates. 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 84 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 2016, showed an end of year BPV position of around 20,000. Net interest margin fell further in 2016 to around 4.25 per cent because of increased liquidity and lower loan interest rates.

Government securities

Out of a total € 333 million of treasury assets, Raiffeisen Bank Kosovo bonds portfolio in foreign and local government securities increased to € 208 million by the end of 2016. 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 averaged at year-end a current yield of negative 0.28 per cent and a modified duration of 0.78 years, where the negative returns of the OECD instruments are almost completely offset by positive-yielding Kosovars, but with triple the duration. Given the historic yields at acquisition were much better, this results in improved valuation gains for fair-value instruments, which is 86 per cent of the portfolio.

Rating	Allocation
Aaa	28%
Aa1	21%
Aaau	1%
Aa2u	8%
P-1	5%
A2	4%
Baa2	5%
NR	28%

Modified duration	Allocation
below 1.00	74%
1.00 to 2.00	20%
2.00 to 3.00	4%
3.00 to 4.00	0%
above 4.00	2%

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.

Financial derivatives

The Bank's interest rate swaps portfolio is an important risk mitigation tool for its long-term portfolio. Interest rate swaps are used to mitigate the risks from the probability of the unfavorable move of interest rates.

The Bank expects that the market rates are moving higher on the long-term curve from the current historical low rates, although on the short end of the Euro curve, a further drop in the curve throughout the year it was recorded. Long term rates for Euro are likely to go up going forward in the anticipation of improved economic environment. The political risks in the Eurozone remain and navigating the Interest Rate Swap (IRS) portfolio will be difficult. The Basis Point Value (BPV) of the current exposure in financial derivatives is less than ten thousand Euro / BPV.

Foreign exchange business

Foreign exchange business contributed more than € 1.637 million in total revenues in 2016. 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	2016
Forex income in Thousands Euro	1,766	1,543	1,407	1,283	1,849	1,637

Custody business

In 2016, Raiffeisen Bank Kosovo marked its fifth year in custody business. The Bank's customers are able to place trades in almost all exchanges in the world. This feature enables customers to buy and sell securities such as bills, bonds and stocks in the world markets.

Business segments

Corporate

In 2016, Raiffeisen Bank Kosovo continued to empower corporate customers by providing comprehensive and tailor made financial products and services, supporting them in the expansion of their business capacities and enabling them to achieve their growth potential. The Bank's strong customer relationships continued to uphold the banks leading position in the corporate segment in Kosovo.

Corporate increased its lending capabilities and further enhanced customer relationships, which in turn resulted in an increased loan portfolio of 7.8 per cent to € 195.5 million and 18.5 per cent of liabilities to € 106 million compared to the previous year.

Corporate also continued to focus on improving the quality of the portfolio. Risk costs decreased 17 per cent from last year. The share of nonperforming loans (NPL) decreased from 12.6 per cent to 9.7 per cent or a drop of 22 per cent compared to the previous year.

The corporate segment remained one of the main contributors to the bank's profitability, despite the significant interest rate reduction in the lending market.

The Bank's experienced relationship managers and the expertise of its product managers established Raiffesien Bank Kosovo as the main bank for most of the corporate customers of the country, showing the trust in the Bank and the sustainability of the Bank's business model.

Small Enterprises

The small enterprise (SE) segment remained a strong component within the bank's customer segment and portfolio. The absolute priority in serving small enterprises was customer satisfaction by offering a wide range of financial products through experienced relationship managers situated in four main regions of Kosovo supported by coaching from head-office and through the expertise of the product managers.

SE continued to adapt to market changes in an economic environment of constant challenges. During 2016, SE segment served over 1200 customers with a yearly increase of 9 per cent in the number of customers.

During 2016, the aim of the segment was the acquiring of new customers as well as enhancing the relationship with existing customers by prudent lending, supporting feasible investment projects and maintaining working capital. This approach resulted in having a very good risk performing lending portfolio with an increase of 4.5 per cent compared to last year. It is worth mentioning that one of the aims of the segment is supporting the growth of customers and transferring them to corporate segment. The yearly volume of about 10 per cent transforming to corporate segment reflects this.

Reflecting the bank's strong brand and customer's trust, in 2016 customer deposits increased to € 25.6 million, up 8.4 per cent compared to 2015. The SE portfolio showed an acceptable risk performance with low risk costs and a significant contribution from the selling of repossessed assets.

With the aim to reach the ambition levels of SE customers for quick loan approving, several initiatives were performed in 2016 adapting lean management practices to increase efficiency, reduce operating costs and ultimately increase customer satisfaction.

The Bank held a series of business meetings with SE customers and senior bank management together with guest speakers on various topics (market and industry trends, tax and legal changes, financing solutions and investment products, interest rates) in the five main cities of the country.

Micro Enterprises

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

Throughout 2016, it introduced many initiatives for customers, with one of the main ones being joint breakfasts with customers. Across all regions of Kosovo, the Bank discussed and exchanged ideas with customers and used the opportunity to thank customers for their continuous cooperation with the Bank. In 2016, the Bank also initiated a “Best project” in the micro sector, which selected the best micro projects in all regions of Kosovo, based an investment plan, impact on employment, increase of revenues, production, innovative idea, and environmental protection. These initiatives are in line with previous projects and with the overall strategy of providing a superior customer experiences.

In 2016, the Bank continued to enhance its market share of micro business in Kosovo. It provided its banking products and services to more than 15,000 customers, an increase of 7 per cent compared to the previous year. The Bank also managed to improve the quality of micro loan portfolio through prudent lending and various debt collection activities.

Private Individuals and Premium Banking

Raiffeisen Bank Kosovo continued to be the market leader for individual business in Kosovo. During 2016, the Bank provided banking products and services to more than 294,000 private individuals and premium banking customers. The number of customers increased by almost 11 per cent compared to the previous year. Throughout the year, the Bank had a number of marketing campaigns focusing on loans, which lead to a significant increase of the loan portfolio.

Premium Banking continued to deliver excellent service with proactive approach and conducting a holistic advisory approach for specific customers. During 2016, the number of Premium Customers increased by 5 per cent while volume assets increased by 12 per cent. In addition to lending products, the Bank offered possibility to trade with Treasury Bills (T-Bills) thus offering Premium Customers more options for maximizing their savings. The total amount invested in T-Bills reached €15 million. The Bank was also focused in ensuring that Premium Banking customers have the opportunity to discuss their financial plans and investment opportunities in detail with their dedicated premium financial advisors in an exclusive area that is designated specifically for Premium Banking customers.

Banking products and services

Corporate and SE

Similar to previous years, Raiffeisen Bank Kosovo has continued to keep the focus on creating long-term and sustainable relationships with customers, supporting their growth and viable business opportunities. In line with this, the Bank continued to simplify and streamline its products and processes in line with changing customer needs. The product range was adapted to market and customer expectations by upgrading of the existing products.

Corporate and SE customers are continuously changing to non-branch banking for more convenient, transparent and less costly banking. Over 73 per cent of all transactions of corporate and small enterprise customers are conducted via e-banking. During 2016, via a newly introduced service which uses SMS for customs payments over 65 per cent of all customs payments or € 238 million were processed.

Raiffeisen Bank Kosovo from year to year continues to prove its leading market position in terms of product offering. In 2016, it was the only bank in Kosovo offering project finance and factoring. In project finance, it supported the development of real estate projects with prime developers as well as the extension of the biggest shopping mall in Kosovo. In factoring, the Bank offered additional liquidity and flexibility to customers, enabling more flexible collateral coverage requirements.

