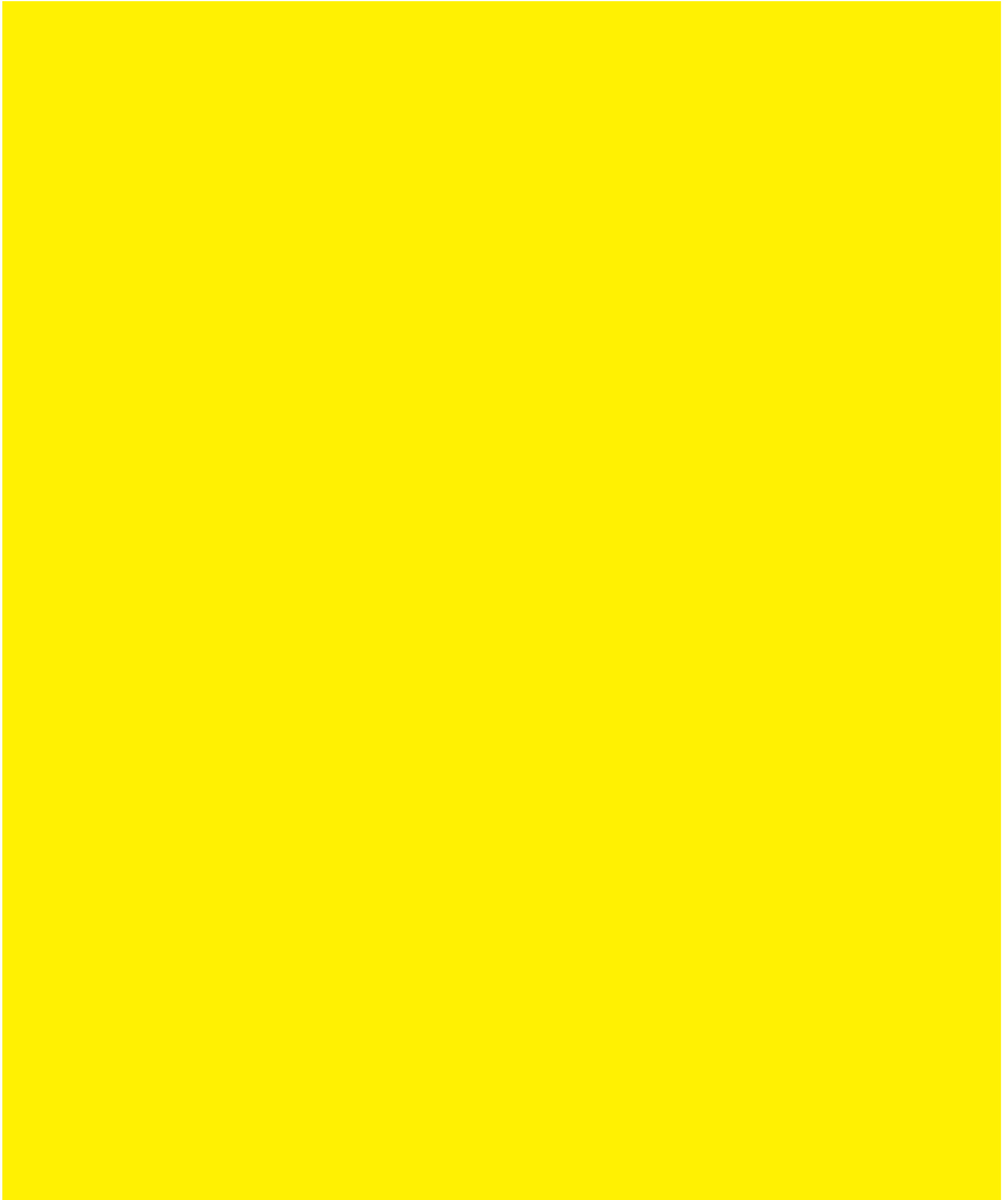
Annual Report 2017

Raiffeisen BANK
Kosovo



Survey of key data

Raiffeisen Bank Kosovo J.S.C.			
Monetary values are in € million	2017	2016	Change
Income statement	**1/1-31/12**	**1/1-31/12**	
Net interest income after provisioning	32.4	33.0	-1.8%
Net commission income	13.5	9.6	40.6%
Net income from financial instruments at fair value through profit or loss	0.2	0.4	-45.2%
Trading profit/loss	(0.1)	0.6	-110.3%
Other operating income	1.1	1.5	-26.4%
General administrative expenses	(27.3)	(25.8)	6.0%
Profit before tax	19.9	19.3	2.8%
Profit after tax	17.6	17.0	3.5%
Earnings per share	N/A	N/A	N/A
Balance sheet			
Loans and advances to banks	39.6	40.6	-2.5%
Loans and advances to customers	532.5	495.7	7.4%
Deposits and borrowings from banks	9.2	0.5	1696.3%
Deposits from customers	735.8	725.0	1.5%
Equity (incl. minorities and profit)	125.3	122.8	2.0%
Balance-sheet total	900.9	879.5	2.4%
Local regulatory information			
Risk-weighted assets B1, incl. market risk	636.2	572.9	11.0%
Total own funds	130.5	117.5	11.0%
Total own funds requirement	76.3	68.7	11.0%
Excess cover ratio	70.9%	71.0%	-0.1 PP
Core capital ratio (Tier 1)	17.0%	16.8%	0.2 PP
Total own funds ratio	20.5%	20.5%	0.0 PP
Performance			
Return on equity (ROE) before tax	18.03%	17.4%	0.6 PP
Return on equity (ROE) after tax	16.0%	15.3%	0.7 PP
Cost/income ratio	53.2%	53.2%	0.0 PP
Return on assets (ROA) before tax	2.3%	2.3%	0.0 PP
Net provisioning ratio (average risk-weighted assets B3 in banking book)	1.0%	0.8%	0.2 PP
Risk/earnings ratio	11.3%	9.3%	2.0 PP
Resources			
Number of staff (FTE)	730	731	-0.1%
Business outlets	46	50	-8.0%

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Report of the Supervisory Board

Ladies and Gentlemen,

The 2017 financial year saw a positive overall macroeconomic trend and favorable market environment. This contributed to the strong year-on-year improvement in RBI's consolidated profit, which more than doubled compared to last year. The better operating result was mainly positively impacted by lower risk costs. Alongside the successful sale of non-performing loans, this was also due to a notable decrease in net provisioning for impairment losses. The result achieved by RBI in 2017 also confirmed that the strategic decisions taken over the past years have played a key role in helping the group to successfully emerge from a challenging transformation period with increased strength. This is further demonstrated by a steadily strengthening capital base, balanced risk profile and considerably reduced NPL ratio – from 6.2 per cent (2016 pro forma) to 5.2 per cent. This improvement in asset quality was based not least on the determined reduction of non-performing loans in recent years.

The merger of Raiffeisen Zentralbank Österreich AG and RBI AG was put into effect on schedule upon entry in the commercial register on 18 March 2017. Following the merger, RBI will continue to pursue its strategy as a leading universal banking group in CEE and Austria with the primary objective of creating long-term value. Selective growth is planned for the coming years in specific markets which demonstrate stability and good economic prospects. Effective capital and risk management as well as the further reduction in non-performing loans will also remain crucial in future. In 2018, there will be an increased focus on the challenges in the form of ongoing regulatory requirements, political risks, progressing digitalization and related changes to the competitive environment.

As far as Raiffeisen Bank Kosovo is concerned, we are glad to report that it recorded an excellent year in 2017. The overall local macroeconomic environment was stable, and once again the country recorded one of the highest GDP growth rates in the region with more than 4 per cent. The banking sector in Kosovo has experienced another very satisfactory year regarding overall profit, and Raiffeisen Bank Kosovo in particular achieved profit after tax of € 17.5 million. It also improved on a wide range of other key performance indicators compared to 2016, such as loan growth in all customer segments, as well as increases in deposits and assets. In addition, the bank further improved its non-performing loans ratio to 5.2 per cent and its cost/income ratio to 53.2 per cent as of the end of 2017. The focus on increasing the usage of alternative channels also recorded excellent developments. All these achievements enabled Raiffeisen Bank Kosovo to further consolidate its number one position in the market.

I would like to take this opportunity to thank all employees of Raiffeisen Bank Kosovo for their hard work and unwavering efforts in 2017, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board,

Helmut Breit
Chairman of the Supervisory Board

Report of the Management Board

2017 was an excellent year for Raiffeisen Bank Kosovo J.S.C. The country's macro economic environment was better than many other countries in South East Europe and the estimated Gross Domestic Product for Kosovo was above 4 per cent, which contributed to another very good year for the Bank with a net profit after tax of € 17.6 million.

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 € 39 million, to € 553.9 million at the year-end representing a 7.7 per cent increase on 2016. Our cautious approach to lending for several years now has resulted in an excellent non performing loans ratio of 5.2 per cent at the end of 2017, and the Kosovo banking system has the lowest NPL ratio in South East Europe. Our deposits from customers grew by 1.5 per cent to € 736 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 a high priority in 2017 and our Cost Income Ratio remained flat at 53.2 per cent.

Our focus on increasing the usage of alternative channels through a range of awareness campaigns lead to positive results and we processed 579 thousand private individual e-banking transactions which was a 20 per cent increase compared to 2016. Usage of our mobile banking service increased by 28 per cent and payments through this channel increased by 35 per cent. We also processed over 1.2 million transactions on our point of sale terminals, while 3.8 million transactions were performed on our ATMs.

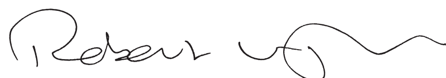
In our small enterprises (SE) and corporate business segments the positive trend of increased usage continued. During the year, 476 thousand E-Banking transactions were processed, representing 73 per cent of all processed payments, an increase of 40 per cent compared to 2016, and usage of the innovative SMS payment service for customs payments introduced in 2016, increased dramatically to 256 million of customs payments being processed representing 84 per cent in corporate and 27 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 Corporate Social Responsibility, we were mainly focused on culture and education during 2017. The Chopin Piano Festival and the Prishtina Festival Film were the two main cultural projects that we have been supporting for nine years in a row. With the Bank's initiative and support, additional separate workshops and master courses, which were dedicated to the young artists who come from the high schools or university were organized during these festivals. We also continued to support young artists through the project Raiffeisen Gallery, a space utilized in the biggest shopping center in Kosovo which they used to promote their artistic work. Regarding the education and innovation in 2017, we started a cooperation with BoneVet, which offers children a different environment to learn by practicing. Another activity in the area of innovation is the cooperation with Innovation Center of Kosovo (ICK) in the areas of Cyber Security and Fintechs.

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

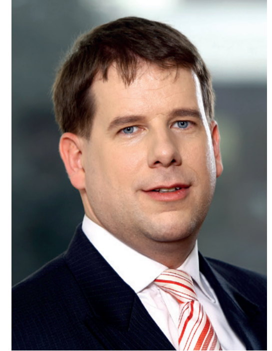
Chairman of the Management Board

Shukri Mustafa

Member of the Management Board

Iliriana Toçi

Member of the Management Board

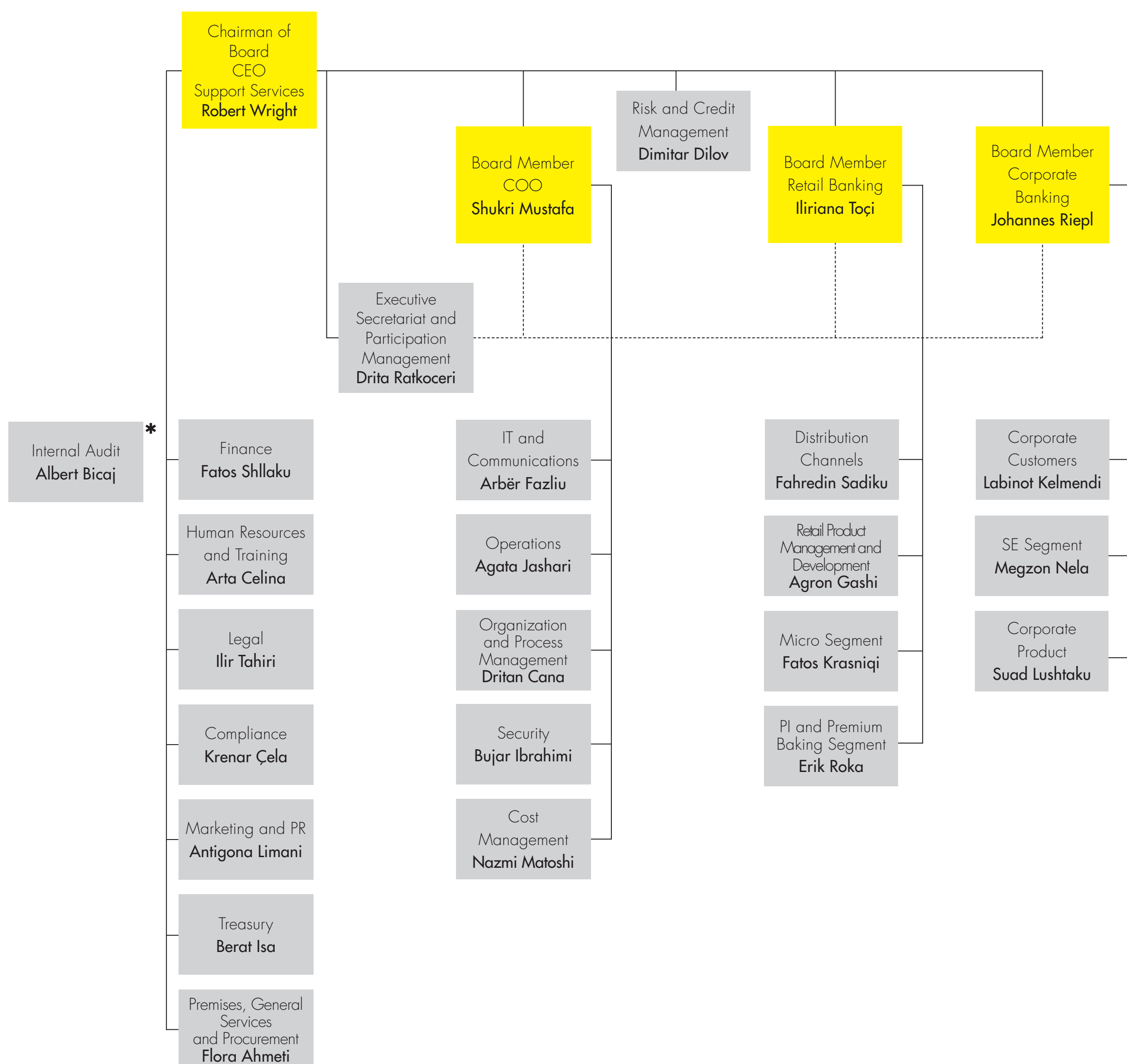


Johannes Riepl

Member of the Management Board

Raiffeisen Bank Kosovo Organisational Structure

As of 31 December 2017



* 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 Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 14 markets across the CEE region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A. In total, nearly 50,000 employees serve RBI's 16.5 million customers in more than 2,400 business outlets, primarily in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2017, RBI's total assets stood at € 135 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

Following the merger in March 2017 with Raiffeisen Zentralbank Österreich AG (RZB AG), its former majority shareholder, RBI AG assumed all rights, obligations and functions of the transferring company RZB AG in their entirety, in particular, the role of central institution for the Austrian Raiffeisen Banking Group.

