Annual Report 2011

Raiffeisen BANK

Kosovo

Survey of key data

Raiffeisen Bank Kosovo JSC Monetary values are in €mn	2011	2010	Change
Income Statement	**1/1 – 31/12**	**1/1 – 31/12**	
Net interest income after provisioning	32.5	28.9	12.5%
Net commission income	7.8	7.4	5.2%
Trading profit	0.0	(0.1)	-119.3%
Net valuation result financial instruments carried at FV	(0.5)	(0.2)	122.4%
Net valuation of equity investments	0.1	(0.0)	-535.1%
Other operating income	0.2	0.4	-42.7%
General administrative expenses	(26.3)	(24.7)	6.6%
Profit before tax	13.8	11.7	18.2%
Profit after tax	12.4	10.2	21.8%
Consolidated profit (without minorities)	12.4	10.2	21.8%
Earnings per share	N/A	N/A	N/A
Balance Sheet			
Loans and advances to banks	85.9	166.8	-48.5%
Loans and advances to customers	402.1	363.8	10.5%
Other loans	30.9	-	
Deposits and borrowings from banks	12.7	29.7	-57.3%
Deposits from customers	557.3	550.2	1.3%
Equity (incl. minorities and profit)	99.1	91.5	8.2%
Balance-sheet total	682.8	679.2	0.5%
Local Regulatory information			
Risk-weighted assets B1, incl. market risk	453.9	433.1	4.8%
Total own funds	92.2	84.0	9.7%
Total own funds requirement	54.5	52.0	4.8%
Excess cover ratio	69.2%	61.6%	12.3%
Core capital ratio (Tier 1), banking book	19.3%	18.7%	3.4%
Core capital ratio (Tier 1), incl. market risk	19.3%	18.7%	3.4%
Own funds ratio	20.3%	19.4%	4.7%
Performance			
Return on equity (ROE) before tax	14.5%	13.5%	7.4%
Return on equity (ROE) after tax	13.0%	11.8%	10.6%
Consolidated return on equity (without minorities)	13.0%	11.8%	10.6%
Cost/income ratio	57.3%	58.7%	-2.4%
Return on assets (ROA) before tax	2.0%	1.8%	12.8%
"Net provisioning ratio (average risk-weighted assets B2 in banking book)"	1.3%	1.3%	-3.5%
Risk/earnings ratio	15.2%	16.6%	-8.1%
Resources			
Number of staff (FTE)	708	684	3.6%
Business outlets	52	50	4.0%

Contents

Introduction by the Chairman of the Supervisory Board

Ladies and Gentlemen,

2011 was once again a fairly eventful year. The developments in Europe, and particularly in the peripheral states of the eurozone, left their mark on the group headed by Raiffeisen Bank International AG (RBI), the parent company of Raiffeisen Bank Kosovo. While our exposure to these states was traditionally low and we were not directly affected, we too were unable to escape the effects of the market environment following the sovereign debt crisis.

RBI and banks in general are facing a lot of new rules. From our point of view, however, they are introduced at an unfortunate time and in too much haste. The regulations published by the European Banking Authority (EBA) at the end of October which call for a core tier 1 capital ratio of 9 per cent by the end of June 2012 put pressure on many banks in Europe. However, we – to be more exact, the RZB Group – are well-equipped to handle this. We have put together a comprehensive bundle of measures, consisting of numerous individual measures. We are also in the fortunate position of making profits which are strengthening our equity. As a result, we can meet the new requirements from our own resources.

By meeting the EBA ratio, RBI is also reaching the Basel III ratio of 7 per cent, which the Austrian regulators have set as mandatory earlier than previously planned, namely from the start of 2013. Moreover, the Austrian regulators implemented a ratio system for banks operating in Central and Eastern Europe to bring funding from other sources than the shareholder and loans into balance. We do not regard the guideline that only € 110 should be lent for every € 100 of deposits (including certain other forms of funding) as a major restriction. As growth in lending is tied to economic growth, it is likely to be moderate in the next few years. Looking at growth rates, we have to distinguish between markets. While in the eurozone we are facing a real systemic and political crisis, in Central and Eastern Europe the economic uptrend is largely continuing. This region is and will continue to be the growth driver for Europe. Even if economic growth in the CEE region slows from 3.7 per cent in 2011 to 2.6 per cent in 2012, this is still higher than in the eurozone. This is not a bad outlook for us.