The Bank expertise in trade finance, the trust in the brand and providing of professional advice continued to uphold the Bank's leading position in trade finance in both issuance and acceptance of guarantees and letters of credit. During 2016, the Bank issued 517 products in the amount of € 37 million representing an increase for 39 per cent in terms of number of guarantees and letters of credit or 88 per cent in terms of amount compared to the year before.

Retail

In line with the Bank's priorities of enhancing capabilities on electronic channels according to customer demands and market developments, a very positive result was achieved during 2016. The Bank managed to process 480 thousand internet banking transaction, a 26 per cent increase compared to 2015 and achieve 42 per cent increase the number of internet banking users to 47 thousand. Further adoption of mobile banking applications and an increase of smart phone users resulted in the successful increase of 104 per cent of active mobile banking users and increase by 70 per cent of mobile banking payments. In addition, Raiffeisen Bank Kosovo engaged a wide range of campaigns and festivals, promoting the transparency of electronic products and services, the technology used and the security of these channels.

Credit and debit card business has remained a top priority during 2016 and throughout the year, the Bank organized different usage campaigns with partners, which have proven to be very successful and widely accepted by customers. The number of transactions processed on point of sales terminals increased by 20 per cent compared to 2015 and the usage of the ATM network increased by 15 per cent with 4.6 million transactions processed during 2016.

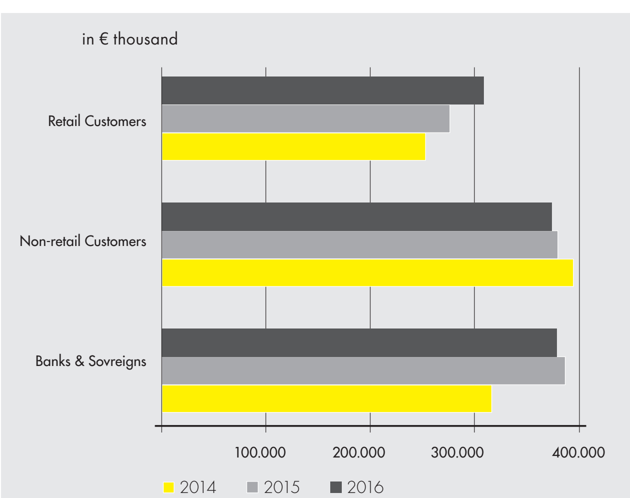
Risk management

Active risk management is a core competency of Raiffeisen Bank Kosovo. In order to effectively identify, measure, and manage risks the Bank continues to develop its comprehensive risk management system. In particular, in addition to legal and regulatory requirements, the Bank takes into account the nature, scale, and complexity of its business activities and the resulting risks.

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 and the previous two periods. Total credit risk exposure was € 922.9 million as of 31 December 2016 which is 1.8 per cent higher compared with 31 December 2015 (€ 906.7 million) and 10 per cent higher compared with 31 December 2014 (€ 839.1 million). This portfolio is diversified between business and individual customers 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

2016 was a very good year for recovery of default loans and the Bank expects a similar trend to continue considering that the introduction of private bailiffs continues to be one of the successful stories of the banking system in Kosovo. The Bank's non-performing loan ratio has decreased year on year to 6.2 per cent.

Liquidity risk

An important role of banks is maturity transformation in the international financial markets. The need for maturity transformation arises from the needs of depositors to access their funds at short notice and the opposing need of borrowers for long term loans. This function constantly results in positive or negative liquidity gaps for different maturities that are managed through transactions with other market participants under normal market conditions. 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. All these analyses are discussed in the Group Asset/Liability Committee. The Bank's liquidity position continued to remain stable and revealed a strong liquidity buffer during 2016.

Central Bank of Kosovo Regulatory Liquidity Ratio

	2016	2015	Minimum Requirement
All currencies	47.2%	51.5%	25.0%
Euro currency	42.7%	47.7%	20.0%

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
IIdentifying 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 2017. The Kosovo banking sector remains very dynamic with changes in legislation in line with EU.

The focus, during 2016, was on changes to the regulation on Capital Adequacy practices. In 2017 the regulation on the Management of Interest Rate Risk in the Banking Book will enter into force and the Bank is fully prepared to comply with this and other new regulations.

In 2016, the Central Bank of the Republic of Kosovo issued an advisory letter in relation to Internal Capital Adequacy Assessment Process (ICAAP), which the Bank believes will be followed by new regulations. As part of Raiffeisen Bank International (RBI) group, the Bank is subject to the changes in the regulatory environment in the EU. This enables us to be adapted in advance to changes in local regulations which aim to be harmonized with EU regulations.

Distribution channels

Raiffeisen Bank Kosovo has a wide branch network in 50 locations throughout the country serving most of the population. Through its regional branches and sub- branches Raiffeisen Bank Kosovo offers a highly varied range of financial services and products, professional advisory services, high-quality products and a deep commitment to the local economy and society.

During 2016, the Bank continued to invest in its existing branch network through remodeling of 4 branches and the creation of self service areas, which will enable customers to seamlessly use alternative channels such as E-Banking, cash machines, 24 hours a day, 7 days a week. Today, 93 per cent of transactions are performed in ATMs whereas also only 7 per cent are done in branches. The distribution channels of Raiffeisen Bank Kosovo also allow customers to have simple and friendly access to banking products through Direct Sales Agents and the Contact Center.

Direct Sales Agents

This well-established network operates with 62 agents that act as mobile bankers with the aim of being near to customers whenever they choose to meet for professional advice regarding bank products and services. They complement the Bank's branch network by serving customers at their convenience.

The Contact Center

The Contact Center serves as an alternative channel for 24/7 customer servicing, facilitating both existing and potential customers in day-to-day communication with the Bank. Raiffeisen Bank Kosovo's Contact Centre has four main activities: the handling of inbound queries, providing outbound telemarketing, informing campaigns, and various questionnaires. 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, help desk and communication center through internet banking. In order to respond faster to customers, the Contact Center offers a free service for receiving customer complaints.

Point of Sales Network

This service offers cardholders the possibility to use their debit and credit cards, Visa, Visa Electron, MasterCard and Maestro brands, at Points of Sale with the possibility to purchase higher value goals with installments. The POS network all over the country and offers this service to more than 60 different merchant categories including hotels, travel agencies, shops, restaurants, petrol stations, hypermarkets and the largest shopping malls in the country. In 2016, Raiffeisen Bank further developed its POS network all over the country and reached 1,817 terminals, resulting on an increase in the number of transactions by 22 per cent.

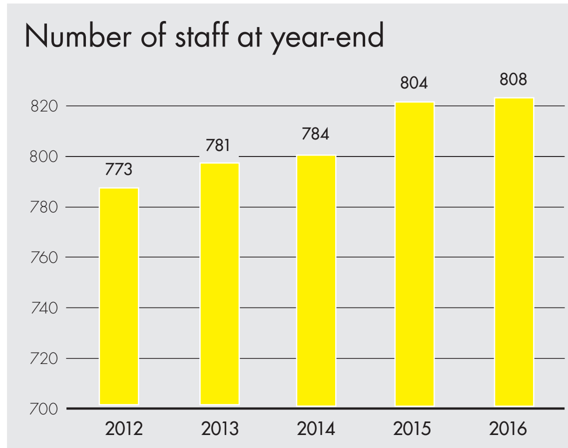
Customer Experience

Raiffeisen Bank Kosovo has invested in shaping the customer experience so that the customer is at the centre of the processes and enjoys a memorable and positive experience. Customer insight plays a very crucial role on identifying customers' expectations toward Bank´s products and level of satisfaction at the Bank's main customer touch points and measuring the satisfaction level of customers allows the Bank to continuously improve the quality of services and reshape the experiences. The investments that the Bank made in creating a proper and suitable complaint management process resulted with higher scores of resolution speed and decreased to an average of 3,7 days in 2016 from 4.6 days during 2015.