Developments in the economy of Kosovo

The economy of Kosovo grew at accelerated rates in 2017, marking an average of 4.3 per cent in January - September compared to 4.1 per cent in 2016 (source: the Kosovo Agency of Statistics estimates). The real growth of the economy is supported by positive developments in the external sector, the growth of banking lending and the rise of investments.

The external position of Kosovo improved in 2017, as the current account deficit, which amounted to € 265 million by the end of November, narrowed by 37.4 per cent compared to the same period last year, mainly as a result of the high growth of export of goods and services and increase of remittances. Remittances continued to grow in 2017, making a positive impact on the domestic economy. Remittances amounted to € 689.8 million, with an annual growth of 10.2 per cent by November 2017. Exports of goods and services increased by 24.1 per cent year on year in the period January - November 2017, positively impacted from the increased prices of minerals and metals in the international market and the good performance of tourism.

However, a high trade deficit continues to pose an important challenge for the country's economy. The trade deficit of goods deepened by 7.6 per cent year on year in 2017, reaching the level of € 2.7 billion by the end of December 2017. Despite the export of goods reaching a high annual growth of 22.1 per cent in 2017, it covers only 12.4 per cent of the import of goods.

An important contribution to the economic growth in 2017 came from an increase on investment. Public investment in 2017 were estimated at € 468 million according to preliminary fiscal data (source: Ministry of Finance), which is 5.4 per cent higher than last year. High levels have also been recorded for private investments estimated by the gross capital formation, and it is important to mention that the level of foreign direct investment inflows also increased. FDIs reached € 270 million by the end of November 2017, marking an annual growth of 20.7 per cent compared to last year.

The average inflation rate was 1.5 per cent in 2017, compared to 0.3 per cent in 2016. The higher inflation rate in 2017, mainly reflects the price developments in the international markets, which were reflected in Kosovo through rising prices of imported goods.

The labor market has shown signs of improvement, marking a decline in the unemployment rate from 30.6 per cent in the second quarter of 2017 to 30.2 percent in the third quarter of 2017, however, the youth unemployment rate remains high at around 53.3 per cent.

Developments in the fiscal sector indicate an increase in revenues and budget expenditures in 2017. An increase of budget revenues by 5.3 per cent in 2017 and an increase of budget expenditures by 4.9 per cent, have resulted in a total budget deficit of € 78 million compared to a budget deficit of € 80 million in 2016. The overall budget deficit is estimated at 0.7 per cent of GDP, which is within the required level of 2.0 per cent of GDP fiscal rule, but lower than the planned deficit under the revised budget 2017.

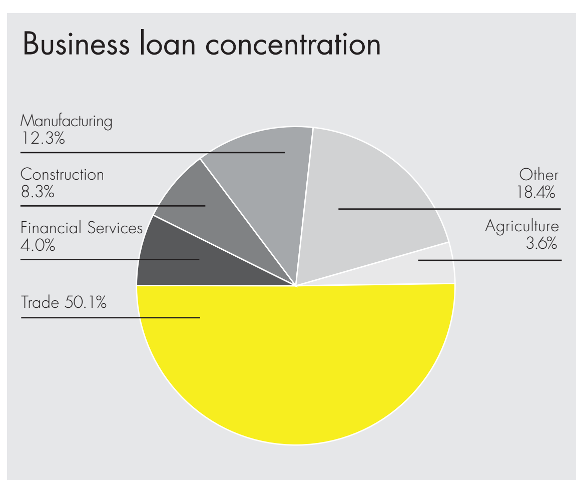
The level of public debt has increased to € 996.4 million by the end of 2017 from € 852.7 million in 2016, marking a level of 16.6 per cent of GDP. Public debt is on an upward trajectory, but the public debt ratio over GDP remains healthy.

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. There were ten licensed banks operating in the market in 2017, out of which, eight are foreign owned. The assets of foreign owned banks comprise 88 per cent of total assets and 90 per cent of bank's total capital in the market.

Total assets of the banking sector reached € 3.88 billion on 31 December 2017 (2016: € 3.64 billion). The growth of total assets in 2017 was 6.6 per cent and is somewhat lower than the previous year's growth of 7.4 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 2017 continued to grow at a faster rate than in the previous year. Total loans and advances achieved a value of € 2.49 billion (2016: € 2.23 billion), which is an annual increase of 11.5 per cent compared to 10.4 per cent in 2016. The continuously higher growth rate can be explained by the continued decrease in interest rates, improved efficiency in lending, and increase in demand. 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 third 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 2017.

The percentage allocation of loans and advances as of 31 December 2017 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 50.1 percent, followed by manufacturing 12.3 percent and construction with 8.3 percent. (*Source: Quarterly Assessment of Economy, No. 20, Quarter III/2017*).

€ 778.5 million of new loans to businesses were issued in 2017, which represents an increase of 35 percent more than in 2016 (€ 577.9 million).

Banking sector investments in government bonds and T-bills declined slightly to € 486.7 million in 2017 (2016: € 510.3 million), a decrease of 5 per cent. The value of the bond portfolio returned to more or less the value of the end of the year 2015.

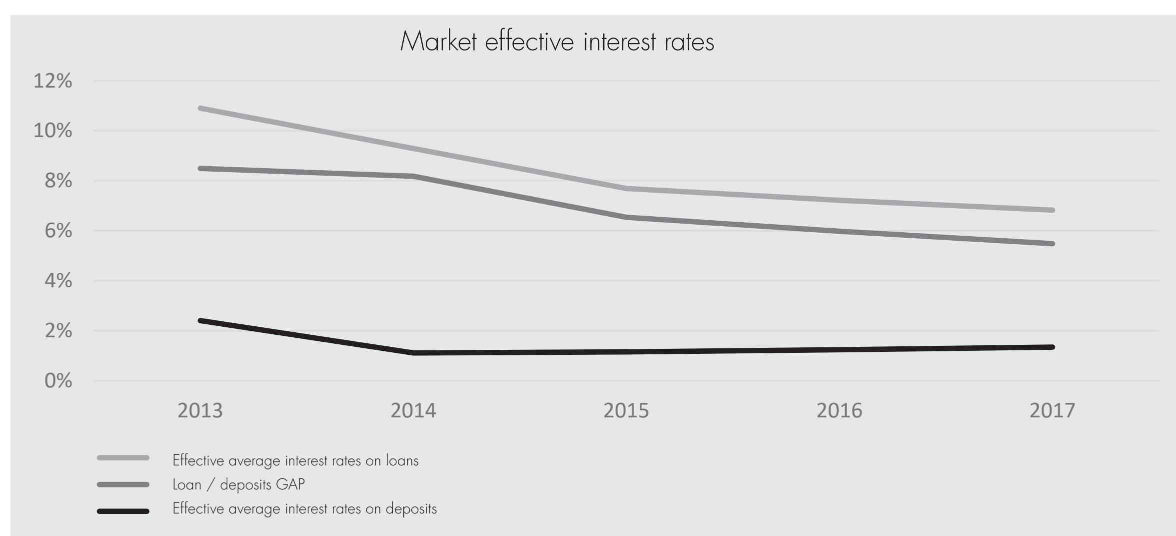
Customer deposits continue to be the main contributor in the financing of banking activities. As of December 2017 customer deposits comprised 80 per cent of total banking sector liabilities. A high reliance on financing from local deposits, especially from private individuals makes it the most reliable 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 € 3.1 billion. An annual increase of 6.7 per cent, which is somewhat lower than the growth rate of 7.2 per cent in 2016. In 2017, the deposits from private individuals remained almost at the same level (only 2.1 percent increase compared to 8 in 2016), deposits from businesses grew by 13.8 percent and they account for three quarters of increased deposits. Still, the structure of deposits is dominated by deposits from private individuals comprising of 70 per cent of total deposits.

The structure of deposits in the banks has changed in 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 2017, the demand deposits accounted for 60.3 per cent of total deposits, followed by term deposits with 24.2 per cent and savings deposits with 15.4 per cent.

The average interest rate for deposits remained stable in the last year and roughly at the same rate as in 2016 at 1.3 per cent. The average interest rate for individual's deposits was 1 per cent while for businesses it was 1.7 per cent.

Interest rates for loans have been decreasing for some years now, while in 2017, the average effective interest rates for loans decreased from 7.2 per cent to 6.8 per cent. The interest rates for loans decreased for both businesses and private individuals. As of 31 December 2017, the average interest rate for businesses was 6.5 per cent down from 6.8 per cent while for private individuals it was 7.3 per cent from 7.9 per cent in 2016.



By 31 December 2017, net profit of the banking sector was € 85.3 million (2016: € 75.5 million). Interest income was at the same level as in the previous year. Lower interest rates did not have a great impact on the stock of interest income as gross loans increased.

Overall, banking sector expenses were at the same level as 2016. Even though administrative expenses grew by 4.8 percent, this was offset by the 31 percent decrease in non-interest expenses.

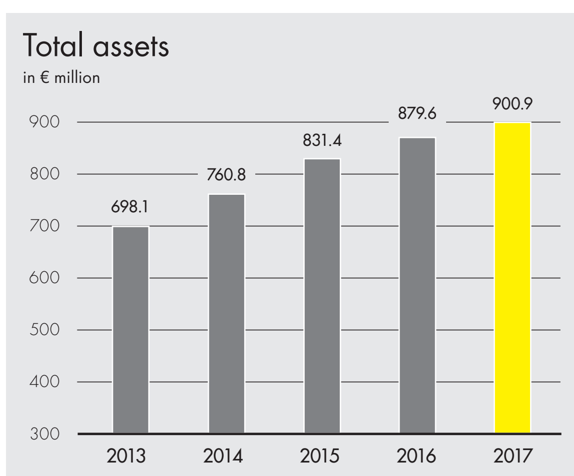
Return on average assets remained at the same level as in 2016, at 2.6 percent (2016: 2.2 per cent). The return on average capital was 21.3 percent (2016: 18.5 percent). The loan to deposit ratio was 80.4 per cent on 31 December 2017 up from 77 per cent on 31 December 2016. The Capital Adequacy Ratio (regulatory capital /risk weighted assets) was 18 per cent down, similar to 17.9 percent on 31 December 2016.

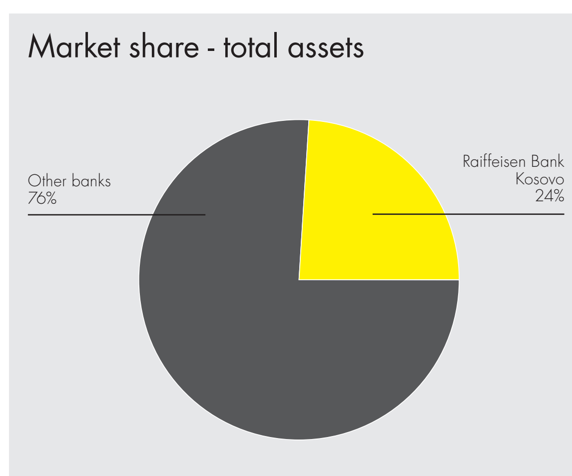
In 2017, both non-performing loan ratio and non-performing loan provision coverage ratio improved. As of 31 December 2017, the non-performing loan to total loan ratio has decreased to 3.1 per cent (2016: 4.9 per cent). In addition, the non-performing loan coverage ratio improved from 127 per cent on 31 December 2016 to 151 per cent on 31 December 2017.

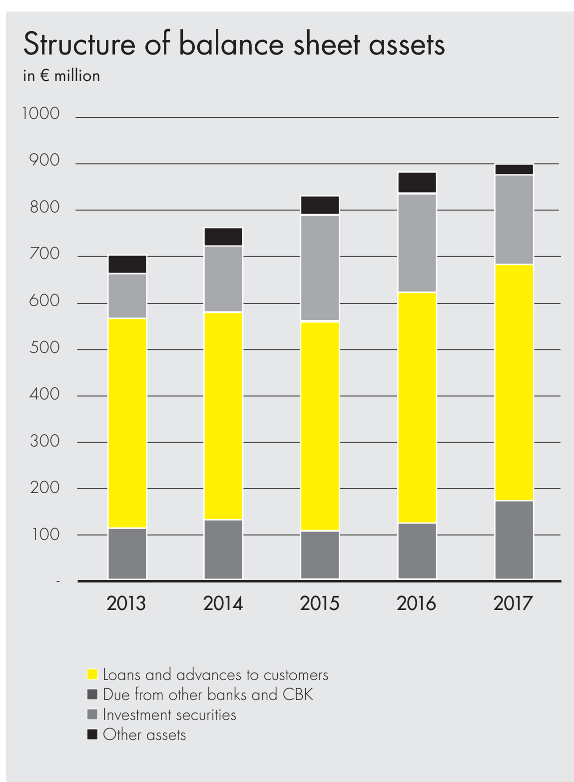
Raiffeisen Bank Kosovo performance and financials

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 2017 were € 900.9 million. This is an increase of 2.4 per cent when compared to the previous year (2016: € 879.6 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 24 per cent (2016: 25 per cent).

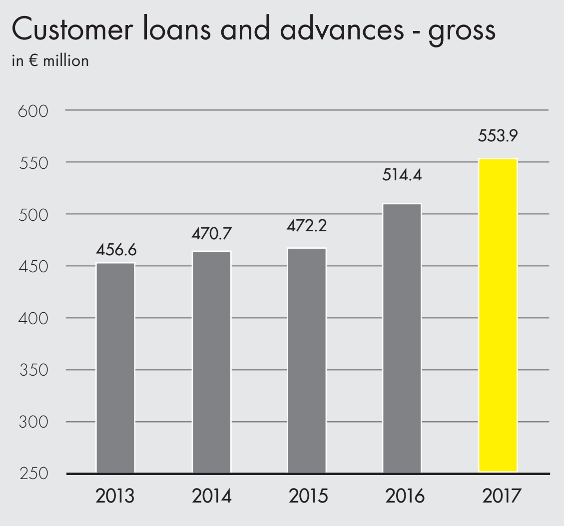


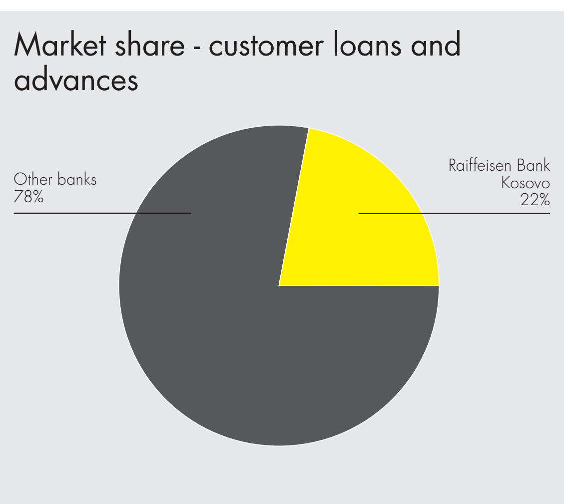




As of 31 December 2017, the structure of Raiffeisen Bank Kosovo assets continues to be dominated by loans and advances to customers. After provisioning for loan losses, 59 per cent of total assets were concentrated in loans and advances to customers. That is followed by 22 per cent in investment securities. Investment securities include investments in Government and Corporate bonds of EU countries and the US, as well as treasury bills issued by the Kosovo Government.