In this difficult environment, the RBI Group generated a profit before tax of € 1.37 billion, which is a solid result we can rightly be proud of. One thing that made this possible is that the markets in Central and Eastern Europe continued to show comparatively high economic growth, which also resulted in a significant improvement in our risk situation. Our result confirms our sustainable business model, which will continue to keep us very competitive!

A good example of the economic uptrend in Central and Eastern Europe is Kosovo. In 2011, its economy recorded a year-on-year GDP growth of 5 per cent, one of the highest growth rates in the region. The Kosovo banking sector also recorded a continuous growth of profitability, assets, loans and deposits during 2011.

We are pleased to report that Raiffeisen Bank Kosovo has played an important role in the local banking market by having a very successful performance. It closely followed the banking market growth by maintaining its position as the second-largest bank. In 2011, it remained the best-capitalized bank in the country and offered a wide range of banking products and services to all customers. I emphasize that pure growth of our market share at any cost is not a strategic priority for Raiffeisen Bank Kosovo. We were and will continue to be focused on prudent lending of good quality.

The Supervisory Board sincerely thanks all Raiffeisen Bank Kosovo employees and Management Board for their hard work and commitment during the year under review. These good results would not have been possible without their efforts and high level of professionalism. We also thank our customers for their trust in Raiffeisen Bank Kosovo and are convinced that together we will be able to achieve good results in the years to come.

Heinz Hödl
Chairman of the Supervisory Board

Introduction by the Chairman of the Management Board

2011 was a very successful year for Raiffeisen Bank Kosovo with significant growth and improvements in most of our key performance indicators. We continued to serve all categories of customers in both business and private individual segments and offered them high quality service. Market share and growth was not our primary goal in 2011 given the challenges and unpredictability of the economic and financial environment in Europe. We had excellent liquidity thanks to our deposit base and we grew our loan portfolio prudently with a strong focus on quality rather than volume. As a result of this approach the profit of Raiffeisen Bank Kosovo significantly improved and we closed the year with a profit after tax of over € 12 million.

Following our UNDP / American Chamber of Commerce award for Best Business in Kosovo for Corporate Social Responsibility (CSR) in 2010 our commitment to CSR continued in 2011 with even greater involvement and support in areas such as sport, arts and culture, as well as social welfare. Our good business results were also recognized by the well-known international magazine Global Finance which selected us as the Best Bank in Kosovo for 2011.

Looking at our business segments in more detail, the overall performance of the Bank's Private Individual segment during the year under review was very successful. Credit balances experienced good growth and the quality of the loan portfolio was excellent. All of our business segments, Micro, Small Enterprises and Corporate continued with good results thanks to our strategy of prudent growth and good quality lending in 2011. To support our business activities and to offer high quality banking services to our customers using the best leading-edge technology, we continued to invest in our IT and Operations infrastructure in 2011.

In an increasingly demanding and ever changing business environment, the relationship with our customers changed during 2011. We moved from a rather static approach towards a more dynamic and individualised one following the implementation of Customer Relationship Management (CRM) as a business strategy. This tool enables us immediately to identify the needs of our customers and ensures that we respond with appropriate products and services at the right time and through the most convenient channels.

Finally, I emphasize that these good results and achievements would not be possible without the skills, commitment and loyalty of all the staff in the Bank and I take this opportunity to thank all of them on behalf of the Management Board for their hard work and for the excellent results that have been achieved. 2012 will be a challenging year but I am convinced that we will continue to achieve good results and develop the bank in line with our long term strategic objectives.