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 continuous mission of Human Resources and Training Department.



As of 31 December 2016, the Bank had 808 employees (681 full time, 127 part time), and the additional 66 Direct Sales Agents. Compared to 2015, the total number of employees in 2016 had an increase of 0.5 per cent. The number of new employees who joined was 42. During 2016, two Internship Programs have been organized. The number of interns who were part of the internship programs was 103. The aim of an Internship Program is to support under-graduate, Master Degree students and Graduated candidates of Kosovo.

The average age of employees was 36 years, indicating a relatively young human capital. 50.9 per cent of total employees were women, whereas 49.1 per cent of total employees were men.

Talent management

During 2016 the focus in increasing the awareness and skills of bank managers toward human capabilities continued. Talent management activities were organized 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 Development Assessment Centre, Rotation and Cross-functional programs and tailored learning assignments. These very highly rated internal and international programs aim to deepen the expertise of the most talented Bank employees and managers through an innovative combination of practical, alternative and academic methods of learning. There are also KPIs set by some leaders to increase the focus in this area of Human Resource Management.

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. A specific focus was given to the concept of Self-development and own initiative for career planning with tailored half day sessions.

During 2016, 80 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 3.2 training days per employee in 2016. During 2016, the number of training days was 2,805 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.

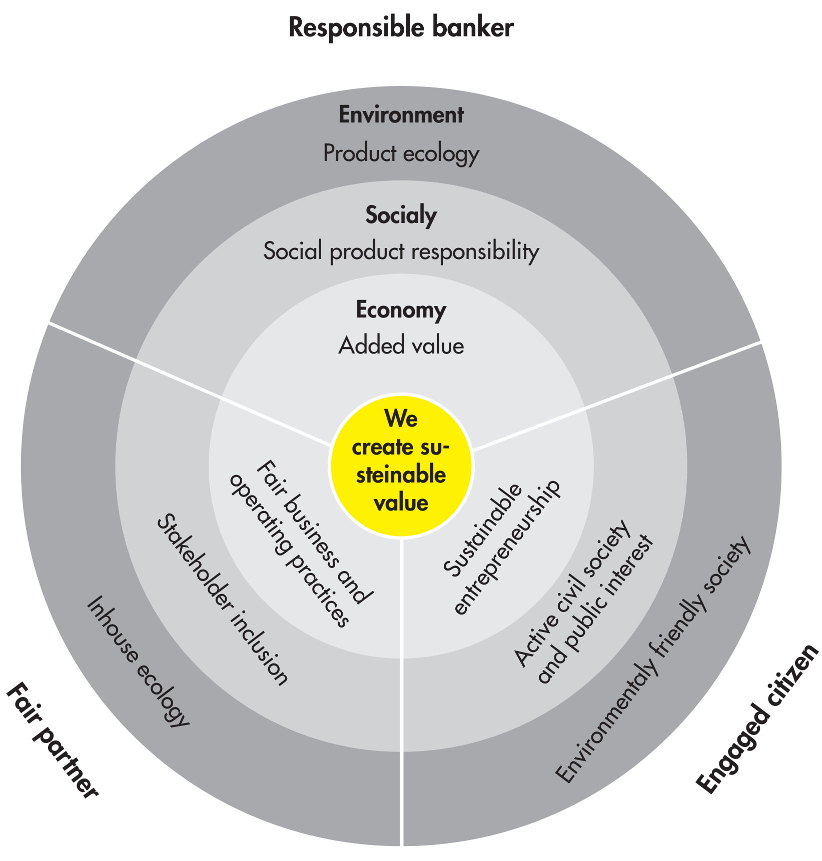
E-Learning has become a very well accepted learning platform by most employees. In its sixth year of existence, there was an impressive level of interest and support by Bank employees to design and attend internally created courses. During 2016, there were about 4000 staff enrollments in the Bank self-designed 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 and online knowledge testing were additional new methods used through the online platform in 2016.

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. Besides all learning there was also continuous focus on leisure event organizing to achieve the work-life balance and develop the team building amongst employees.

Sustainability and corporate social responsibility

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.

As a subsidiary of Raiffeisen Bank International (RBI), Raiffeisen Bank Kosovo is committed to comply with the UN Global Compact Principles.[1]



Our approach as designers of a sustainable company and society

The Bank therefore commits to aligning 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 its values and abilities to fostering sustainable development in company and in society.

Being led by its sustainability guiding principles, the Bank works to make its business sustainable, and wish to create sustainable value for its stakeholders. The 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,

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

the Bank is responsible for ensuring safe and attractive working conditions for its employees. As a member of society, the Bank wants to contribute to the common good even beyond its business activities and take action in line with its capabilities.

As an internationally active banking group, the Bank is faced with specific challenges in its efforts to realize its sustainability vision. These arise from the economic, social and environmental impacts of its business activities as well as from the external conditions within which the Bank operates. It works within a global environment that is characterized by numerous economic, geopolitical and environmental risks. The financial services sector itself has been confronted with many challenges and risks, particularly in recent years. In order to remain profitable over the long term, these challenges call for a strong culture of risk management and sustainability. Alongside classic banking risks, the stability of the financial system and reputation risks, topics such as corruption, money laundering and high-risk sectors also come into play here. This includes, for example, CO2 - intensive fields such as oil, gas and energy (e.g. shale gas), nuclear energy, the arms industry (e.g. weapons and cluster munitions), agricultural production of raw materials and food (e.g. palm oil, food speculation, monoculture).

Dealing appropriately with risks is part of the Bank's business model. As a banking group, it holds itself to corresponding standards of sustainability amidst all these circumstances, just as its stakeholders expect:

• As a Bank, it is committed to legal as well as ethical standards and must ensure that these standards are met.

• As a consequence of the financial crisis that played out several years ago, the financial services industry suffered a loss of trust. Since then, banks have been under closer watch by their stakeholders and find themselves subject to more stringent regulatory requirements. The Bank therefore works to make its business sustainable and wish to create sustainable value for its 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 its employees.

• As a member of society, the Bank wants to contribute to the common good beyond its business activities and takes action in line with its capabilities.

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 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
The Bank's business model is oriented around the high level strategic goal of creating long-term value. Responsible lending is a significant component of this model. It 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 and it holds a clear position regarding the handling of sensitive areas of business. Raiffeisen Bank Kosovo 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
As a Bank, it is committed to responsible lending policies. This means that it 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 customers is top priority of the Bank. 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. Raiffeisen Bank Kosovo therefore strives for clear and transparent labeling of products and services for all customers and stakeholders. When advertising and marketing the banking products, the Bank adheres to strict principles intended to protect its customers. False or misleading advertising is something it 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 its 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. It 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 its high standards.

Engaged citizen
The Bank considers itself to be an engaged corporate citizen who actively champions sustainable development in its society. The 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 2016, Raiffeisen Bank Kosovo continued to be the traditional sponsor of different projects and supported new initiatives in five mains areas: health, culture, education, sports, and social welfare.