The investments in securities decreased in 2017 by 6 per cent. Total investment in securities on 31 December 2017 was € 194.6 million. Investments in Kosovo Government treasury bills were € 33.6 million (2016: € 42 million) and investments in other OECD country government bonds was € 160.9 million (2016: € 168.8 million).



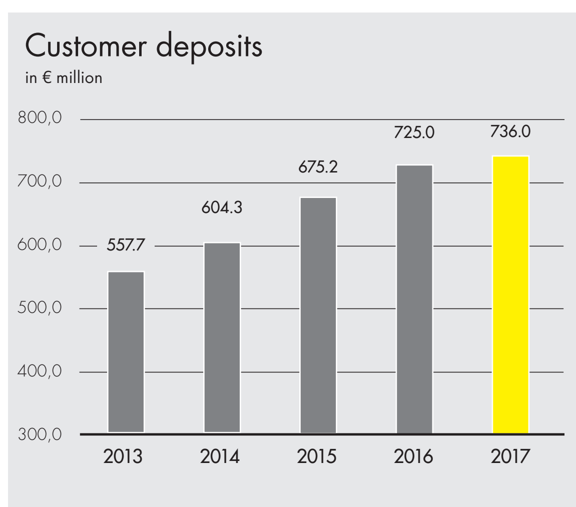


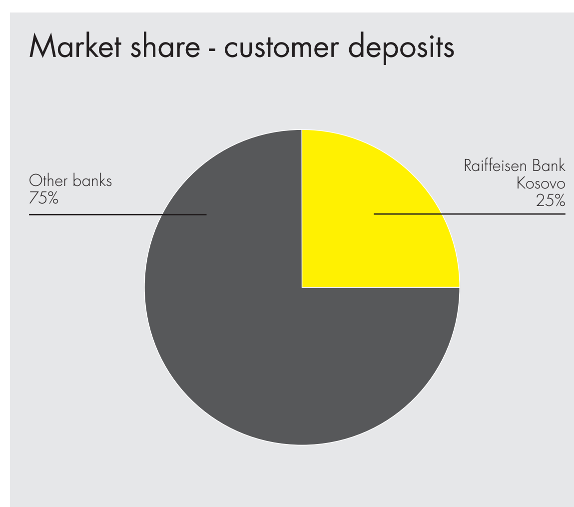
The total gross loans and advances of Raiffeisen Bank Kosovo as of 31 December 2017 were € 553.9 million (2016: € 514.4 million). The market share in loans and advances as of 31 December 2017 was 22 per cent (2016: 23 per cent).

Raiffeisen Bank Kosovo also made allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 21.5 million (2016: € 18.7 million). These allowances are made for loans, which are considered not fully recoverable and represent the management estimation of such losses at the reporting date. For credit exposures which are classified as default (credit impaired), the Bank will allocate individual loan loss allowances. For other loans, which do not show any repayment difficulties on an individual level, the Bank calculates the allowances on a portfolio level using historical default rates for products with similar credit characteristics.

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 non-performing loans in December 2017 was 75 per cent.

Total customer deposits reached € 736 million on 31 December 2017 up from € 725 million on 31 December 2016. That is an increase of 1.5 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 were current accounts with a share of 80 per cent, an increase from 76 per cent in 2016. Savings accounts have a share of 18 per cent of total Bank customer deposits. Term deposits from customers account for only 2 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.

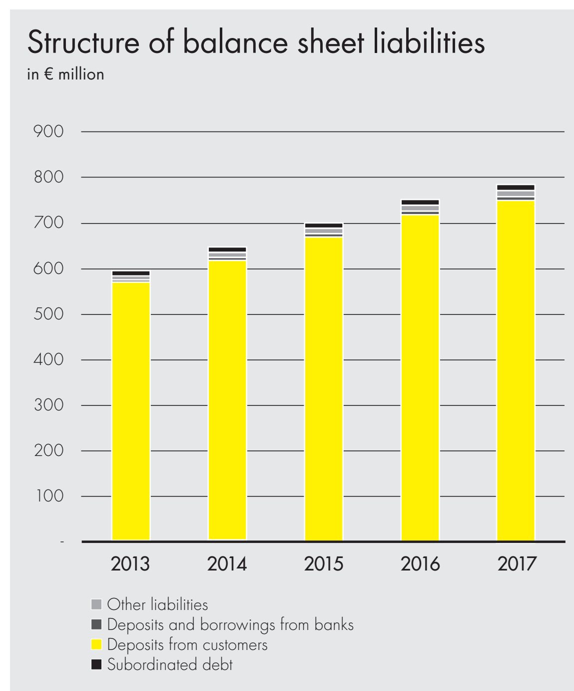




The liabilities structure of Raiffeisen Bank Kosovo was dominated by customer deposits, and this was also the case for the Kosovo market.

In 2017, the Raiffeisen Bank Kosovo share capital remained at € 63 million. The total equity as at 31 December 2017 was € 125.3 million (2016: € 122.8 million) including € 62 million in the form of retained earnings. Raiffeisen Bank Kosovo distributed a dividend to its shareholder from its retained earnings in 2017 to the value of € 15.4 million.

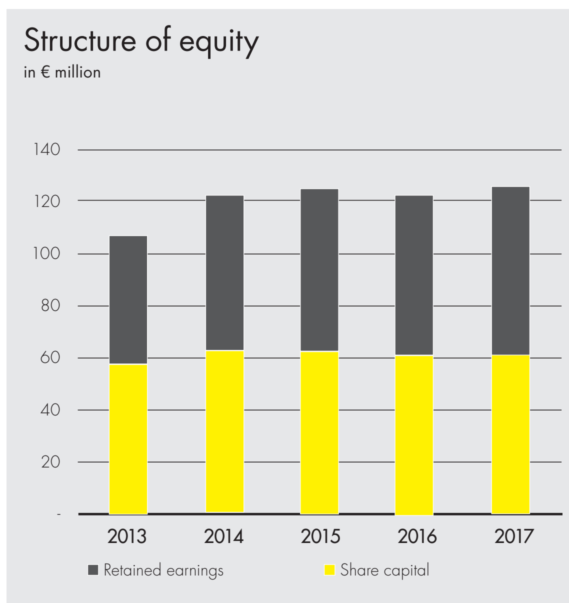
This payment did not reflect in the value of total equity or in the regulatory capital requirements.
Raiffeisen Bank Kosovo continues to be well capitalized which is also reflected in the 2017 regulatory capital ratios of Tier 1 to total risk weighted assets ratio of 16.9 per cent (legal requirement 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 Central Bank of Kosovo (CBK) regulation on capital adequacy and other applicable regulatory rules and regulations.



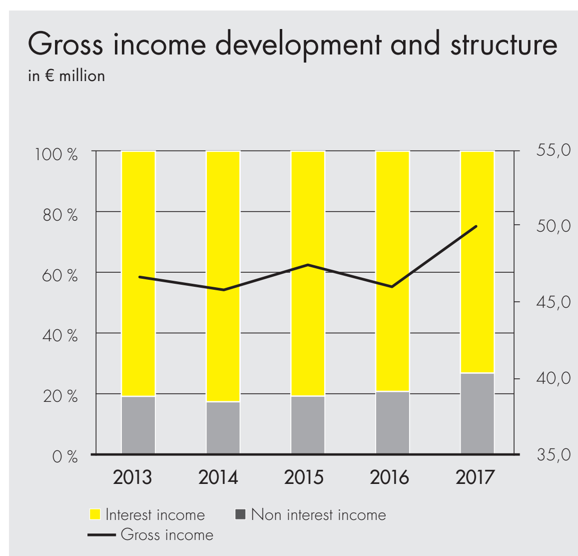
Net income after tax in 2017 was € 17.6 million (2016: € 17 million). This result is calculated based on IFRS Financial Statements as included in the report. Raiffeisen Bank Kosovo also produces financial reports based on IFRS reflecting additional requirements from the CBK regulations and those statements are sent to the CBK and are also published on a quarterly basis on the Raiffeisen Bank Kosovo website and also in local daily newspapers.

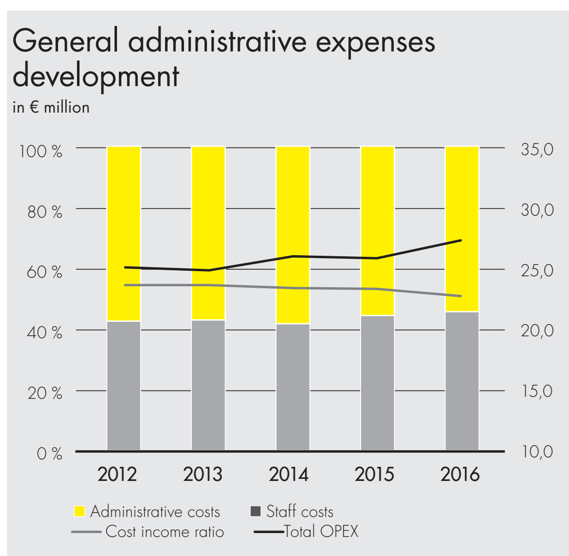
Raiffesen Bank Kosovo income is strongly dominated by income generated from loans and advances to local customers. Income from interest on loans and advances and securities continues to be the main source of income despite falling rates for loans in the market as well as very low yields and sometimes negative yields on OECD government issued bonds. This was partially offset by falling rates for the Bank deposits from customers.

In 2017, the Bank was able to generate more income from fee and commission which increased by 19 per cent in 2017. The introduction of new fees on cards business has brought in additional income and changed the ratio of non-interest to interest income.



The Bank could also see a noticeable effect from the changes in the legal environment with the licensing of private bailiffs, enacted the year before. 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 both 2016 and 2017.





The general and administrative expenses as of 31 December 2017 were € 27.3 million (2016: € 25.8 million). The cost income ratio was 53.2 per cent (2016: 53.2 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.

Treasury, asset and liability management

Asset liability management

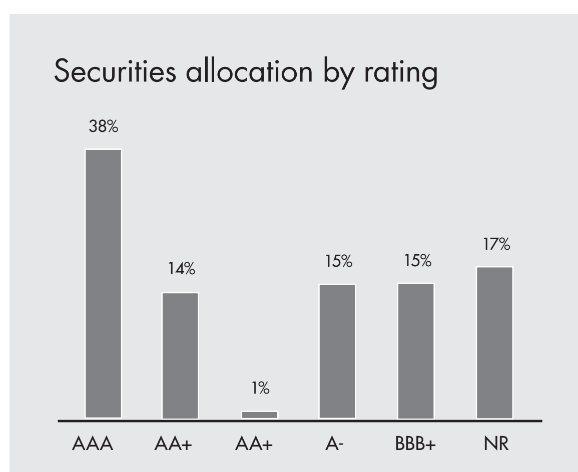
2017 was a successful year as far as the collection and consolidation of deposits was concerned, as well as loan issuance. Raiffeisen Bank Kosovo managed to increase further its core deposit position, but to a greater extent was able to increase its outstanding position with loans. Building on the increased 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 38 per cent of the Bank assets in 2016 to around 34 per cent at the end of 2017. The Treasury Assets where reduced to finance customer loans.

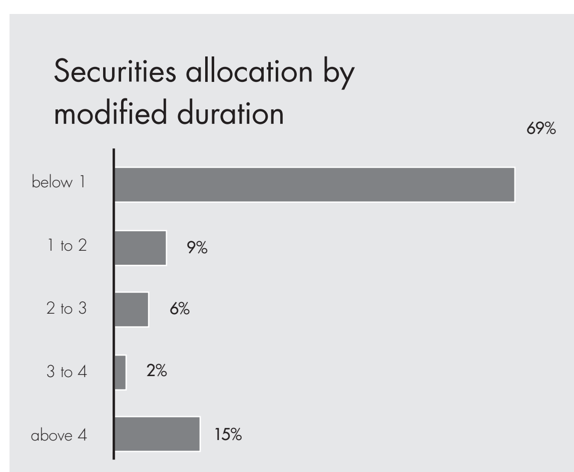
In 2017, the Bank experienced an increase in customer deposits of around € 10.8 million and on the asset side € 39.6 million in customer business loans. Prudent asset and liability management made it possible for Raiffeisen Bank Kosovo to keep the lowest cost of funds in the market, which in turn enabled lower loan interest rates. To a large extent, the reduction in interest expense was achieved through quantitative modeling of assets and liabilities management, as well as through a rundown of historical high-rate deposit contracts into lower rate savings accounts and current accounts.

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 mainly from stable retail deposits (household deposits) amounting to 72 per cent of total deposits of the bank, 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 2017, showed an end of year BPV position of around 18,000. Net interest margin stood stable in 2017 at around 4.15 per cent despite increased liquidity and lower loan interest rates.

Government securities

Out of a total € 208 million of treasury assets, Raiffeisen Bank Kosovo bonds portfolio in foreign and local government securities decreased to € 195 million by the end of 2017. Around 83 per cent of the portfolio are high-quality OECD investment-grade government securities, and the remainder is allocated to exposure in Kosovo domestic debt. Government securities averaged at year-end a current yield of positive 0.23 per cent and a modified duration of 1.17 years, where the negative returns of the OECD instruments are completely offset by positive-yielding Kosovars and other instruments, but with a multiple of the duration. Given the historical yields at acquisition were much better, this results in improved valuation gains for fair-value instruments, which constitutes 41 per cent of the portfolio.





In parallel, the total market for Kosovo treasury bills continued its pace. In its role as a primary dealer the Bank and its customers continued to define the creation of the Kosovo government debt secondary market, albeit at a slower rate due to its declining attractiveness given the lower yields attained.

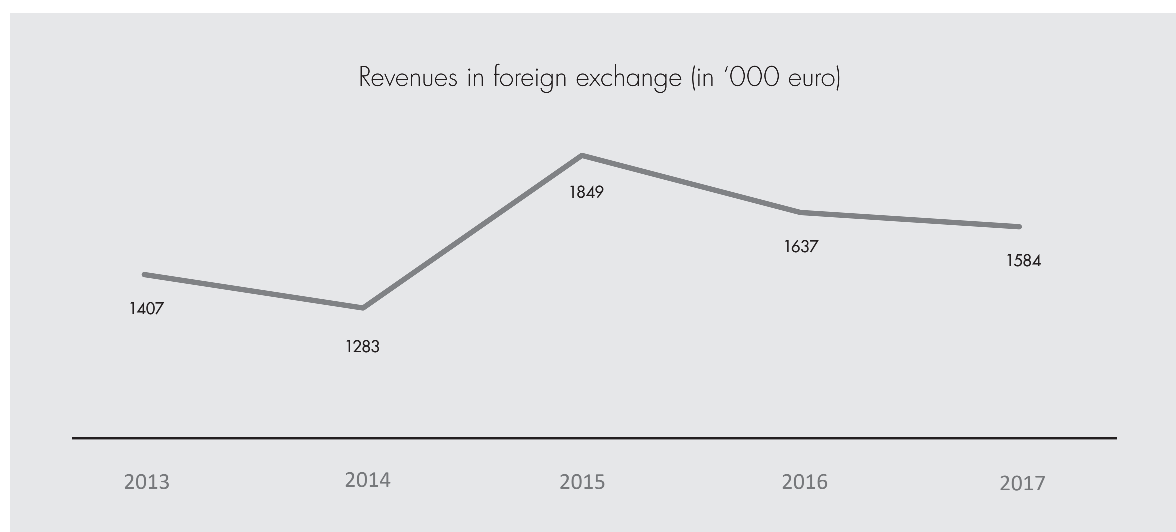
Financial derivatives

The Bank's interest rate swaps portfolio is an important risk management tool for its long-term portfolio. Interest rate swaps are used to mitigate the risks from shifts of interest rates in unfavorable directions. The basis point value (BPV) of the current exposure in financial derivatives is around 5000 euro / BPV.