Robert Wright

Sincerely,
Robert Wright
Chairman of the Management Board

The Management Board

Iliriana Toçi
Board Member of the Management Board

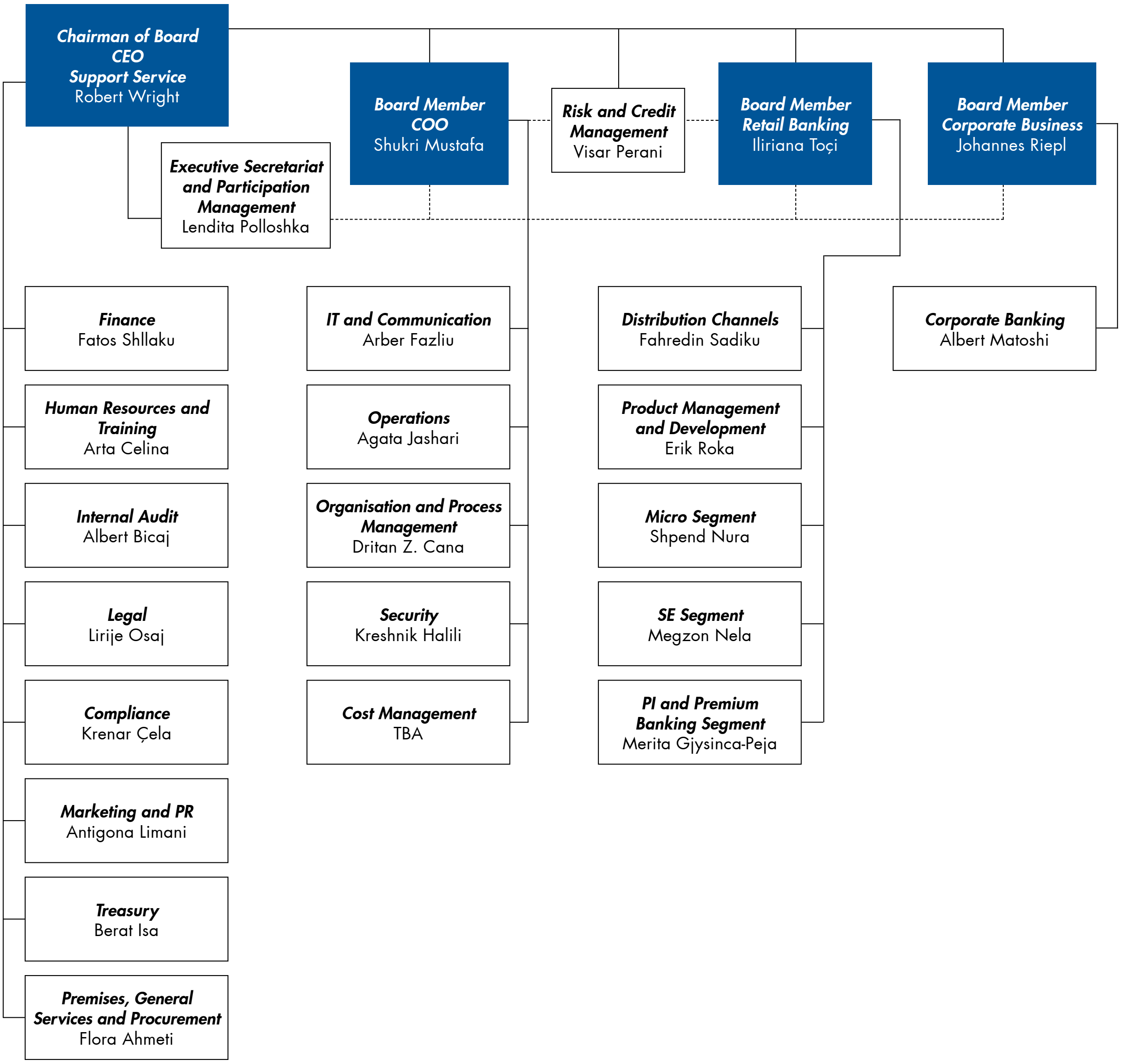
Johannes Riepl
Board Member of the Management Board

Shukri Mustafa
Board Member of the Management Board

Robert Wright
Chairman of the Management Board

Organisational Structure of Raiffeisen Bank Kosovo

as at 31 December 2011



Vision and Mission of Raiffeisen Bank Kosovo

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.