The Bank supported the health sector by donating equipment in six regional hospitals in Kosovo, in the amount of 50,000 euros. While, it continued to support cultural projects and to be traditional partner in the National Gallery – Muslim Mulliqi exhibition, the Prishtina International Film Festival, the Chopin Piano Fest, the Professional Theatre in Ferizaj, Center for Contemporary Art in Prishtina - Artists of tomorrow.

In the education area, for five years in a row, the Bank supported "ATOMI", a project which has the aim of identifying gifted students with high intelligence and to provide opportunities, conditions, treatment, care and distinctive education for these students. During 2016, the "Digital Festival" was organized. The Digital Festival is a community-driven grassroots festival celebrating digital trends. The festival supports 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.

Regarding sports, the Bank supported the Youth Development Program project of the Basketball Federation of Kosovo. The project includes the organization of national basketball summer camps and the participation of Kosovo players under 14 years of age in international camps, observation visits for coaches in Turkey and the organization of a tournament in Kosovo for players from all the countries participating in the project. Throughout the sponsorship of its Youth Development Program, the Bank supported all youth national teams (under 20, 18, 16 years for both girls and boys) that competed in various competitions that are organized annually by FIBA Europe.

2016 was the second year that the Bank supported "Business Ideas Competition – Green and Innovative" organized by Forum for Civic Initiatives. This project 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 2016, H. Stepic CEE Charity[2] continued to support "Making Change for Children in Fushë Kosovë", from The Idea Partnership organization (TIP) which focuses on kindergarten and other educational activities. This project was financed by the Bank and H. Stepic CEE Charity, based in Vienna. This project provided new opportunities for the education of children from Roma, Ashkali and Egyptian (RAE) community in Kosovo.

As part of voluntary activities for employees, more than 100 gifts for children in need were gathered at the end of the year for the activity "Surprise in a box". In addition, about 100 Bank employees participated in a blood donation that took place in Prishtina.

Financial education/financial literacy and other education
Education on financial sector is one of the most important issues of the 21st century. The Bank actively promotes an understanding of financial products and services and imparts banking expertise as part of advisory role in day-to-day operations. The 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".

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

Other initiatives
Representatives of the Bank's Human Resources and Training Department participated in a career fair aiming to be closer to job-seekers of Kosovo. Furthermore, a public presentation was held on the topic "Employment and Internship Opportunities" in Raiffeisen Bank Kosovo organized by the Career Development Center of the University of Prishtina. In these interactive events, the main aim was to inform graduates and undergraduates about employment opportunities in the Bank, and raise awareness to job-seekers on self-investment and self-development in order to be competitive in today's challenging market.

During 2016, the Bank organized a visit from Downs Syndrome Kosova to the Bank. Throughout this event, children with Downs Syndrome sold handmade cards and participated in painting activities where paintings were distributed around the Bank's premises. The main objective of this event was to raise awareness about children with Down Sindrome and support their integration into society.

Financial statements

The Independent Auditor's Report and Separate Financial Statements for the year ended 31 December 2016 are prepared in accordance with International Financial Reporting Standards (IFRS)

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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 2016 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 2016 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
21 March 2017

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

Independent Auditors' Report

To the shareholders of Raiffeisen Bank Kosovo J.S.C.

Opinion

We have audited the separate financial statements of Raiffeisen Bank Kosovo J.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. In our opinion, the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The separate financial statements of the Bank for the year ended 31 December 2015 have been audited by another auditor who issued an unmodified opinion on 1 April 2016.

Basis for opinion

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

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

Management is responsible for the preparation and fair presentation of the separate 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. In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility

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

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

We communicate with those charged with governance of Raiffeisen Bank Kosovo J.S.C. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Certified Auditors Kosovo sh.p.k.
Pristina, March 21, 2017

Separate statement of financial position

(amounts in € 000)	Notes	As at December 31, 2016	As at December 31, 2015
Assets			
Cash and cash equivalents and mandatory reserve	6	121,471	100,916
Loans and advances to banks	7	40,564	40,442
Loans and advances to customers	8	495,691	450,596
Investment securities	9	207,749	229,204
Other assets	10	1,436	1,732
Investments in subsidiaries	11	2,234	336
Property, equipment and intangible assets	12	10,399	8,202
Total assets		**879,544**	**831,428**
Liabilities			
Deposits from customers	13	724,969	675,199
Deposits and borrowings from banks	14	511	2,202
Provisions and Other liabilities	15	8,368	4,737
Interest Rate Swap payable	15	1,639	1,560
Current tax liability		315	825
Deferred tax liability	23	1,584	2,249
Subordinated loan	16	19,336	19,336
Total liabilities		**756,722**	**706,108**
Shareholders' equity			
Share capital		63,000	63,000
Fair value reserve		(40)	(50)
Retained earnings		59,862	62,370
Total shareholder's equity	**17**	**122,822**	**125,320**
Total liabilities and shareholder's equity		**879,544**	**831,428**

Approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 21 March 2017.

Fatos Shllaku
Head of Finance

Robert Wright
Chief Executive Officer

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 42 to 79.

Separate statement of profit and loss and other comprehensive income

(amounts in € 000)	Notes	For the year ending December 31, 2016	For the year ending December 31, 2015
Interest income	18	39,438	42,138
Interest expense	18	(3,000)	(3,824)
Net interest income		**36,438**	**38,314**
Impairment losses on loans and advances to customers	8	(4,893)	(3,084)
Impairment losses on loans and advances to banks		13	-
Recoveries from loans previously written off		1,484	1,443
Provision for losses on commitments and contingent liabilities		(8)	39
Net interest income after provisions		**33,034**	**36,712**
Fee and commission income	19	15,986	12,640
Fee and commission expense	19	(6,394)	(3,454)
Trading profit/loss		568	399
Net income from financial instruments at fair value through profit or loss		429	102
Other operating income	20	1,475	346
Operating income		**45,098**	**46,745**
Staff costs	21	(11,437)	(10,811)
Other operating expenses	22	(14,344)	(15,141)
Profit before income tax		**19,317**	**20,793**
Income tax expense	23	(2,325)	(2,187)
Profit for the year		**16,992**	**18,606**
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		10	(50)
Total comprehensive income for the year		**17,002**	**18,556**

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 42 to 79.

Separate statement of changes in equity

(amounts in € '000)	Share capital	Retained earnings	Fair value reserve	Total shareholder's equity
Balance at January 1, 2015	**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**
Contributions and distributions				
Dividends to equity holders	-	(19,500)	-	(19,500)
Total comprehensive income				
Profit for the year	-	16,992	-	16,992
Other comprehensive income				
Other comprehensive income	-	-	10	10
Balance at 31 December 2016	**63,000**	**59,862**	**(40)**	**122,822**

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 42 to 79.