The Bank expects that the market rates will soon have reached their lowest and a reversal toward higher interest rates will be experienced in the mid to long end, which, combined with historic low rates in the short end, will define a steeper yield curve. Political risks in the Eurozone are lower and not expected to break out, with the Brexit talks being one major factor of uncertainty.

Foreign exchange business

Foreign exchange business contributed with more than € 1.584 million in total revenues in 2017. It marks yet another successful year in terms of market capacity utilization, and has fostered turnover in the Bank's funds transfer commission income business.



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 2017, Raiffeisen Bank Kosovo continued to maintain the leading position in the corporate segment. The main focus in corporate banking was maintaining the long-term relationship with corporate customers offering tailor made financial products, supporting growth of their business activities by continually providing quality services and at the same time ensuring a prudent risk policy.

Despite challenging market conditions, increased regulatory requirements and decreasing interest rates, the corporate business model ensured the building of a very well collateralized lending portfolio reaching over € 206 million with a sustainable Return on Risk Adjusted Capital (RoRAC) of 175 per cent and significant portfolio quality improvement. The share of non-performing loans (NPL) decreased from 9.7 per cent to 8.4 per cent or a drop of 13.3 per cent compared to the previous year.

Despite zero interest rates on deposits, the volume of deposits increased to € 135.3 million or 22.2 per cent year-on-year (2016: € 110.7 million) showing the loyalty and trust of customers in Raiffeisen Bank Kosovo.

The vast experience of the relationship managers supported by expertise of product specialists established Raiffeisen Bank Kosovo as the main bank for most corporate customers, confirming the trust in the Bank and the sustainability of the Bank's business model.

Small enterprises

In 2017, Raiffeisen Bank Kosovo marked another successful year serving a customer base of over 1,200 small enterprise customers. The acquisition of quality customers through the offer of various financing possibilities was the main focus in 2017. A comprehensive offer comprised of transactional cash management, trade finance, structured working capital financing, factoring and investment loans supporting the development and growth of the SE customers.

Our relationship concept executed through experienced relationship managers situated in four main regions of Kosovo supported from head-office and through the expertise of the product managers resulted in the over achievement of overall results in terms of profitability, asset volumes and portfolio quality.

During 2017, a well-collateralized lending portfolio reached € 70 million or 9.5 percent increase year-on-year, whereas the trade finance exposure showed an exceptional increase to € 7.7 million or 26 per cent increase year-on-year. As a result of the continuous growth and development of customers, 12 per cent of the SE customer portfolio have migrated to the Corporate segment.

Having a prudent risk approach and very close monitoring of the portfolio during 2017, the share of nonperforming loans (NPL) decreased from 13 per cent to 9.36 per cent, a drop of 28 per cent compared to the previous year. The SE segment also maintained a very high level of RORAC at 90 per cent.

Micro enterprises

Raiffeisen Bank Kosovo continues to provide a wide range of banking products and services, standard and tailored to micro enterprises. In 2017, the Bank continued to enhance its market share of micro business in Kosovo and it provided its banking products and services to more than 13,500 customers.

During 2017, the bank continued with initiatives for its loyal customers with joint breakfasts across all regions of Kosovo in which, the Bank had the opportunity to discuss different ideas with customers. In 2017, the Bank continued with the "Best project" initiative for micro customers, and selected the best micro projects in all regions of Kosovo, based on their investment plan, impact on employment, increase in revenues, production, innovative idea, and environmental protection.

The implementation of Kosovo Credit Guarantee Fund (KCGF) for micro customers with the main purpose of easing the financing process, increasing eligibility and fastening the approval process was one of the highlights of 2017. The total amount of the Fund used in 2017 was € 4.5 million of the approved amount of applications while € 2.2 million is the amount covered by this Fund. This amount was used to finance many new customers who previously the bank could not finance due to low collateral, because the customers come primarily from the service industry. By doing this, the Bank contributed directly to the goal of the KCGF, which is to increase access to finance for micro and SMEs, by providing partial loan portfolio guarantees to financial institutions, and at the same time, the Bank has increased its business potential and acquired new customers.

The usage of alternative distribution channels by micro customers was another success story during the year. Compared to 2016, the number of credit cards issued to micro customers increased by 26 per cent while the usage of limits increased by 23 per cent. Also in 2017, micro enterprises segment has introduced M-Banking service, thus becoming the first Bank in the market offering such service to its customers.

Private individuals and Premium Banking

In Kosovo, the focus of all commercial banks remains Private individuals lending business, while Raiffeisen Bank Kosovo continues to maintain its market leadership with 25 per cent of the market share. During 2017, the Bank provided banking products and services to more than 240,000 private individuals and Premium Banking customers. Throughout the year, the Bank had a number of marketing campaigns focusing on loans and limits, which lead to a significant increase on the loan portfolio thus preserving and enhancing the Bank market position. In addition, the Bank recorded a significant increase in its mortgage loans portfolio.

Year 2017 was especially successful for Premium Banking, a unique service that Raiffeisen Bank offers to its affluent customers. Premium Banking during 2017 managed to grow in assets by 18 per cent, while the customer base grew by 8 per cent. In addition, the Bank continued to focus on providing profitable savings solutions to its customers and delivering excellent services with a proactive approach and conducting a holistic advisory approach for specific customers. In order to achieve the best results and deliver superior customer experience, in 2017 the number of Premium banking relationship managers increased throughout Kosovo.

In addition to lending products, the Bank offered the possibility to trade with Treasury Bills (T-Bills) thus offering premium customers more options for maximizing their savings. 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

Business initiatives, activities and product offers in 2017 were mirroring the business conditions in the market. The Bank successfully met the needs of Corporate and SE customers, offering comprehensive and high-quality products. In line with this, the Bank continued to simplify and streamline its products and processes to increase operational efficiency and adapt to its digital strategy.

Similar to previous years, sales management activities are focused on business steering, portfolio analysis, segregation of customers based on the value creation, and lean credit processes as well as CRM activities and tools provided to our corporate and SE sales force to enhance their sales potential.

Special emphasis was put on capital-light products such as documentary business. The trade finance portfolio during 2017 has shown positive movements, we have issued over over € 33 million trade finance products. Comparing to the year before the volumes have increased by 3.4 per cent year-on-year.

During 2017, under Project Finance, the Bank continued to support and finance development of real estate projects in prime locations, by developers who have shown a track record of qualitative building, timely delivering of the projects, and sustainable profitability. During the year, the Bank tackled renewable energy projects, building a pipeline of the projects by understanding and preparing for financing of small hydropower plants as well as other renewable energy sources such as solar.

Factoring, continued to complement the product range of working capital financing to corporate and small enterprise customers. Factoring offered additional liquidity in scarce collateral situations, offering flexibility, enabling customers to increase their competitive advantage, and further develop their business.

The Bank continued to pursue the its digital concept, in order to meet the expectations of customers by offering convenience, speed and transparency. More than 76 percent of all payment orders are being done via E-Banking. Similarly, more than 71 percent or € 323 million of customs payments were done via SMS payments. The high acceptance of SMS service for customs triggered our initiatives for the extension of the service to other types of payments such as taxes and FX confirmation whereby customers are able to conduct customs payments at a speed of less than 10 seconds, from anywhere in the country only by having a mobile phone. Also during the last quarter of 2017, the Bank introduced cash in in ATMs for corporate and SE customers, allowing customers to plan their cash management 24/7 independently from branch working hours.

Retail

In line with the Bank's priorities of enhancing capabilities on electronic channels according to customer demands and market developments, the increase in the usage of these channels was very positive. In Retail banking, share of ATM and Internet Banking versus branch (cash and transfers) was 84 per cent in 2017. This share is a result of a 24 per cent increase in the number of Internet/Mobile banking transactions (223 thousands transactions) and 15 percent increase in ATM transactions (3.2 million transactions). These numbers were achieved through constant investments on raising customers' awareness on the benefits of these channels, marketing campaigns and pricing incentives.

Raiffeisen Bank Kosovo continued its innovative approach to card business, both in card acquiring and card issuing, by introducing during 2017 contactless payment and acceptance with Visa and MasterCard. Once the POS infrastructure was in place and an initial wave of awareness with consumers and merchants assistants had been done, the use of contactless payments had a positive effect in the market. Even though it was a novelty to the Bank's card holders and merchants, the Bank managed to successfully process 8,769 contactless transactions from the launch day of August 10th, until the end of December 2017.

The E-Commerce service certified with Visa and MasterCard secure payment offered by Raiffeisen Bank Kosovo, is continuously growing the merchant's base. As a result, the number of merchants assigned to e-commerce service has increased by 125 per cent by the end of 2017 compared to 2016 (from 4 merchants to 9 merchants) and the volume of transaction processed has increased by 742 per cent, from € 3,151 to € 26,517 volume, for the same period. Hence, the Bank continued to facilitate the constant change and convenient ways of payments in the Kosovo market.

Customer service

In 2017, Bank started to establish fundaments of customer experience in multi-channel environment by improving further the services and products offered through these channels. A customer centric culture was a great advantage, which enabled each initiative to start from customers' needs and expectations. Contact Centre, as the main support centre available to customers 24/7, played a crucial role on handling different customer queries and providing them with relevant information.

The Bank closed the year 2017 with a network of 46 branches and sub-branches, remaining the Bank with the widest network of distribution channels network in Kosovo. Alongside continuous investment in branch network, during 2017, the Bank introduced the cash less branches and increased the number of ATM, which offer to the customers the possibility to deposit their money. In order to support customer become more familiar with the electronic services, the Bank launched several educational campaigns on the electronic services during 2017.

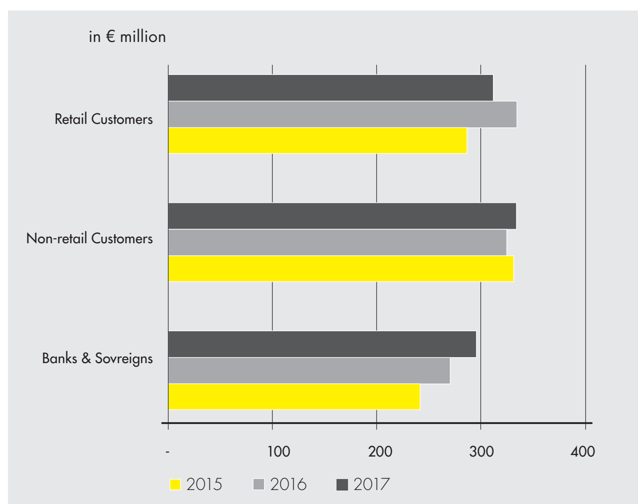
Risk management

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 € 934 million as of 31 December 2017, which is 1.3 per cent higher compared with 31 December 2016 (€922 million) and 9.4 per cent higher compared with 31 December 2015 (€ 854 million). This portfolio is diversified between business and individual customer 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

2017 was a very successful year for the recovery and reduction of the defaulted portfolio. Raiffeisen Bank Kosovo has also been actively engaged on prevention which resulted with low inflow of defaulted accounts during the whole year. Non-performing ratio has decreased compared to 2017 from 6.2 per cent to 5.2 per cent. During the same period, the coverage ratio increased from 58.4 per cent to 75.1 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 2017.

Central Bank of Kosovo Regulatory Liquidity Ratio

	2017	2016	Minimum Requirement
All currencies	39.6%	47.2%	25.0%
Euro currency	31.9%	42.7%	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 compliments this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio.

Operational risk

Operational risk is defined as the risk of unexpected losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In this risk category internal risk drivers like unauthorized activities, fraud or theft, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or consciously conducted human fraud are managed and controlled as well. This risk category is analyzed and managed on the basis of own historical loss data and the results of self-assessments. Another management tool is the incentive system implemented in internal capital allocation. This system rewards high data quality and active risk management. As with other risk types the principle of firewalling between risk management and risk controlling is also applied to operational risk. Operational risk controlling unit is mainly responsible for the implementation and refinement of methods for operational risk management (e.g. performing risk assessments, defining and monitoring key risk indicators, etc.). Business line managers are responsible for controlling and mitigating operational risks. They decide on pro-active operational risk steering actions, such as buying insurance, and the use of further risk mitigating instruments

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

Monitoring
In order to monitor operational risks, key risk indicators (early warning indicators) are used that allow prompt identifying and mitigating of operational risks. A common catalog of key risk indicators, which is defined by the Group Head Office for internal benchmarking purposes, is mandatory for the Bank also. Loss data is collected in a database called Operational Risk Controlling Application (ORCA). 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.

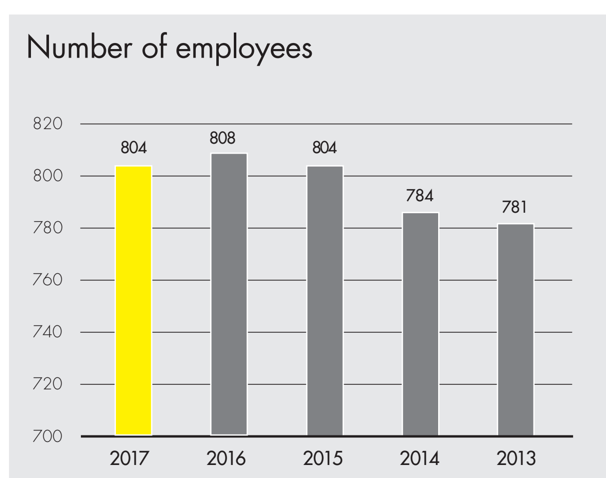
Changes in the regulatory environment

The Bank followed closely the current and the upcoming regulatory developments in 2018. The Kosovo banking sector remains very dynamic with changes in legislation in line with EU. In 2017, the Central Bank of the Republic of Kosovo has revised the regulations on capital adequacy requirements which is expected to enter into force soon, it has also drafted new regulations on Leverage Ratio and regulation Internal Capital Adequacy Assessment Process (ICAAP). 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.

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.

Regarding the number of employees, Raiffeisen Bank Kosovo continued to remain the largest employer in the banking sector, but also "one of the ten largest employer Kosovar companies", as it was highlighted in the recognition received by the President of the Republic of Kosovo. As of 31 December 2017, the Bank had 804 employees (687 full time, 117 part time), and the additional 64 Direct Sales Agents. 50.3 per cent of total employees were women, whereas 49.7 per cent of total employees were men while the average age of employees was 37 years. The number of new employees who joined was 58.