Separate statement of cash flow

(amounts in € 000)	Notes	For the year ending December 31, 2016	For the year ending December 31, 2015
Cash flows from operating activities			
Interest received on loans		38,849	41,484
Interest paid on placements		(246)	(224)
Interest received on investment securities		1,629	552
Interest paid on deposits and subordinated loan		(3,241)	(3,657)
Fees and commissions received		15,823	12,220
Fees and commissions paid		(6,394)	(3,454)
Other income received		3,004	1,789
Staff costs paid		(11,425)	(11,289)
Other operating expenses paid		(10,785)	(13,510)
Income tax paid		(3,500)	(3,200)
Cash flow from operating activities before changes in operating assets and liabilities		23,714	20,711
Changes in operating assets and liabilities			
- Mandatory liquidity reserve		(1,761)	(5,318)
- Loans and advances to banks		(105)	30,506
- Loans and advances to customers		(51,312)	(3,627)
- Investment securities		21,622	(84,466)
- Other assets		297	(149)
- Due to customers		49,933	71,339
- Deposits from banks		(717)	(370)
- Other liabilities		4,448	(1,399)
Net cash flow from operating activities		46,119	27,227
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets	12	(4,875)	(3,909)
Acquisition of subsidiaries		(1,898)	-
Net cash used in investing activities		(6,773)	(3,909)
Cash flows from financing activities			
Repayment of borrowings		(974)	(1,857)
Proceeds from borrowings		-	-
Dividends distributed		(19,500)	(16,000)
Net cash flow from financing activities		(20,474)	(17,857)
Effect of exchange rate changes		(77)	165
Net increase/(decrease) in cash and cash equivalents		18,795	5,626
Cash and cash equivalents at the beginning of year	6	35,552	29,926
Cash and cash equivalents at 31 December	6	54,347	35,552

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 42 to 79.

Notes to the separate financial statements for the year ended 31 December 2016

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 2016 the Bank has 8 branches and 42 sub-branches within Kosovo (31 December 2015: 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 thousands, 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 11.

The Bank prepares separate financial statements in accordance with IFRS. The exemption from consolidation has been made as the Bank is itself a wholly-owned subsidiary and the ultimate parent Raiffeisen Bank International produces consolidated financial statements available for public use at http://www.rbinternational.com, 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 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 Equity reserves

The reserves recorded in equity (OCI) on the Bank's statement of financial position include:
- Available-for-sale reserve, which comprises changes in fair value of available-for-sale investments

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement,

impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard on the required effective date. The Bank is in the process of performing a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Bank in the future.

(a) Classification and measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest, except for default loans that the bank will derive its cash flows from execution of collaterals. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the Bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

The Bank will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact, to assess the full impact of the new standard.

(c) Hedge accounting

The Bank believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Bank is assessing the potential impact on its financial statements resulting from IFRS 15.

IAS 7 Disclosure initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Bank plans to assess the potential effect of IFRS 16 on its financial statements.

3.18 Standards and interpretations new or revised

Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Bank.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan.

IFRS 7 Financial Instruments: Disclosures

a. Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

b. Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The bank does not prepare condensed interim statements.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

Other standards that have been recently issued or revised but are not applicable to the Bank include:

- IAS 34 Interim Financial Reporting
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 27 Equity Method in Separate Financial Statements

3.19 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 characteristics, for Private Individuals and Micro Entities. Due to limited historical default data, the bank could not develop internal statistical models for all Private Individuals and Micro enterprises loans. Therefore, the bank has used three approaches for portfolio loan loss provisioning.

- Internal ratings based approach – for the products where the bank had sufficient historical statistics
- Flow rate model - based on days past due delinquency buckets and
- Group benchmarks –for products we could not gather sufficient historical default data

However, in the recent years the bank accumulated significant history of default and loss data which allowed the bank to internally develop Basel 2 credit rating models. Thus currently the bank has in place the internal statistical models for Micro portfolio (excluding Credit Cards) and for the product Personal Loan of PI segment. Currently 98 per cent of Micro portfolio and 82 per cent of PI portfolio are covered with internal models. Credit Cards of MI segment and products of PI segment except Personal loans are provisioned based on Flow Rate Model or Benchmarking 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

For the Non-Retail portfolio, Raiffeisen Bank Kosovo 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 2016 and 31 December 2015 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Carrying amount	121,471	100,916	40,564	40,442	495,691	450,596	207,749	229,204	2,234	336	678	945	-	-	37,190	19,290
Amount committed/ guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	76,907	97,868	-	-
	121,471	100,916	40,564	40,442	495,691	450,596	207,749	229,204	2,234	336	678	945	76,907	97,868	37,190	19,290
Neither past due nor impaired	121,471	100,916	40,564	40,442	455,297	387,925	207,749	229,204	2,234	336	678	945	-	-	-	-
Past due but not impaired	-	-	-	-	27,211	48,024	-	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	31,865	36,289	-	-	-	-	-	-	-	-	-	-
Total gross amount	121,471	100,916	40,564	40,442	514,373	472,238	207,749	229,204	2,234	336	678	945	-	-	-	-
Allowance for impairment	-	-	-	-	(18,682)	(21,642)	-	-	-	-	-	-	-	-	-	-
Net carrying amount	121,471	100,916	40,564	40,442	495,691	450,596		229,204	2,234	336	679	945	-	-	-	-
Off balance: maximum exposure																
Total commitment	-	-	-	-	-	-	-	-	-	-	-	-	76,907	97,868	-	-
Provision	-	-	-	-	-	-	-	-	-	-	-	-	(32)	(32)	-	-
Total exposure	-	-	-	-	-	-	-	-	-	-	-	-	76,875	97,836	-	-

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	
	2016	2015
Maximum exposure to credit risk		
Gross amount	514,373	472,238
Allowance for impairment	(18,682)	(21,642)
Net carrying amount	495,691	450,596
Loans with renegotiated terms		
Gross carrying amount	34,948	47,548
Allowance for impairment	(10,495)	(12,324)
Net carrying amount	24,453	35,224

Neither past due nor impaired and Past due but not impaired				
	2016	2016	2015	2015
	Neither past due nor impaired	Past due but not impaired	Neither past due nor impaired	Past due but not impaired
Non-Retail				
Grade 2C	3,923	-	5,456	-
Grade 3B	1,428	-	-	-
Grade 3C	-	-	779	-
Grade 4A	-	-	643	200
Grade 4B	6,968	-	24,292	171
Grade 4C	20,057	-	28,622	-
Grade 5A	32,819	-	7,839	-
Grade 5B	37,908	105	15,030	131
Grade 5C	3,311	-	9,933	7,453
Grade 6A	38,337	7,829	30,853	480
Grade 6B	20,959	1,295	4,772	2,066
Grade 6C	22,796	-	17,593	11,708
Grade 7A	5,975	144	6,425	878
Grade 7B	6,881	3,193	6,864	453
Grade 7C	2,899	12	6,073	2,139
Grade 8A	1,346	312	8,161	172
Grade 8B	1,268	2,029	2,037	487
Grade 8C	639	9	2,816	917
Grade 9A	8,714	-	-	1,528
Grade 9B	2,247	1,219	1,985	6,543
Grade 9C	1,426	-	-	150
Grade Unrated	-	-	5	-
	219,901	16,147	180,178	35,476

	2016	2016	2015	2015
	Neither past due nor impaired	Past due but not impaired	Neither past due nor impaired	Past due but not impaired
Retail				
NEW VOLUME	1,364	2	13,984	212
CURRENT	31,095	-	193,545	1
1-30DPD	-	1,110	62	8,461
31-60DPD	-	171	96	1,982
61-90DPD	-	218	42	746
91-120DPD	-	48	-	348
121-150DPD	-	79	-	338
151-180DPD	-	12	18	460
PLLP	*202,937*	*9,424*	-	-
	235,396	11,064	207,747	12,548

	2016	2015
Individually Impaired		
Non-Retail	27,358	32,447
Grade 10	27,358	32,447
Retail	4,508	3,841
180+	1,544	3,841
ILLP	2,964	-
Allowance for impairment		
Individual	14,777	19,777
Collective	3,905	1,865
Total Allowance for Impairment	18,682	21,642

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 2016	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	576	5,433	6,009	456	1,765	2,221
Residential Real Estate	21,320	-	21,320	17,727	-	17,727
Movable	229,072	257,972	487,044	176,801	78,460	255,261
Total	250,968	263,405	514,373	194,984	80,225	275,209

	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	3,571
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	427,915

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

2016	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	263,410	16,147	27,358	(11,701)	(629)	80,225
Retail Customers	250,963	11,064	4,507	(3,078)	(3,274)	194,984
Total Loans and Advances to Customers	514,373	27,211	31,865	(14,779)	(3,903)	275,209
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

2016	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	292	2,053	3,311	21,554	27,210
Loans and advances to customers past due and impaired	24,099	696	2,226	4,845	31,866
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

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2016 and 31 December 2015 for loans and advances to customers past due and impaired is shown below:

2016	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Corporate Customers	23,338	484	1,413	2,123	27,358
Retail Customers	761	212	813	2,722	4,508
Total Loans and advances to customers impaired	24,099	696	2,226	4,845	31,866

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

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	2016	2015
AAA	-	-
AA+ to AA-	30,815	30,333
A+ to A-	-	-
BBB+ to B-	20,401	24,945
	51,216	**55,278**

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 2016, the overage of liquidity reserve is € 22,695 (2015: € 4,181 thousand).

The table below shows assets and liabilities as at 31 December 2016 and 2015 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	11,476	-	-	-	109,995	121,471
Loans and advances to banks	40,564	-	-	-	-	40,564
Loans and advances to customers	26,522	51,774	157,541	259,854	-	495,691
Investment securities	22,109	49,354	80,924	55,362	-	207,749
Other assets	-	-	678	-	-	678
Total financial assets	**100,671**	**101,128**	**239,143**	**315,216**	**109,995**	**866,153**
Liabilities						
Deposits from customers	707,955	1,615	4,169	11,230	-	724,969
Deposits and borrowings from banks	511	-	-	-	-	511
Subordinated debt	336	-	-	19,000	-	19,336
Other liabilities	-	-	8,007	-	-	8,007
Total financial liabilities	**708,802**	**1,615**	**12,176**	**30,230**		**752,823**
Net gap position at 31 December 2016	**(608,131)**	**99,513**	**226,967**	**284,986**	**109,995**	**113,330**

	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**	**266,154**	**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**	**245,465**	**259,349**	**86,104**	**119,966**

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 through 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 2016 and 2015 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	109,995	11,476	-	121,471
Loans and advances to banks	-	40,564	-	40,564
Loans and advances to customers	495,691	-	-	495,691
Investment securities	42,031	144,430	21,288	207,749
Other assets	678	-	-	678
Total financial assets	**648,395**	**196,470**	**21,288**	**866,153**
Liabilities				
DDeposits from customers	672,557	23,889	28,523	724,969
Deposits from banks	256	255	-	511
Subordinated debt	-	19,336	-	19,336
Other liabilities	6,369	1,638	-	8,007
Total financial liabilities	**679,182**	**45,118**	**28,523**	**752,823**
Net gap position at 31 December 2016	**(30,787)**	**151,352**	**(7,235)**	**113,330**

	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**

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 2016 and 2015. 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	116,030	1,786	3,655	121,471
Loans and advances to banks	21,811	1,081	17,672	40,564
Loans and advances to customers	495,691	-	-	495,691
Investment securities	179,260	28,489	-	207,749
Other assets	678	-	-	678
Total financial assets	**813,470**	**31,356**	**21,327**	**866,153**
Liabilities				
Deposits from customers	672,653	30,081	22,235	724,969
Deposits from banks	511	-	-	511
Subordinated debt	19,336	-	-	19,336
Other liabilities	8,007	-	-	8,007
Total financial liabilities	**700,507**	**30,081**	**22,235**	**752,823**
Net gap position at 31 December 2016	**112,963**	**1,275**	**(908)**	**113,330**

	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**

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 2016	31 December 2015
1 USD	1.053	0.9158
1 CHF	1.073	0.9246
1 GBP	0.858	1.3605

		US Dollar (USD)		Swiss Franc (CHF)		British Pound (GBP)
	2016	2015	2016	2015	2016	2015
Sensitivity rates	6%	7%	2%	6%	8%	4%
Profit and loss	(69)	2,618	(954)	(8)	(44)	(989)

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.

	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	11,476	-	-	-	109,995	121,471
Loans and advances to banks	39,739	-	-	-	825	40,564
Loans and advances to customers	26,522	51,774	157,541	259,854	-	495,691
Investment securities	22,109	49,354	80,924	55,362	-	207,749
Other assets	-	-	-	-	678	678
Total financial assets	99,846	101,128	238,465	315,216	111,498	866,153
Liabilities						
Deposits from customers	155,502	1,555	12,407	4,678	550,827	724,969
Deposits from banks	255	-	-	-	256	511
Subordinated debt	336	-	-	19,000	-	19,336
Other liabilities	-	-	-	-	8,007	8,007
Total financial liabilities	**156,093**	**1,555**	**12,407**	**23,678**	**559,090**	**752,823**
Net gap position at 31 December 2016	**(56,247)**	**99,573**	**226,058**	**291,538**	**(447,592)**	**113,330**

Zero interest deposits from customers in the amount of € 550 million are mainly current accounts of businesses and individuals. They do not have any contractual re-pricing or maturity dates, however the interest rates would respond in a short amount of time in response to changes in market interest rates.

	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)**	**119,9668**

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	2016				2015			
	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	(0.5)	0.4	(1.0)	0.3	(0.3)	0.1	(4.1)	0.3
Government Bonds HTM yield	0.4	-	N/A	N/A	N/A	N/A	N/A	N/A
Government Bonds AFV yield	0.2	0.5	N/A	N/A	0.4	0.8	N/A	N/A
Loans and advances to customers	7.6	N/A	N/A	N/A	8.8	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	(0.0)	(0.0)	0.0	0.0	-	-
Term deposits	2.0	0.0	0.0	0.0	1.7	0.4	0.1	0.3
Savings accounts	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1

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 2016 and 2015:

2016	Total	2015	Total
CHF	6	CHF	7
EUR	(13,193)	EUR	(4,338)
GBP	(11)	GBP	8
USD	(2,205)	USD	(3,632)

Value at risk as of 31 December 2016 is € (156) thousand, for 31 December 2015 € (26) thousand. The effect of interest rate risk on equity is similar to that on Profit and Loss. 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%, 20%, 50%, 75%, 100%, 150%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100 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 2016	31 December 2015
Total risk weighted assets	499,245	460,365
Total risk weighted off balance exposures	22,686	34,899
Total risk weighted assets for operational risk	51,058	51,058
Total	**572,989**	**546,322**
Regulatory capital (Total Capital)	117,545	118,014
Capital adequacy ratio (Total Capital)	20.51%	21.60%

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:

	2016	2015
Debt	19,591	20,565
Equity	122,822	125,320
Net debt to equity ratio	**16%**	**16%**

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.