During 2017, one Internship Program and Know Your Customer Project have been organized. The number of interns who were part internship program and this project was 146. The aim of the Internship Program is to support under-graduate, Master Degree students and graduated candidates of Kosovo.

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, E-Learning, 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 online self-learning

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 is already 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 2017, there were about 6091 staff enrollments in the Bank self-designed sessions and Raiffeisen Bank International courses. Additional focus was given also to external provider online courses to increase efficiency and variety in learning.

In addition to the activities already mentioned, the Bank continued to support employees for the specific professional and licensing 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.

Talent management

During 2017, the focus in increasing the awareness and skills of the Bank managers toward human capabilities continued. Talent management activities and talent review meetings, 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 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.

Establishing a Health Management System

The newest initiative of year 2017 regarding establishing a Health Management System in Raiffeisen Bank Kosovo was a hiking activity, which took place in the mountains of Rugovë – Liqenat. The initiative was welcomed and nearly 100 employees joined. The aim of this initiative was to promote healthy living. Following this initiative, the Bank has informed its employees that during the year 2018 there will be organized different similar activities, some with informative character and others with the objective of engaging the employees.

Other initiatives

During 2017, Raiffeisen Bank Kosovo, has strengthened the cooperation with private and public educational institutions, in order to be closer to students, who are considered potential future human capital of the Bank. Representatives of Human Resources and Training Department participated in a Virtual Career Fair, organized by University of Prishtina “Hasan Prishtina”, aiming to be closer to job-seekers. In addition, a public presentation with students, was held by Human Resources representatives on the topic “Employment and Internship Opportunities in Raiffeisen Bank Kosovo” organized by Center for Career Development of University of Prishtina. The respective session was very interactive, aiming to educate and inform graduates and undergraduates about employment opportunities in the Bank, and raise awareness to job-seekers on self-investment and self-development, career orientation and personal interests, in order to be competitive in today’s challenging market. Raiffeisen Bank Kosovo, being part of the dynamics and digitalization nowadays, has undergone additional cooperation and agreements with private institutions (Cactus Education and UBT) in order to attract, develop and maintain IT professionals.

During 2017, members of Down Syndrome Kosova paid visits to Raiffeisen Bank working stations. Throughout this event, children with Down Syndrome sold handmade cards for Mother’s Day and socks made by Down Syndrome International (part of the campaign for the “World Down Syndrome Day”, wearing the socks had the objective of feeling as part of this community). The main objective of this event was to raise awareness for this community and support their integration into society.

Data summary

Number of employees

804

Number of Direct Sales Agents

64

Number of new employees

58

Number of job applications

1194

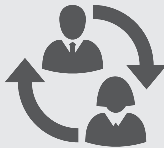
Number of interns

146

Average age of employees

36.7 years

Turnover rate



4.7%

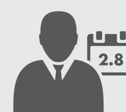
Number of training days

2,421

Number of e-learning enrollments

6091

Number of training days per employee

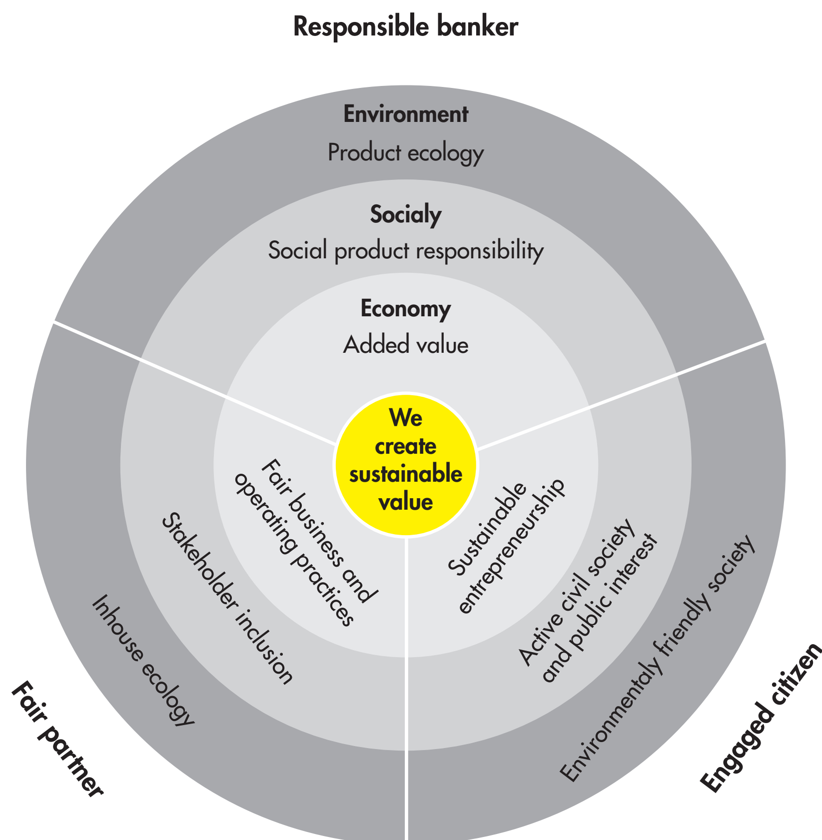


2.8 Days

Sustainability and corporate responsibility

Sustainability and corporate social responsibility has always been a fundamental principle for the RBI 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 RBI, Raiffeisen Bank Kosovo is committed to comply with the UN Global Compact Principles.[1]

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



Our approach as designers of a sustainable company and 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. Its 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 even beyond its business activities and take action in line with its capabilities.

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

Responsible banker

Raiffeisen Bank Kosovo in 2017 had many activities that have an effect of being a responsible banker in Kosovo.

In terms of governance and compliance, the Bank values responsibility and transparency, and applies these values in all its activities. The basis for this is the Bank's Code of Conduct, which is applied across the Group, for all staff members and its business partners.

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. The Bank achieves this with a lending policy that is based on continuity. It remains a fair and reliable lender to businesses with future prospects, even in difficult times. In addition, the Bank 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.

Sustainable lending
During 2017, under Project Finance, the Bank continued to support and finance development of real estate projects in prime locations, by developers who have shown track record of qualitative building, timely delivering of the projects, and sustainable profitability. During the year, the Bank also tackled renewable energy projects, building a pipeline of the projects by understanding and preparing for financing of small hydropower plants as well as other renewable energy sources such as solar.

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

Customer satisfaction
The satisfaction of its customers is the Bank's top priority. This is therefore measured regularly 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. In 2017, the Bank's Net Promoter Score (NPS) has improved to 58 and this was the first time that the service of the Bank was valued as the most highly rate among customers.

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 its products, the Bank adheres to strict principles intended to protect its customers. False or misleading advertising is something the Bank feels is unacceptable.

Fair partner

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

Human Resources
As of 31 December 2017, the Bank had 804 employees (687 full time, 117 part time), and the additional 64 Direct Sales Agents. Compared to 2016, the total number of employees in 2017 had a decrease of 0.5 per cent. The number of new employees who joined was 58. During 2017, the Bank also hired students through two projects one with Internship Program and the other Know Your Customer Project. The total number of interns who were part of the program and the project was 146. The aim of the Internship Program is to support under-graduate, master degree students and graduated candidates of Kosovo by giving them the opportunity to gain real experience and also give them the opportunity to be employed with the Bank immediately or in the near future based on their performance and willingness to learn.

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, E-Learning, 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 online self-learning.

Engaged citizen

The Bank consider itself an engaged corporate citizen, which actively champions sustainable development in the society. The commitment as corporate citizen goes beyond the core business and aims to develop the young population of Kosovo in culture, sports, technology and education. In addition, the Bank also contributed to the social welfare projects, with a particular focus on children and mothers in Kosovo.

Supported projects and initiatives
In 2017, Raiffeisen Bank Kosovo continued to be traditional sponsor of different projects in five mains areas: social welfare, culture, education, health, and sport. Regarding the social welfare, the Bank continued to support the organization Action for Mother and Children that works on increasing the awareness and supporting the new mothers in Kosovo.

Culture remained one of the key areas that the Bank continued to be engaged. The main cultural projects that the Bank is supporting for nine years in a row are the two well-known festivals: the Chopin Piano Festival and the Prishtina Festival Film in 2017. The Chopin Piano Festival offers concerts, master courses for students and a symposium dedicated to the life and work of the composers or pianists being commemorated each year around the world. While one of the most important events of the PriFest is the event series “PriFORUM Regional Coproduction”, which brings filmmakers from different countries of Europe and the world to Kosovo. In addition to the support for the regular activities of these two festivals, in 2017 the Bank initiated and supported separate workshops and master courses for young artists during these two main festivals. This is because the Bank wanted also to be enable cultural educational activities for the students who come from the university or high schools. Thus, in 2017, for the first time, the Chopin Piano Fest included a special “PianoEdu” week, in which around 100 music high school and university students participated while the PriFilm Festival offered separate activities such as series of workshops, master courses and talks, which were open for the public and students in particular.

The European Summer Music Academy (SMA) for young artists from Kosovo was also supported by the Bank. In 2017, an orchestra academy was founded within the framework of the European Summer Academy for Music. The new symphony orchestra consists of young musicians from various countries in Southeastern Europe. In addition, the Bank continued to promote art with Raiffeisen Gallery. The idea was to give young, upcoming artists the opportunity to present their works to the public. For this purpose, the Bank has rented a space in Albi Mall, the Kosovo’s biggest shopping center, and this space was transformed into an innovative space where new works by young artists are exhibited every month. This helps the community to have a place that they can have an exhibition without any costs.

In terms of education and innovation in 2017, Raiffeisen Bank Kosovo supported Atomi project that focuses on identification and supporting people with extraordinary intelligence, gifted and talented people in Kosovo. More precisely, the goal of ATOMI is early identification of students with extraordinary intelligence, gifted and talented students (hereafter: atomist) in order to offer proper possibilities, conditions, care and special schooling (enrichment) for these students based on their intellectual potentials, giftedness, talent, personality, ambitions, interests, motivation and their socio-economic conditions and circumstances. All these services and activities are provided in order to enable these students to develop and realize their full intellectual potential and therefore contribute firstly to their personal development and at the same time to social and national interest.

As a part of the support for education and innovation in 2017, the Bank has also started a cooperation with BoneVet. BONEVET is a stimulating environment for imagination, creativity and team building. Children learn by doing and by thinking about what they do. They get access to modern technology: ARDUINO, LITTLEBITS, COMPUTERS, 3D-PRINTERS, ELECTRONICS, CNC, and similar to make, to design, and to play. Thereby, they gain not only technical skills but also other skills that are not taught at schools, like critical thinking, problem solving, teamwork, constructive communication, self-confidence. They learn values like equality, diversity, open-communication and freedom of voice.

Another activity in the area of innovation is the cooperation with Innovation Center of Kosovo (ICK) in the areas of Cyber Security and Fintechs, the Bank offered mentorship and educational sessions regarding these subjects in order to help start-up businesses that plan to invest in this area.

During 2017, members of Down Syndrome Kosova paid visits to Raiffeisen Bank offices. Throughout this event, children with Down Syndrome sold handmade cards for Mother's Day and socks made by Down Syndrome International (part of the campaign for the "World Down Syndrome Day", wearing the socks had the objective of feeling as part of this community). The main objective of this event was to raise awareness for this community and support their integration into society.

Financial education/financial literacy and other educational activities

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

Raiffeisen Bank Kosovo during 2017 has strengthened the cooperation with private and public educational institutions, in order to be closer to students, who are considered potential future human capital of the Bank. Representatives of Human Resources and Training Department participated in a Virtual Career Fair, organized by University of Prishtina "Hasan Prishtina", aiming to be closer to job-seekers. In addition, a public presentation with students, was held by Human Resources representatives on the topic "Employment and Internship Opportunities in Raiffeisen Bank Kosovo" organized by the Center for Career Development of the University of Prishtina. The respective session was very interactive, aiming to educate and inform graduates and undergraduates about employment opportunities in the Bank, and raise awareness to job-seekers on self-investment and self-development, career orientation and personal interests, in order to be competitive in today's challenging market. In addition, Raiffeisen Bank Kosovo, being part of the dynamics and digitalization nowadays, has undergone additional cooperation and agreements with private university institutions (Cactus Education and UBT) in order to attract, develop and maintain IT professionals.

Financial statements

The Independent Auditor's Report and Separate Financial Statements for the year ended 31 December 2017 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.

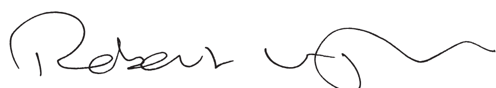
We have prepared the financial statements as at 31 December 2017 and for the year then ended, which presents fairly, in all material respects the financial position of Raiffeisen Bank Kosovo J.S.C. (the "Bank") as at 31 December 2017 and the results of its operations and its cash flows for the year ended. 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.

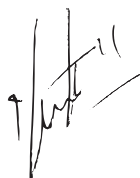
Pristina, Kosovo
29 March 2018

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 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the separate financial statements presents fairly, in all material respects the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Other information included in Raiffeisen Bank Kosovo J.S.C. 2017 Annual Report

Other information consists of the information included in Bank's 2017 Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2017 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent

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 IFRS 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 for audit of the separate financial statements

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.

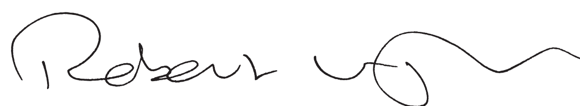
We communicate with those charged with governance of Raiffeisen Bank Kosovo J.S.C. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Certified Auditors Kosovo sh.p.k.
March 29, 2018
Prishtina, Kosovo

Separate statement of financial position

(amounts in € 000)	Notes	As at December 31, 2017	As at December 31, 2016
Assets			
Cash and cash equivalents and mandatory reserve	7	119,609	121,471
Loans and advances to banks	8	39,551	40,564
Loans and advances to customers	9	532,476	495,691
Investment securities	10	194,555	207,749
Other assets	11	2,362	1,436
Investments in subsidiaries	12	2,234	2,234
Property, equipment and intangible assets	13	10,132	10,399
Total assets		**900,919**	**879,544**
Liabilities			
Deposits and borrowings from banks	14	9,174	511
Deposits from customers	15	735,790	724,969
Current tax liability		985	315
Provisions and Other liabilities	16	8,748	8,368
Interest Rate Swap payable	16	1,100	1,639
Deferred tax liability	24	482	1,584
Subordinated loan	17	19,325	19,336
Total liabilities		**775,604**	**756,722**
Shareholders' equity			
Share capital		63,000	63,000
Fair value reserve		274	(40)
Retained earnings		62,041	59,862
Total shareholder's equity	**18**	**125,315**	**122,822**
Total liabilities and shareholder's equity		**900,919**	**879,544**

Financial Statements are approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 29 March 2018.



Fatos Shllaku
Head of Finance

Robert Wright
Chief Executive Officer
Management Board Member

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 42 to 85.

Separate statement of profit and loss and other comprehensive income

(amounts in € 000)	Notes	For the year ending December 31, 2017	For the year ending December 31, 2016
Interest income	19	39,090	39,679
Interest expense	19	(2,494)	(3,241)
Net interest income		**36,596**	**36,438**
Impairment losses on loans and advances to customers	9	(5,655)	(4,893)
Impairment losses on loans and advances to banks		-	13
Recoveries from loans previously written off		1,493	1,484
Provision for losses on commitments and contingent liabilities		10	(8)
Net interest income after provisions		**32,444**	**33,034**
Fee and commission income	20	18,976	15,986
Fee and commission expense	20	(5,488)	(6,394)
Trading profit/loss		(59)	568
Net income from financial instruments at fair value through profit or loss		235	429
Other operating income	21	1,087	1,475
Operating income		**47,195**	**45,098**
Staff costs	22	(12,472)	(11,437)
Other operating expenses	23	(14,856)	(14,344)
Profit before income tax		**19,867**	**19,317**
Income tax expense	24	(2,288)	(2,325)
Profit for the year		**17,579**	**16,992**
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		314	10
Total comprehensive income for the year		**17,893**	**17,002**

The separate statement 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 85.

Separate statement of changes in equity

(amounts in € '000)	Share capital	Retained earnings	Fair value reserve	Total shareholder's equity
Balance at January 1, 2016	**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**
Contributions and distributions				
Dividends to equity holders	-	(15,400)	-	(15,400)
Total comprehensive income				
Profit for the year	-	17,579	-	17,579
Other comprehensive income				
Other comprehensive income	-	-	314	314
Balance at 31 December 2017	**63,000**	**62,041**	**274**	**125,315**

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 85.

Separate statement of cash flow

(amounts in € 000)	Notes	For the year ending December 31, 2017	For the year ending December 31, 2016
Cash flows from operating activities			
Interest received on loans		38,435	38,849
Interest paid on placements		(93)	(246)
Interest received on investment securities		4,005	1,629
Interest paid on deposits and subordinated loan		(3,021)	(3,241)
Fees and commissions received		18,976	15,823
Fees and commissions paid		(5,488)	(6,394)
Other income received		2,982	3,004
Staff costs paid		(12,365)	(11,425)
Other operating expenses paid		(6,428)	(10,785)
Income tax paid		(2,550)	(3,500)
Cash flow from operating activities before changes in operating assets and liabilities		**34,453**	**23,714**
Changes in operating assets and liabilities			
Mandatory liquidity reserve		(4,498)	(1,761)
Loans and advances to banks		1,013	(105)
Loans and advances to customers		(41,649)	(51,312)
Investment securities		9,481	21,622
Other assets		(926)	297
Due to customers		10,883	49,933
Deposits from banks		440	(717)
Other liabilities		(5,211)	4,448
Net cash flow from operating activities		**3,986**	**46,119**
Cash flows from investing activities			
Acquisition of property, equipment & intangible assets	13	(3,116)	(4,875)
Acquisition of subsidiaries		-	(1,898)
Net cash used in investing activities		**(3,116)**	**(6,773)**
Cash flows from financing activities			
Repayment of borrowings		-	(974)
Proceeds from borrowings	6	8,223	-
Dividends distributed	6	(15,400)	(19,500)
Net cash flow from financing activities		**(7,177)**	**(20,474)**
Effect of exchange rate changes		(54)	(77)
Net (decrease)/increase in cash and cash equivalents		**(6,361)**	**18,795**
Cash and cash equivalents at the beginning of year	7	54,347	35,552
Cash and cash equivalents at 31 December	**7**	**47,986**	**54,347**

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 85.

Notes to the separate financial statements for the year ended 31 December 2017

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 2017 the Bank has 8 branches and 38 sub-branches within Kosovo (31 December 2016: 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 12.

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.

See 3.3.1 to 3.3.7

Financial liabilities

The Bank classifies its financial liabilities, as other financial liabilities. See 3.3.1 and 3.3.5

(ii) Recognition

The Bank initially recognises loans, 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 derecognizes 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

Repossessed assets are acquired through enforcement of security over non-performing loans and advances to customers that do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time.

Repossessed assets are initially recognised bailiff set amount in the last auction, and are subsequently measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss

3.7 Borrowings

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

3.8 Provisions

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

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

3.9 Employee benefits

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

3.10 Share capital

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

3.11 Equity reserves

The reserves recorded in equity (OCI) on the Bank's statement of financial position include:
• Available-for-sale reserve in amount of € 274 thousands, 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

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January and will early adopt the amendments to IFRS 9 on the same date. Based on the assessment undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately € 3 thousand, representing a reduction to impairment requirements. The European Parliament has issued as of 27 December 2017 a regulation (EU) 2017/2395 on transition requirements for the implementation of IFRS 9. The regulation allows a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

1. Phasing in the full impact on a straight-line basis over a five-year period; or
2. Recognizing the full impact on the day of adoption.

The Bank has decided to adopt the second approach. The CET 1 will not have any significant change as result of this.
- The assessment made is preliminary as not all transition work requirements have been finalized and therefore may be subject to adjustment.
- The new standard will require the bank to revise its accounting processes and internal controls, and these changes are not yet complete.
- The Bank has not finalized the testing and assessment of controls over its new IT systems. Consequently, the related impacts presented below may change when implementation is finalized.
- The systems and the associated controls that are in place to comply with the new requirements have not been operational for a full reporting period.
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the bank finalizes its first financial statements that include the date of initial application.

Classification and Measurement General

IFRS 9 contains and new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

For the bank four classification categories for financial assets will be applied:
• Financial assets measured at amortized cost (AC)
• Financial assets measured at fair value through OCI (FVOCI) and
• Financial assets mandatory measured at fair value through profit or loss (FVTPL) and
• Financial assets designated measured at fair value through profit or loss (FVTPL)

Financial assets measured at fair value through profit and loss (differentiated by the bank in two sub categories – one mandatory and the other so designated which is in line with the Raiffeisen Group internal division).

In the bank, the existing IAS 39 categories of the held to maturity, loans and receivables and available for sale will be eliminated.

A financial asset shall be measured at amortized cost if both of the following conditions are met:
• The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A business model's objective can be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur. IFRS 9 gives the following examples of sales that may be consistent with the hold-to-collect business model

• The sales are due to an increase in the credit risk of a financial asset;
• The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
• The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows;

For the bank, the sale and of more than 10 per cent of the portfolio (carrying value) during a rolling 3 year period will potentially be considered 'more than infrequent' unless these sales are immaterial as a whole.

'Close to maturity' will be applied similarly to the guidance for held to maturity financial assets under IAS 39. A maturity less than 3 month can be seen as close to maturity.

A financial asset is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On initial recognition of an equity instrument that is not held for trading, RBKO may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment – by – investment basis for each investment and essentially covers strategic interests that are not fully consolidated. All other financial assets – i.e. financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss. In addition, the bank has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an 'accounting mismatch' – that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

A financial asset is classified into one of these categories on initial recognition.

Business model assessment

The Bank has made assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The following has considered as evidence when assessing which business model is relevant:

• How the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the entity's key management personnel;
• How the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
• How managers of the business are compensated – e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
• the frequency, value and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity; and
• whether sales activity and the collection of contractual cash flows are each integral or incidental to the business model ("hold-to-collect" versus "hold and sell" business model);

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL.

Analysis of contractual cash flow characteristics

Once the bank determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or by both collecting contractual cash flows and selling financial assets), it must assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. This assessment will be carried out on an instrument by instrument basis on the date of initial recognition of the financial asset.
In assessing whether the contractual cash flows are solely payments of principal and interest the bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Bank considers:

- Prepayment, extension terms
- Leverage features
- Claim is limited to specified assets or cash flows
- Contractually linked instruments

In 2018 IASB issued an IFRS 9 amendment regarding prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract". The Bank does not expect a significant volume of negative prepayment features with negative compensation which have to be measured mandatorily at FVTPL.

Modification of Time Value of Money and the Benchmark Test

Time value of money is the element of interest that provides consideration for only the passage of time (IFRS 9.B4.1.9A). It does not take into account other risks (credit, liquidity etc.) or costs (administrative etc.) associated with holding a financial asset.

In some cases, the time value of money element may be modified (imperfect). That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case units must assess the modification as to whether the contractual cash flows still represent solely payments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a 'perfect' benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value.

For the following main contractual features that can potentially modify the time value of money a benchmark test will be applied:

- Reset rate frequency does not match interest tenor
- Lagging indicator
- Smoothing clause
- Grace period
- Secondary market yield reference

Impact assessment

IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 of the bank as follows:

Loans and advances to banks and to customers that are classified as loans and receivables measured at amortized cost under IAS 39 will in general also be measured at amortized cost under IFRS 9.
Held to maturity financial assets measured at amortized cost under IAS 39 will in general also be measured at amortized cost under IFRS 9.

Available for Sale debt instruments measured at fair value through Equity under IAS 39 will in general also be measured at FVOCI under IFRS 9.

Impairment General

The calculation of expected credit losses requires the use of accounting estimates which, by definition, will rarely equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

The Bank assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date.

This section provides an overview of the aspects of IFRS 9 that involve a higher degree of judgement or complexity and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Quantitative information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the consolidated financial statements of the Parent entity.

Measurement of Expected Credit Losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are required in applying the accounting requirements for measuring expected credit losses these are:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses

For the bank credit risk comes from the risk of suffering financial loss, should any of our customers, clients or market counterparties fail to fulfil their contractual obligations to us. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as, financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. According to IFRS 9 when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis (Stage 3).

Significant increase in Credit Risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a) Quantitative criteria

The Bank uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For quantitative staging the bank compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition assumptions are made about the structure of the PD curve. On the one hand in the case of highly rated financial instruments it is assumed that the PD curve will deteriorate over time. On the other hand for low rated financial instruments it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs. In general a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250 per cent although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products. The Bank is not aware of any generally accepted market practice for the level at which a financial instrument has to be transferred to Stage 2. From this perspective it is expected that the increase in PD at reporting date which is considered significant will develop over a period of time as a result of an iterative process between market participants and supervisors.

b) Qualitative criteria

The Bank uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.
For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:
- External market indicators
- Changes in contract terms
- Changes to management approach
- Expert judgement

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at a deal level for all non-retail portfolios held by the bank.

For retail portfolios, if the borrower meets one or more of the following criteria:
- Forbearance
- Expert judgement

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at a deal level for all retail portfolios held by the bank.

c) Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. In some limited cases the presumption that financial assets which are more than 30 days past due are to be shown in Stage 2 is rebutted.

d) Low credit risk exemption

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

a) Quantitative criteria

The borrower is more than 90 days past due on its contractual payments No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

b) Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The criteria above have been applied to all financial instruments held by the bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of a minimum of 3 months or longer for distressed restructured exposures. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D)

a) Probability of default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point.

Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The profile is based on historical observed data and parametric functions.

Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, local and regional governments, insurance companies and collective investment undertakings the default profile is generated using a transition matrix approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model.
- Corporate customers, project finance and financial institutions the default profile is generated using a parametric survival regression (Weibull) approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model.
- Retail mortgages and other retail lending the default profile is generated using parametric survival regression in competing risk frameworks. Forward looking information is incorporated into the probability of default using satellite models.

In the limited circumstances where some inputs are not fully available grouping, averaging and benchmarking of inputs is used for the calculation.

b) Loss given default

Loss given default represents the bank's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default.

Loss given default is calculated on a 12-month or lifetime basis, where 12-month loss given default is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign the loss given default is found by using market implied sources.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies the loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model.
- Retail mortgages and other retail lending the loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default. Forward looking information is incorporated into the loss given default using various satellite models.
- In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

c) Exposure at default

Exposure at default is based on the amounts the bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. Where relevant early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

d) Discount factor

In general for on balance sheet exposure which is not leasing or POCI the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

e) Calculation

The expected credit loss is the product of PD, LGD and EAD times the probability not to default prior to the considered time period. The latter is expressed by the survivorship function S. This effectively calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by forward looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings the Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate.
- Retail mortgages the Stage 3 provision is generated by calculating the discounted collateral realization value.
- Other retail lending the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Forward Looking Information

Sensitivity analysis
The most significant assumptions affecting the expected credit loss allowance are as follows:
• Corporate portfolios
• Retail portfolios

Transition
Changing in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

• Raiffeisen Bank Kosovo will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognized in retained earnings as of January 1, 2018.
• The following assessments must be made on the basis of the facts and circumstances that exist at the date of initial application:
  o The determination of the business model in which a financial asset is held.
  o The designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL.
  o The designation of certain strategic investments not held for trading as at FVOCI.

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
Effective for annual periods beginning on or after 1 January 2018

Key requirements
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16 Leases, once applied).

Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. As the focus of IFRS 15 is not on accounting for revenue from financial instruments, its application is not expected to have a material impact on the financial statements of the bank.

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. An indication of current operating lease agreements is provided in Operating Lease Commitments in Note 25.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
Foreign Currency Transactions and Advance Consideration is effective for annual periods beginning on or after 1 January 2018.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
Uncertainty over Income Tax Treatments is effective for annual periods beginning on or after 1 January 2019.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
Classification and Measurement of Share-based Payment Transactions amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts-Amendments to IFRS 4
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4.

Transfers of Investment Property — Amendments to IAS 40
Transfers of Investment Property is effective for annual periods beginning on or after 1 January 2018.

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments its effective date deferred indefinitely until the research project on the equity method has been concluded.

Long-term interests in associates and joint ventures - *Amendments to IAS 28*
The amendment is effective for annual periods beginning on or after 1 January 2019. This amendment is not applicable to the Bank.

3.18 Standards and interpretations new or revised

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendment is effective for annual periods beginning on or after 1 January 2017. The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted. The amendments are intended to provide information to help investors better understand changes in an entity's debt. The Bank has implemented the amendment and has presented additional disclosures about changes in liabilities arising from financing activities in note 6.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendment is effective for annual periods beginning on or after 1 January 2017. This amendment is not applicable to the Bank.

IFRS Practice Statement 2: Making Materiality Judgements
Companies are permitted to apply the guidance in the Practice Statement (PS) to financial statements prepared any

time after 14 September 2017. The PS contains non-mandatory guidance to help entities making materiality judgements when preparing general purpose IFRS financial statements. The PS may also help users of financial statements to understand how an entity makes materiality judgements in preparing such financial statements. The PS comprises guidance in three main areas:

• General characteristics of materiality
• A four-step process that may be applied in making materiality judgements when preparing financial statements. This process describes how an entity could assess whether information is material for the purposes of recognition, measurement, presentation and disclosure.
• How to make materiality judgements in specific circumstances, namely, prior period information, errors and covenants and in the context of interim reporting.

Furthermore, the PS discusses the interaction between the materiality judgements an entity is required to make and local laws and regulations. The PS includes examples illustrating how an entity might apply the guidance. Since the PS is a non-mandatory document, it does not change or introduce any requirements in IFRS. However, the PS provides helpful guidance for entities making materiality judgements and thus may improve the communication effectiveness of financial statements.

Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)
Resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018.

Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)
Resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording is effective for annual periods beginning on or after 1 January 2019.