Assets	Carrying value 2016	Fair value Level 3 2016	Carrying value 2015	Fair value Level 3 2015
Loans and advances to customers	495,691	500,368	450,596	451,408
Liabilities				
Deposits from customers	724,969	725,057	675,199	675,455
Deposits from banks	511	511	2,202	2,202

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 categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2016				
Non-derivatives	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Investment securities	207,749	165,767	41,981	-
Financial investments at fair value through profit or loss	132,717	90,736	41,981	-
Financial investments available for sale	46,138	46,138	-	-
Financial investments held to maturity	28,894	28,894	-	-
Derivatives				
Derivatives held for risk management (Note 15)	1,639	-	1,639	-

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	-
Financial investments held to maturity	-	-	-	-
Derivatives				
Derivatives held for risk management (Note 15)	1,560	-	1,560	-

6 Cash and cash equivalents and mandatory reserve

	2016	2015
CasCash on hand	40,351	34,172
Balances with the CBK	69,644	51,932
Correspondent accounts with other banks	11,476	14,812
Total	**121,471**	**100,916**

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of € 67,125 thousand (31 December 2015: € 65,364 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 2016 and 2015 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2016	2015
Total cash and cash equivalents and mandatory reserve	121,471	100,916
Less: Mandatory liquidity reserve	(67,124)	(65,364)
Cash and cash equivalents for the purposes of cash flow statement	**54,347**	**35,552**

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 2016 the interest was paid at the rate of 0 per cent per annum (31 December 2015: 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 € (6) thousand (31 December 2015: € (11) thousand).

Guarantee deposits include an amount of € 824 thousand as at 31 December 2016 (31 December 2015: € 795 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.

	2016	2015
Term deposits	39,740	39,647
Guarantee deposits	824	795
Total loans and advances to banks	**40,564**	**40,442**

8 Loans and advances to customers

	2016	2015
Corporate Customers		
Current and restructured loans	184,902	158,330
Overdraft facilities	78,508	89,778
	263,410	**248,108**
Retail Customers		
Current and restructured loans	235,397	209,657
Overdraft facilities	15,566	14,473
	250,963	**224,130**
Loans and advances to customers	**514,373**	**472,238**
Less: Allowance for impairment	(18,682)	(21,642)
Loans and advances to customers, net	**495,691**	**450,596**

Loans and advances to customers include accrued interest income in the amount of € 1,818 thousand (31 December 2015: € 1,729 thousand).
Movements in the allowance for impairment are as follows:

	2016	2015
Allowance for impairment of loans and advances to customers at the beginning of the year	**21,642**	**23,894**
Net charge for impairment of loans and advances to customers during the year	4,893	3,084
Write offs	(7,853)	(5,336)
Allowance for impairment of loans and advances to customers at the end of the year	**18,682**	**21,642**

As at 31 December 2016 the Bank has 231 borrowers (31 December 2015: 298 borrowers) with aggregated loan amounts above € 100 thousand. The aggregate amount of these loans is € 242,389 thousand or 47 per cent of the gross loan portfolio (31 December 2015: € 245,172 thousand or 54 per cent of the gross loan portfolio).

The Bank manages individual counterparty exposures in order to be compliant with the rules of the Central Bank that require individual counterparty exposures not to exceed 15 per cent of Tier I Capital (or € 14,397k).

As at 31 December 2016 there are 3 counterparty exposures above 15 per cent of the limit after obtaining regulatory approval. In addition, the cumulative exposure of the top 10 clients of the bank is € 118 thousand.

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

		2016			2015	
	Non-Retail	Retail	Total	Non-retail	Retail	Total
At 1 January 2016	16,665	4,977	21,642	17,725	6,169	23,894
Charge for the year	1,969	2,924	4,893	1,787	1,297	3,084
Amounts written off	(6,248)	(1,605)	(7,853)	(2,847)	(2,489)	(5,336)
At 31 December 2016	12,386	6,296	18,682	16,665	4,977	21,642

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

	2016		2015	
	Amount	%	Amount	%
Trade	172,609	34%	173,926	37%
Individuals	263,727	51%	213,778	45%
Manufacturing, chemical and processing	46,198	9%	50,112	11%
Service	11,609	2%	13,649	3%
Construction and construction servicing	13,534	3%	13,505	3%
Food industry and agriculture	6,695	1%	7,187	2%
Other	1	0%	81	0%
Total loans and advances to customers before allowance for loan impairment	514,373	100%	472,238	100%

9 Investment securities

	2016	2015
Financial Investments held to maturity (Government Bonds)	28,894	-
Financial Investments at fair value through profit or loss	132,717	138,519
Available for sale debt securities	46,138	90,685
Total investment securities	207,749	229,204

	2016	2015
Kosovo Government Treasury Bills and Bonds	41,981	43,096
Other OECD Treasury Bills and Government Bonds	165,768	186,108
Total investment securities	207,749	229,204

Financial Investments at fair value as at 31 December 2016 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, Netherlands, Finland, Poland, Slovakia, Bulgaria, EIB, KFW and Republic of Kosovo (Government Treasury Bills).

10 Other assets

	2016	2015
Prepayments and advances for services	391	444
Fees receivables	678	946
Repossessed properties	367	342
Total other assets	1,436	1,732

11 Investment in subsidiaries

	2016	2015
Investment in Raiffeisen Leasing Kosovo	2,227	333
Investment in Raiffeisen Insurance Broker Kosovo	7	3
Total investments in subsidiaries	2,234	336

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

	Principal place of business	Ownership interest	
Subsidiary		2016	2015
Raiffeisen Leasing Kosovo	Kosovo	100%	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. Banking subsidiaries must comply with rules and regulations applicable for other financial institutions and in consolidation level must comply in addition with banking rules and regulations.

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 2015	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
Additions	596	1,273	455	2,551	4,875
Disposals	(225)	(529)	(44)	-	(798)
Cost as at 31 December 2016	5,512	13,476	3,544	14,252	36,784
Accumulated Depreciation and Amortization Opening Balance as at 1 January 2015	2,705	9,209	2,512	8,062	22,488
Depreciation/amortisation charge for the year (Note 22)	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
Depreciation/amortisation charge for the year (Note 22)	254	903	205	1,275	2,637
Eliminated on disposals	(218)	(504)	(35)	-	(757)
Accumulated Depreciation and amortisation as at 31 December 2016	2,605	10,390	2,835	10,555	26,385
Net book value at 31 December 2016	2,907	3,086	709	3,697	10,399
Net book value at 31 December 2015	2,572	2,741	468	2,421	8,202

13 Deposits from customers

	2016	2015
Corporate customers:		
Current accounts	133,904	116,212
Savings accounts	7,085	10,160
Term deposits and margin accounts	1,413	1,145
	142,402	127,517
Retail customers:		
Current accounts	416,923	348,043
Savings accounts	146,887	169,524
Term deposits and margin accounts	18,757	30,115
	582,567	547,682
Total customer accounts	724,969	675,199

As at 31 December 2016, customer accounts include accrued interest in the amount of € 638 thousand (31 December 2015: € 801 thousand).

As at 31 December 2016 the Bank has 793 customers each with balances above € 100 thousand (31 December 2015: 788 customers). The aggregate balances of these customers are € 256,670 thousand or 35 per cent of total customer accounts (31 December 2015: € 236,774 thousand or 35 per cent of total customer accounts).

14 Deposits and borrowings from banks

	2016	2015
Borrowings		
Supranational institutions and development banks	255	1,229
Deposits		
Other commercial banks – non OECD Countries	256	973
Total deposits and borrowings from banks	**511**	**2,202**

Interest for the borrowings is from 0.6 to 6.5p.a.