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% of Micro portfolio and 82% 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 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 exposures to credit risk before collateral and other credit enhancements as at 31 December 2017 and 31 December 2016 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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Carrying amount	119,609	121,471	39,551	40,564	532,476	495,691	194,555	207,749	2,234	2,234	1,954	678	-	-	36,330	37,190
Amount committed/ guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	74,565	76,907	-	-
	119,609	121,471	39,551	40,564	532,476	495,691	194,555	207,749	2,234	2,234	1,954	678	74,565	76,907	36,330	37,190
Neither past due nor impaired	119,609	121,471	39,551	40,564	489,268	455,297	194,555	207,749	2,234	2,234	1,954	678	-	-	-	-
Past due but not impaired	-	-	-	-	36,253	27,211	-	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	28,448	31,865	-	-	-	-	-	-	-	-	-	-
Total gross amount	119,609	121,471	39,551	40,564	553,969	514,373	194,555	207,749	2,234	2,234	1,954	678	-	-	-	-
Allowance for impairment	-	-	-	-	(21,493)	(18,682)	-	-	-	-		-	-	-	-	-
Net carrying amount	119,609	121,471	39,551	40,564	532,476	495,691	194,555	207,749	2,234	2,234	1,954	678	-	-	-	-
Off balance: maximum exposure																
Total commitment	-	-	-	-	-	-	-	-	-	-	-	-	74,565	76,907	-	-
Provision	-	-	-	-	-	-	-	-	-	-	-	-	(20)	(32)	-	-
Total exposure	-	-	-	-	-	-	-	-	-	-	-	-	74,545	76,875	-	-

Loans and advances to customers

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2017 by counterparty sector.

	Loans and advances to customers	
	2017	2016
Non-Derivative		
Banks	161,394	164,269
Sovereigns	194,555	207,749
Corporate customers	338,746	327,988
Retail customers	268,295	244,610
Total gross amount	962,990	944,616
Derivative		(12,324)
Banks	36,330	37,190
Total gross amount	36,330	37,190

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	
	2017	2016
Maximum exposure to credit risk		
Gross amount	553,969	514,373
Allowance for impairment	(21,493)	(18,682)
Net carrying amount	532,476	495,691
Loans with renegotiated terms		
Gross carrying amount	28,005	34,948
Allowance for impairment	(12,545)	(10,495)
Net carrying amount	15,460	24,453

Loans and advances to customers - Neither past due nor impaired and past due but not impaired

	2017	2017	2016	2016
	Neither past due nor impaired	Past due but not impaired	Neither past due nor impaired	Past due but not impaired
Non-Retail				
1 Minimum Risk	-	-	-	-
2 Excellent credit standing	-	-	3,923	-
3 Very Good credit standing	-	-	1,428	-
4 Good credit standing	10,279	59	27,025	-
5 Sound credit standing	75,568	2,067	74,038	105
6 Acceptable credit standing	82,398	6,574	82,092	9,124
7 Marginal credit standing	51,236	3,717	15,755	3,349
8 Weak credit standing/ sub-standard	6,759	5,761	3,253	2,350
9 Very weak credit standing/ sub-standard	*6,984*	*2,895*	*12,387*	*1,219*
10 Default	-	-	-	-
NR Not Rated	204	-	-	-
Total Non-Retail	**233,428**	**21,073**	**219,901**	**16,147**

	2017	2017	2016	2016
	Neither past due nor impaired	Past due but not impaired	Neither past due nor impaired	Past due but not impaired
Retail				
NEW VOLUME	1,111	4	1,364	2
CURRENT	35,169	-	31,095	-
1-30DPD	-	1,301	-	1,110
31-60DPD	-	453	-	171
61-90DPD	-	231	-	218
91-120DPD	-	48	-	48
121-150DPD	-	-	-	79
151-180DPD	-	47	-	12
PLLP	*219,560*	*13,096*	*202,937*	*9,424*
Total Retail	255,840	15,180	235,396	11,064
Total	489,268	36,253	455,297	27,211

Loans and advances to customers - Individually impaired

Individually Impaired	*2017*	*2016*
Non-Retail	23,903	27,357
Grade 10	23,903	27,357
Retail	4,545	4,508
180+	310	1,544
ILLP	4,235	2,964
Total	28,448	31,865
Allowance for impairment		
Individual	17,139	14,777
Collective	4,354	3,905
Total Allowance for Impairment	21,493	18,682

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 2017	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	522	6,135	6,657	277	7,779	8,056
Residential Real Estate	27,183	-	27,183	15,697	-	15,697
Movable	247,860	272,269	520,129	30,570	283,335	313,905
Total	275,565	278,404	553,969	46,544	291,114	337,658

	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

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

	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
2017						
Corporate Customers	278,404	21,073	23,903	(13,919)	(305)	291,114
Retail Customers	275,565	15,180	4,545	(3,220)	(4,049)	46,544
Total Loans and Advances to Customers	553,969	36,253	28,448	(17,139)	(4,354)	337,658
2016						
Corporate Customers	263,405	16,147	27,357	(11,700)	(629)	80,225
Retail Customers	250,968	11,064	4,508	(3,077)	(3,276)	194,984
Total Loans and Advances to Customers	514,373	27,211	31,865	(14,777)	(3,905)	275,209

2017	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	1,849	725	6,094	27,585	36,253
Loans and advances to customers past due and impaired	18,621	198	2,684	6,945	28,448

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	21,555	27,211
Loans and advances to customers past due and impaired	24,099	696	2,226	4,844	31,865

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2017 and 31 December 2016 for loans and advances to customers past due and impaired is shown below:

2017	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Corporate Customers	17,967	80	2,065	3,791	23,903
Retail Customers	654	118	619	3,154	4,545
Total Loans and advances to customers impaired	18,621	198	2,684	6,945	28,448

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	2,122	27,357
Retail Customers	761	212	813	2,722	4,508
Total Loans and advances to customers impaired	24,099	696	2,226	4,844	31,865

The table below shows the movements in allowances for credit losses during the financial year.

2017	As at 1/1/2017	Allocation	Usage (Write off)	As at 31/12/2017
Corporate Customers	12,329	3,078	(1,183)	14,224
Retail Customers	6,353	2,577	(1,661)	7,269
Total Loans and advances to customers impaired	18,682	5,655	(2,844)	21,493

2016	As at 1/1/2016	Allocation	Usage (Write off)	As at 31/12/2016
Corporate Customers	16,665	1,969	(6,305)	12,329
Retail Customers	4,977	2,924	(1,548)	6,353
Total Loans and advances to customers impaired	21,642	4,893	(7,853)	18,682

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	2017	2016
AA+ to AA-	30,260	30,815
BBB+ to B-	24,242	20,401
	54,502	**51,216**

Investment securities

Investments in securities are mainly invested in government bonds with OECD Countries, Republic of Kosovo T Bills and corporate bonds. The investments are primarily for liquidity management of the bank and insure sufficient risk diversification in terms of credit exposure with one sovereign also considering the local regulatory environment and limitation on large exposures. The below table represents securities exposure based on S&P sovereign or corporate rating:

	2017	2016
AAA	72,611	120,264
AA+ to AA-	30,942	9,344
A+ to A-	27,977	-
BBB+ to B-	29,440	10,008
Not Rated	33,585	68,133
	194,555	207,749

The exposure reported as not rated reflects the bank exposure to Republic of Kosovo.

The table below represents the risk exposure based on the counterparty risk of the exposure.

	2017	2016
Kosovo Government Treasury Bills and Bonds	33,585	41,981
Other OECD Treasury Bills and Government Bonds	87,586	165,768
Corporate bonds	73,384	-
Total investment securities	194,555	207,749

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 maintained by deposits at central bank and 50 percent of physical cash. As at 31 December 2017, the overage of liquidity reserve is € 8,508 thousand (2016: € 22,695 thousand). The table below shows assets and liabilities as at 31 December 2017 and 2016 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	16,090	-	-	-	103,519	119,609
Loans and advances to banks	39,551	-	-	-	-	39,551
Loans and advances to customers	33,002	31,979	167,965	299,530	-	532,476
Investment securities	21,454	14,242	38,480	120,379	-	194,555
Other assets	-	-	1,954	-	-	1,954
Total financial assets	**110,097**	**46,221**	**208,399**	**419,909**	**103,519**	**888,145**
Liabilities						
Deposits from customers	723,182	1,916	10,211	481	-	735,790
Deposits and borrowings from banks	9,174	-	-	-	-	9,174
Subordinated debt	325	-	-	19,000	-	19,325
Other liabilities	-	-	9,848	-	-	9,848
Total financial liabilities	**732,681**	**1,916**	**20,059**	**19,481**	**-**	**774,137**
Net gap position at 31 December 2017	**(622,584)**	**44,305**	**188,340**	**400,428**	**103,519**	**114,008**

	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	-	-	10,007	-	-	10,007
Total financial liabilities	**708,802**	**1,615**	**14,176**	**30,230**	**-**	**754,823**
Net gap position at 31 December 2016	**(608,131)**	**99,513**	**224,967**	**284,986**	**109,995**	**111,330**

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 2017 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 2017 and 2016 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	103,519	16,090	-	119,609
Loans and advances to banks	-	39,551	-	39,551
Loans and advances to customers	532,476	-	-	532,476
Investment securities	33,592	93,382	67,581	194,555
Other assets	1,954	-	-	1,954
Total financial assets	**671,541**	**149,023**	**67,581**	**888,145**
Liabilities				
Deposits from customers	689,336	18,374	28,080	735,790
Deposits from banks	696	8,478	-	9,174
Subordinated debt	-	19,325	-	19,325
Other liabilities	8,748	1,100	-	9,848
Total financial liabilities	698,780	47,277	28,080	774,137
Net gap position at 31 December 2017	**(27,239)**	**101,746**	**39,501**	**114,008**

	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				
Deposits from customers	672,557	23,889	28,523	724,969
Deposits from banks	256	255	-	511
Subordinated debt	-	19,336	-	19,336
Other liabilities	8,369	1,638	-	10,007
Total financial liabilities	681,182	45,118	28,523	754,823
Net gap position at 31 December 2016	(32,787)	151,352	(7,235)	111,330

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 2017 and 2016. 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	111,862	1,443	6,304	119,609
Loans and advances to banks	16,238	10,513	12,800	39,551
Loans and advances to customers	532,476	-	-	532,476
Investment securities	173,426	21,129	-	194,555
Other assets	1,954	-	-	1,954
Total financial assets	**835,956**	**33,085**	**19,104**	**888,145**
Liabilities				
Deposits from customers	682,101	35,196	18,493	735,790
Deposits from banks	9,174	-	-	9,174
Subordinated debt	19,325	-	-	19,325
Other liabilities	9,848	-	-	9,848
Total financial liabilities	**720,448**	**35,196**	**18,493**	**774,137**
Net gap position at 31 December 2017	115,508	(2,111)	611	114,008

	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	10,007	-	-	10,007
Total financial liabilities	**702,507**	**30,081**	**22,235**	**754,823**
Net gap position at 31 December 2016	**110,963**	**1,275**	**(908)**	**111,330**

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 2017	31 December 2016
1 USD	1.199	1.053
1 CHF	1.177	1.073
1 GBP	0.888	0.858

	US Dollar (USD)		Swiss Franc (CHF)		British Pound (GBP)	
	2017	2016	2017	2016	2017	2016
Sensitivity rates	10%	6%	6%	2%	4%	8%
Profit and loss	2,744	(69)	(2,356)	(954)	957	(44)

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 2018 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 and mandatory liquidity reserve	16,091	-	-	-	103,518	119,609
Loans and advances to banks	38,811	-	-	-	740	39,551
Loans and advances to customers	33,002	31,979	167,965	299,530	-	532,476
Investment securities	21,453	14,243	38,480	120,379	-	194,555
Other assets	-	-	-	-	1,954	1,954
Total financial assets	109,357	46,222	206,445	419,909	106,212	888,145
Liabilities						
Deposits from customers	136,559	1,998	10,131	534	586,568	735,790
Deposits from banks	8,478	-	-	-	696	9,174
Subordinated debt	325	-	-	19,000	-	19,325
Other liabilities	-	-	-	-	9,848	9,848
Total financial liabilities	**145,362**	**1,998**	**10,131**	**19,534**	**597,112**	**774,137**
Net gap position at 31 December 2017	(36,005)	44,224	196,314	400,375	(490,900)	114,008

Zero interest deposits from customers in the amount of € 586.6 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	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	-	-	-	-	10,007	10,007
Total financial liabilities	156,093	1,555	12,407	23,678	561,090	754,823
Net gap position at 31 December 2016	**(56,247)**	**99,573**	**226,058**	**291,538**	**(449,592)**	**111,330**

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	2017				2016			
	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	(0.9)	1.0	(0.8)	0.2	(0.5)	0.4	(1.0)	0.3
Government Bonds HTM yield	(0.4)	-	N/A	N/A	0.4	-	N/A	N/A
Government Bonds AFV yield	0.2	2.7	N/A	N/A	0.2	0.5	N/A	N/A
Loans and advances to customers	7.5	N/A	N/A	N/A	7.6	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	(0.0)	(0.0)
Term deposits	1.6	0.0	0.0	0.0	2.0	0.0	0.0	0.0
Savings accounts	0.0	0.0	0.2	0.1	0.1	0.0	0.1	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 2017 and 2016:

2017	Total	2016	Total
CHF	20	CHF	6
EUR	29,366	EUR	(13,193)
GBP	(44)	GBP	(11)
USD	(804)	USD	(2,205)

Value at risk as of 31 December 2017 is € 207 thousand, 31 December 2016 € 156 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 per cent, 20 per cent, 50 per cent, 75 per cent, 100 per cent, 150 per cent) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100 per cent risk weighting, meaning that it must be supported by capital (Tier 1) equal to 8 per cent of the carrying amount. Risk weighted assets are calculated based on local regulatory requirements. Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

	31 December 2017	31 December 2016
Total risk weighted assets	565,443	499,245
Total risk weighted off balance exposures	19,874	22,686
Total risk weighted assets for operational risk	51,739	51,058
Total	**637,056**	**572,989**
Regulatory capital (Total Capital)	130,351	117,545
Capital adequacy ratio (Total Capital)	20.46%	20.51%

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:

	2017	2016
Debt	27,803	19,591
Equity	125,316	122,822
Net debt to equity ratio	**22%**	**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.

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

Assets	Carrying value 2017	Fair value Level 3 2017	Carrying value 2016	Fair value Level 3 2016
Loans and advances to customers	532,476	542,246	495,691	500,368
Liabilities				
Deposits from customers	735,790	735,806	724,969	725,057
Deposits from banks	9,174	9,174	511	511

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 2017				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	194,555	160,970	33,535	-
Financial investments at fair value through profit or loss	79,497	45,912	33,535	-
Financial investments available for sale	102,726	102,726	-	-
Financial investments held to maturity	12,332	12,332	-	-
Derivatives	**1,100**	**-**	**1,100**	**-**
Derivatives held for risk management (Note 16)	1,100	-	1,100	-

31 December 2016				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	207,749	165,768	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	**1,639**	**-**	**1,639**	**-**
Derivatives held for risk management (Note 16)	1,639	-	1,639	-

6 Changes in liabilities arising from financing activities

	1 January 2017	Cash flows	Declaration of Dividends	31 December 2017
Interest bearing borrowings Note 14	255	8,223	-	8,478
Dividends payable	-	(15,400)	15,400	-
Total liabilities from financing activities	**255**	**(7,177)**	**15,400**	**8,478**

7 Cash and cash equivalents and mandatory reserve

	2017	2016
Cash on hand	46,776	40,351
Balances with the CBK	56,743	69,644
Correspondent accounts with other banks	16,090	11,476
Total	119,609	121,471

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of € 71,623 thousand (31 December 2016: € 67,125 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 2017 and 2016 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2017	2016
Total cash and cash equivalents and mandatory reserve	119,609	121,471
Less: Mandatory liquidity reserve	(71,623)	(67,124)
Cash and cash equivalents for the purposes of cash flow statement	47,986	54,347

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 2017 the interest was paid at the rate of 0 per cent per annum (31 December 2016: 0 per cent per annum).

8 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 € 2 thousand (31 December 2016: € (6) thousand).

Guarantee deposits include an amount of € 740 thousand as at 31 December 2017 (31 December 2016: € 824 thousand) which represent restricted deposits with UOB Bank as card cash collateral. The Bank does not have the right to use these funds for the purposes of funding its own activities.

	2017	2016
Term deposits	38,811	39,740
Guarantee deposits	740	824
Total loans and advances to banks	**39,551**	**40,564**

9 Loans and advances to customers

	2017	2016
Corporate Customers		
Current and restructured loans	225,308	184,902
Overdraft facilities	53,096	78,503
	278,404	**263,405**
Retail Customers		
Current and restructured loans	259,810	235,397
Overdraft facilities	15,755	15,571
	275,565	**250,968**
Loans and advances to customers	**553,969**	**514,373**
Less: Allowance for impairment	(21,493)	(18,682)
Loans and advances to customers, net	**532,476**	**495,691**

Loans and advances to customers include accrued interest income in the amount of € 1,959 thousand (31 December 2016: € 1,818 thousand).
Movements in the allowance for impairment are as follows:

	2017	2016
Allowance for impairment of loans and advances to customers at the beginning of the year	**18,682**	**21,642**
Net charge for impairment of loans and advances to customers during the year	6,158	5,169
Reversal of impairment during the year	(503)	(276)
Write offs	(2,844)	(7,853)
Allowance for impairment of loans and advances to customers at the end of the year	**21,493**	**18,682**

As at 31 December 2017 the Bank has 305 borrowers (31 December 2016: 231 borrowers) with aggregated loan amounts above € 100 thousand. The aggregate amount of these loans is € 271,429 thousand or 48 per cent of the gross loan portfolio (31 December 2016: € 242,389 thousand or 47 per cent of the gross loan portfolio).

The Bank manages individual counterparty exposures in order to be compliant with the regulations of the Central Bank that require individual counterparty exposures not to exceed 15 per cent of Tier I Capital or € 16,193 thousands.

As at 31 December 2017, there is 1 counterparty (2016: 3 counterparty) exposure 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 € 126 million, (2016: € 118 million). A reconciliation of the allowance for impairment losses for loans and advances, by class, is, as follows:

		2017			2016	
	Non-Retail	Retail	Total	Non-retail	Retail	Total
At 1 January	12,329	6,353	18,682	16,665	4,977	21,642
Charge for the year	3,078	2,577	5,655	1,969	2,924	4,893
Amounts written off	(1,183)	(1,661)	(2,844)	(6,305)	(1,548)	(7,853)
At 31 December	14,224	7,269	21,493	12,329	6,353	18,682

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

	2017		2016	
	Amount	%	Amount	%
Trade	166,386	30%	172,609	34%
Individuals	313,120	57%	263,727	51%
Manufacturing, chemical and processing	42,100	8%	46,198	9%
Service	12,736	2%	11,609	2%
Construction and construction servicing	13,568	2%	13,534	3%
Food industry and agriculture	6,032	1%	6,695	1%
Other	27	0%	1	0%
Total loans and advances to customers before allowance for loan impairment	**553,969**	**100%**	**514,373**	**100%**

10 Investment securities

	2017	2016
Financial Investments held to maturity	12,332	28,894
Financial Investments at fair value through profit or loss	79,497	132,717
Available for sale debt securities	102,726	46,138
Total investment securities	**194,555**	**207,749**

	2017	2016
Kosovo Government Treasury Bills and Bonds	33,585	41,981
Other OECD Treasury Bills and Government Bonds	160,970	165,768
Total investment securities	**194,555**	**207,749**

Financial Investments at fair value, Financial Investments held to maturity and Available for sale debt securities as at 31 December 2017 represent one month to-five year bonds and treasury bills denominated in EUR and US dollar issued by Germany, Republic of France, Austria, United States of America, Netherlands, Finland, Poland, Slovakia, Bulgaria, EIB, KFW, Luxembourg and Republic of Kosovo (Government Treasury Bills).

11 Other assets

	2017	2016
Prepayments and advances for services	244	391
Due from Visa and MasterCard	1,954	678
Repossessed properties	164	367
Total other assets	**2,362**	**1,436**

12 Investment in subsidiaries

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

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

	Principal place of business	Ownership interest	
Subsidiary	2017		2016
Raiffeisen Leasing Kosovo	Kosovo	100%	100%
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.

13 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 2016	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
Additions	370	977	104	1,665	3,116
Disposals	(427)	(700)	(104)	-	(1,231)
Cost as at 31 December 2017	5,455	13,753	3,544	15,917	38,669
Accumulated Depreciation and Amortization Opening Balance as at 1 January 2016	2,569	9,991	2,665	9,280	24,505
Depreciation/amortisation charge for the year (Note 23)	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
Depreciation/amortisation charge for the year (Note 23)	246	950	258	1,846	3,300
Eliminated on disposals	(424)	(643)	(81)	-	(1,148)
Accumulated Depreciation and amortisation as at 31 December 2017	2,427	10,697	3,012	12,401	28,537
Net book value at 31 December 2016	2,907	3,086	709	3,697	10,399
Net book value at 31 December 2017	3,028	3,056	532	3,516	10,132

14 Deposits and borrowings from banks

	2017	2016
Borrowings		
Supranational institutions and development banks	8,478	255
Deposits		
Other commercial banks – non OECD Countries	696	256
Total deposits and borrowings from banks	9,174	511

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

15 Deposits from customers

	2017	2016
Corporate customers:		
Current accounts	159,924	133,904
Savings accounts	5,297	7,085
Term deposits and margin accounts	300	1,413
	165,521	142,402
Retail customers:		
Current accounts	426,645	416,923
Savings accounts	129,810	146,887
Term deposits and margin accounts	13,814	18,757
	570,269	582,567
Total customer accounts	735,790	724,969

As at 31 December 2017, customer accounts include accrued interest in the amount of € 576 thousand (31 December 2016: € 638 thousand).

As at 31 December 2017 the Bank has 796 customers each with balances above € 100 thousand (31 December 2016: 793 customers). The aggregate balances of these customers are € 274,411 thousand or 37 per cent of total customer accounts (31 December 2015: € 256,670 thousand or 35 per cent of total customer accounts).

16 Provision and other liabilities

	2017	2016
Clearing deposits from payment transfer business	447	4,570
Deferred income	20	633
Accrued staff costs	1,070	272
Payables	1,189	798
Payable to CBK from clearing business	4,506	-
Share incentive plan	97	205
Accrued operating expenses	401	691
Provision for litigations and off balance sheet credit exposures (see below)	109	121
Other taxes payable	367	121
Liabilities on leased assets	25	46
Other	517	911
	8,748	8,368
Interest Rate Swap payable	1,100	1,639
Total other liabilities	**9,848**	**10,007**

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 € 407 thousand as at 31 December 2017 (31 December 2016: € 4,570 thousand). Deferred income as at 31 December 2017 represents the amount of deferred fees for customer overdrafts. 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 26. Movements in the provision for litigations and off balance sheet credit exposures are as follows:

	2017	2016
Provision for litigations and off-balance sheet credit exposures at the beginning of the year	**121**	**162**
Provision / (release of provision) for litigations and off balance sheet credit exposures	(10)	8
Usage of previous year provisions	(2)	(49)
Provision for litigations and off-balance sheet credit exposures at the end of the year	**109**	**121**

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

	2017	2016
Provision for off balance sheet credit exposures	20	32
Provision for litigations	89	89
Total Provision	**109**	**121**

For more details regarding off balance sheet credit commitments, refer to Note 25.

17 Subordinated loan

Subordinated loan consist of the loan issued by Raiffeisen Bank International, the following are the balances for year 2017 and 2016:

	2017	2016
Subordinated loan	19,325	19,336
Total	**19,325**	**19,336**

The subordinated loan bears an annual interest rate of 8.95 per cent (2016: 8.95 per cent). The subordinated loans is repayable on 22 August 2022. There are no covenants in relation to the subordinated loan.

18 Shareholder's equity

Share capital

Authorised and registered share capital of the Bank comprises 100 shares of common stock. Raiffeisen Bank International AG is ultimate parent. The structure of the share capital of the Bank as at 31 December 2017 and 2016 is as follows:

	2017			2016		
Shareholder	Number of shares	Amount in thousands EUR	Voting share	Number of shares	Amount in thousands EUR	Voting share
Raiffeisen SEE Region Holding GmbH	100	63,000	100%	100	63,000	100%

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

Fair value reserve

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

19 Interest income and expense

	2017	2016
Interest income		
Loans and advances to customers	38,576	38,964
Financial investments	514	715
Total interest income	39,090	39,679
Interest expense		
Deposits from customers	(292)	(568)
Deposits from banks	(2)	(69)
Loans and advances to banks	(85)	(241)
Derivative financial instruments (non-trading)	(190)	(438)
Subordinated loan	(1,918)	(1,923)
Other interest expense	(7)	(2)
Total interest expense	(2,494)	(3,241)
Net interest income	36,596	36,438

20 Fee and commission income and expense

	2017	2016
Payments transfer business	16,678	13,367
Loan administration and guarantee business	664	929
Foreign currency business	1,585	1,637
Other banking services	49	53
Total fee and commission income	18,976	15,986
Payment transfer business	(4,949)	(5,843)
Other banking services	(539)	(551)
Total fee and commission expense	(5,488)	(6,394)

21 Other operating income

	2017	2016
Profit from fixed assets disposal	35	22
Profit from sale of repossessed assets	512	947
Other operational income	540	506
Total other operating income	**1,087**	**1,475**

22 Staff costs

	2017	2016
Salaries and wages	10,695	10,469
Pension contributions	544	532
Other voluntary social expenses	1,209	415
Share incentives	24	21
Total staff cost	**12,472**	**11,437**

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 2017 amounted to € 761 thousand (2016: € 736 thousand).

23 Other operating expenses

	2017	2016
Office space expenses (rental, maintenance, other)	2,801	2,872
Depreciation of property and equipment	1,455	1,362
IT cost	1,979	1,923
Advertising, PR and promotional expenses	1,132	1,115
Security expenses	998	774
Amortization of intangible assets	1,845	1,275
Other administrative expense	362	481
Communication expenses	253	292
Office supplies	241	296
Legal, advisory and consulting expenses	1,903	2,231
Training expenses for staff	389	317
Deposit insurance fees	1,012	968
Car expenses	272	280
Travelling expenses	214	158
Total other operating expenses	**14,856**	**14,344**

24 Income taxes

	2017	2016
Current tax charge	3,390	2,990
Deferred taxation	(1,102)	(665)
Income tax expense for the year	**2,288**	**2,325**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2016: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

		2017		2016
Profit before taxation		19,867		19,317
Tax charge for the year at the applicable statutory rate	10%	1,987	10%	1,932
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	7%	1,403	5.5%	1,058
Current tax charge	**17%**	**3,390**	**15.5%**	**2,990**

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.

	2016	Movement during 2017	2017
Tax effect of deductible temporary differences			
Leasehold improvements, equipment and intangible assets	(63)	(27)	(36)
Term deposits – accrued interest	61	10	51
Staff bonuses	27	27	-
Gross deferred tax asset/(liability)	25	10	15
Tax effect of taxable temporary differences			
Loan impairment provision	(1,526)	(1,160)	(366)
Provision for off-balance sheet credit exposure	(83)	48	(131)
Total net deferred tax (liability)	**(1,584)**	**(1,102)**	**(482)**

25 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 2017 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 (2016 € 89 thousand) as the nearest estimate of possible cash outflows arising from possible court decisions.

Capital commitments. As at 31 December 2017 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2016: Nil).

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

	2017	2016
Not more than 1 year	307	356
More than 1 year and not more than 5 years	-	-
Total operating lease commitments	**307**	**356**

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:

	2017	2016
Commitments to extend credit	38,245	39,003
Guarantees (credit facility)	27,795	27,139
Guarantees (cash covered)	2,368	1,184
Letters of credit (credit facility)	876	808
Letters of credit (cash cover)	260	-
Trade Finance line of credit	4,944	7,569
Stand by letter of credit	76	1,204
Total credit related commitments	**74,564**	**76,907**

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 2017 the bank was not subject to any tax inspection. However, the inspection for year 2009 (re-control), initiated in 2016 is still open.

The first report for 2009 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 2017, the Bank has 14 interest rate SWAP contracts with a notional amount of € 36,330 thousand (2016: € 37,190 thousand). The Bank pays fixed and receives variable interest rates.

The net valuation result of these contracts for the year ended 31 December 2017 was a gain of € 334 thousand (2016: loss € 6 thousand). Fair value of SWAP contracts as at 31 December 2017 was loss of € 900 thousand (2016: loss of € 1,234 thousand).

26 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:

		2017		2016
	Parent	Other related party	Parent	Other related party
Assets	**7,113**	**4,321**	**274**	**6,160**
Cash and cash equivalents and mandatory reserve	7,102	-	274	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	2,002	-	3,923
Other Loans	-	-	-	-
Other assets	11	85		3
Investments in subsidiaries	-	2,234	-	2,234
Liabilities	**29,588**	**1,907**	**21,725**	**763**
Customer accounts	-	1,766	-	287
Deposits and borrowings from banks	8,478	116	-	370
Subordinated debt	19,325	-	19,336	-
Other liabilities	1,785	25	2,389	106
Statement of profit and loss and other comprehensive income	**(5,796)**	**842**	**(3,721)**	**(149)**
Interest income	(3)	50	1	62
Interest expense	(2,109)	(1)	(2,372)	(71)
Net fees and commission	(926)	-	(224)	(875)
Net valuation result financial instruments carried at fair value	382	-	(33)	(33)
Other operating Income/expenses	(1,333)	-	(1,191)	(16)
PPE and intangible assets - NBV	(1,807)	-	98	
Management Remuneration	-	793	-	784
Off Balance Sheet	-	-	-	-
Guarantees	-	-	-	-
Letter of credit	-	-	-	-

27 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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Editorial team:
Marketing and PR Department and Finance Department

Pre-press:
New Moment New Ideas sh.p.k.

The online version of the annual report is available in English and Albanian at: www.raiffeisen-kosovo.com

This annual report has been prepared and the data checked with the greatest possible care. However, rounding, transmission, typesetting and printing errors cannot be ruled out. This annual report was prepared in English. The annual report in Albanian version is a translation of the original English version. The English version supersedes the Albanian version.