15 Provision and other liabilities

	2016	2015
Clearing deposits from payment transfer business	4,570	98
Deferred income	633	734
Accrued staff costs	272	220
Payables	798	1,024
Share incentive plan	205	174
Accrued operating expenses	691	707
Provision for litigations and off balance sheet credit exposures (see below)	121	162
Other taxes payable	121	157
Liabilities on leased assets	46	67
Other	911	1,394
	8,368	4,737
Interest Rate Swap payable	1,639	1,560
Total other liabilities	**10,007**	**6,297**

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 € 4,570 thousand as at 31 December 2016 (31 December 2015: € 98 thousand). Deferred income as at 31 December 2016 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 25. Movements in the provision for litigations and off balance sheet credit exposures are as follows:

	2016	2015
Provision for litigations and off-balance sheet credit exposures at the beginning of the year	**162**	**201**
Provision / (release of provision) for litigations and off balance sheet credit exposures	8	(39)
Usage of previous year provisions	(49)	-
Provision for litigations and off-balance sheet credit exposures at the end of the year	**121**	**162**

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

	2016	2015
Provision for off balance sheet credit exposures	32	32
Provision for litigations	89	130
Total Provision	**121**	**162**

For more details regarding off balance sheet credit commitments, refer to Note 24.

16 Subordinated loan

Subordinated loan consist of the loan issued by Raiffeisen Bank International, the following are the balances for year 2016 and 2015:

	2016	2015
Subordinated loan	19,336	19,336
Total	**19,336**	**19,336**

The subordinated loan bears an annual interest rate of 8.95 per cent. The subordinated loans is repayable on 22 August 2022. There are no covenants in relation to the subordinated loan.

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 2016 and 2015 is as follows:

Shareholder	2016 Number of shares	2016 Amount in thousands EUR	2016 Voting share	2015 Number of shares	2015 Amount in thousands EUR	2015 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

	2016	2015
Interest income		
Loans and advances to customers	38,964	41,444
Loans and advances to banks	(241)	(233)
Financial investments	715	927
Total interest income	39, 438	42,138
Interest expense		
Deposits from customers	(568)	(1,133)
Deposits from banks	(69)	(210)
Derivative financial instruments (non-trading)	(438)	(541)
Subordinated loan	(1,923)	(1,918)
Other interest expense	(2)	(22)
Total interest expense	(3,000)	(3,824)
Net interest income	36,438	38,314

19 Fee and commission income and expense

	2016	2015
Payments transfer business	13,367	10,051
Loan administration and guarantee business	929	933
Foreign currency business	1,637	1,611
Other banking services	53	45
Total fee and commission income	15,986	12,640
Payment transfer business	(5,843)	(2,989)
Other banking services	(551)	(465)
Total fee and commission expense	(6,394)	(3,454)

20 Other operating income

	2016	2015
Profit from fixed assets disposal	22	-
Profit from sale of repossessed assets	947	-
Other operational income	506	346
Total other operating income	**1,475**	**346**

21 Staff costs

	2016	2015
Salaries and wages	10,469	9,400
Pension contributions	415	530
Other voluntary social expenses	532	854
Share incentives	21	27
Total staff cost	**11,437**	**10,811**

The remuneration of directors and key executives is determined by the Raiffeisen International management having regard to the performance of individuals and market trends. The Managing-Board-related expense for 2016 amounted to € 736 thousand (2015: € 771 thousand).

22 Other operating expenses

	2016	2015
Office space expenses (rental, maintenance, other)	2,872	3,038
Depreciation of property and equipment	1,362	1,360
IT cost	1,923	2,170
Advertising, PR and promotional expenses	1,115	1,213
Security expenses	774	1,165
Amortization of intangible assets	1,275	1,218
Other administrative expense	481	317
Communication expenses	292	340
Office supplies	296	321
Legal, advisory and consulting expenses	2,231	2,809
Training expenses for staff	317	223
Deposit insurance fees	968	576
Car expenses	280	272
Travelling expenses	158	119
Total other operating expenses	**14,344**	**15,141**

23 Income taxes

	2016	2015
Current tax charge	2,990	3,308
Deferred taxation	(665)	(1,121)
Income tax expense for the year	**2,325**	**2,187**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2015: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

		2016		2015
Profit before taxation		19,317		20,793
Tax charge for the year at the applicable statutory rate	10%	1,932	10%	2,079
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	5.5%	1,058	5.9%	1,229
Current tax charge	**15.5%**	**2,990**	**15.9%**	**3,308**

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.

	2015	Movement during 2016	2016
Tax effect of deductible temporary differences			
Leasehold improvements, equipment and intangible assets	(86)	23	(63)
Term deposits – accrued interest	67	(6)	61
Staff bonuses	22	5	27
Gross deferred tax asset/(liability)	3	22	25
Tax effect of taxable temporary differences			
Loan impairment provision	(2,150)	625	(1,525)
Provision for off-balance sheet credit exposure	(102)	18	(84)
Total net deferred tax (liability)	**(2,249)**	**665**	**(1,584)**

24 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 2016 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 € 89 thousand (2015 € 130 thousand) as the nearest estimate of possible cash outflows arising from possible court decisions.

Capital commitments. As at 31 December 2016 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2015: Nil).

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

	2016	2015
Not more than 1 year	356	302
More than 1 year and not more than 5 years	-	-
Total operating lease commitments	**356**	**302**

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:

	2016	2015
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**

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:

	2016	2015
Commitments to extend credit	39,003	46,368
Guarantees (credit facility)	27,139	41,326
Guarantees (cash covered)	1,184	959
Letters of credit (credit facility)	808	385
Trade Finance line of credit	7,569	6,337
Stand by letter of credit	1,204	2,493
Total credit related commitments	76,907	97,868

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.

Tax Commitments

During 2016 the Bank was subject to tax inspection covering financial year 2009 Corporate Income Tax.

The final report resulted in additional tax liabilities for the Bank in the amount of € 991 thousands. However, the bank did appeal the report in the Tax administration appeals department, which approved the appeal and declared the report as null.

Currently a new tax inspection in ongoing for the Corporate Income Tax for year 2009 and no report as a draft of final version has been issued as of statements preparation date.

The bank has not allocated any provision for this possible additional tax as we consider the new inspection control will consider the outcome of the appeal department.

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 2016, the Bank has 18 interest rate SWAP contracts with a notional amount of € 37,190 thousand (2015: € 19,290 thousand). The Bank pays fixed and receives variable interest rates. The net valuation result of these contracts for the year ended 31 December 2016 was a loss of € 6 thousand (2015: € 307 thousand). Fair value of SWAP contracts as at 31 December 2016 was loss of € 1,234 thousand (2015: loss of € 1,227 thousand).

25 Related party transactions

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

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

	Parent	2016 Other related party	Parent	2015 Other related party
Assets	**274**	**3,926**	**2,135**	**5,478v**
Cash and cash equivalents and mandatory reserve	274	-	2,035	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	3,923	-	5,456
Other Loans	-	-	-	-
Other assets		3	100	22
Liabilities	**21,725**	**478**	**23,236**	**1,073**
Customer accounts	-	2	-	535
Deposits and borrowings from banks	-	370	1,229	448
Subordinated debt	19,336	-	19,336	--
Other liabilities	2,389	106	2,671	90
Statement of profit and loss and other comprehensive income	**(3,721)**	**(149)**	**(3,644)**	**74**
Interest income	1	62	6	73
Interest expense	(2,372)	(71)	(2,459)	(74)
Net fees and commission	(224)	(875)	(222)	(449)
Net valuation result financial instruments carried at fair value	(33)	(33)	158	-
Other operating expenses	(1,191)	(16)	(810)	-
Purchase of intangible assets	98	-	(317)	(247)
Management Remuneration	-	784	-	771
Off Balance Sheet	-	-	-	-
Guarantees	-	-	-	-
Letter of credit	-	-	-	-

26 Subsequent events

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

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