Raiffeisen Bank International at a glance

A leading bank in Central and Eastern Europe, including Austria

Raiffeisen Bank Kosovo is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For nearly 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Following its strategic realignment in 2010, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also offers a comprehensive range of products. At the end of 2011 around 56,000 staff served approximately 13.8 million customers in around 2,915 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world's financial centers and operates branches and representative offices in Asia. All in all, RBI employs about 59,000 staff and has total assets of approximately € 147 billion.

RBI operates subsidiary banks in the following CEE markets:

- Albania Raiffeisen Bank Sh.a.
- Belarus Priorbank, OAO
- Bosnia and Herzegovina Raiffeisen Bank d.d. Bosna i Hercegovina
- Bulgaria Raiffeisenbank (Bulgaria) EAD
- Croatia Raiffeisenbank Austria d.d.
- Czech Republic Raiffeisenbank a.s.
- Hungary Raiffeisen Bank Zrt.
- Kosovo Raiffeisen Bank Kosovo J.S.C.
- Poland Raiffeisen Bank Polska S.A.
- Romania Raiffeisen Bank S.A.
- Russia ZAO Raiffeisenbank
- Serbia Raiffeisen banka a.d.
- Slovakia Tatra banka, a.s.
- Slovenia Raiffeisen Banka d.d.
- Ukraine VAT Raiffeisen Bank Aval

As the parent company of these banks, RBI's shareholding in them is at or near to 100 per cent in most cases

RBI's development

RBI was established in October 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB). RBI's position as one of the leading banks in CEE (including Austria) was further reinforced by the merger. RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI's shares are in free float.

RZB was formed in 1927 as "Genossenschaftliche Zentralbank" (GZB). Raiffeisen gained its first foothold in Central and Eastern Europe back in 1987, when it established its first subsidiary bank in Hungary. Other own subsidiaries have since been established; from 2000 onwards, Raiffeisen's expansion in the CEE countries has mainly been achieved by acquiring existing banks, which were combined into a holding company that from 2003 until October 2010 operated under the name Raiffeisen International. Raiffeisen International was listed on the stock exchange in April 2005 in order to finance its future growth as efficiently as possible. RBI was subsequently established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB.

125 years of Raiffeisen in Austria

Raiffeisen's strong roots in Austria date back more than 125 years. Raiffeisen's first Austrian credit cooperative was founded in Mühldorf, a village in Lower Austria, in 1886. Local cooperatives soon started working together and, in turn, founded regional cooperatives marking the beginning of the multi-tiered structure of the Raiffeisen organization. This not only helped to strengthen their position in the market, but also enabled better management and risk control. Numerous product and service cooperatives were founded on the back of increasing specialization and market integration. In mid-2011, the Raiffeisen Banking Group Austria (RBG), the country's largest banking group, managed € 83.8 billion in Austrian customer deposits (excluding building society savings), of which around € 50.3 billion was held in savings deposits; with a market share of 32.2 per cent, RBG has continued to expand its role as market leader among Austria's banks. RBG has achieved its strong market position through healthy organic growth.

For more information please refer to www.rbinternational.com and www.rzb.at.


Sharr Mountains, Brezovica

The Macroeconomic Environment in Kosovo

Note: Information in this chapter is based on material from the Central Bank of Kosovo, the International Monetary Fund and the Ministry of Finance.

Economic and political overview

The political developments in 2011 in Kosovo were marked by the election of Atifete Jahjaga as Head of State and the build-up of the government after a six-month phase of an interim representation of state institutions. This development also led to the initiation of legislative reforms for elections of the President and the Assembly of Kosovo. In spring the European Union facilitated direct talks between Kosovo and Serbia, which in the course of the year, brought several agreements, amongst others concerning the movement of people and an integrated border management. These talks are due to continue in 2012.

As a response to the negotiation developments the Serbian population in northern Kosovo set up roadblocks at the main access points and this provoked physical clashes with KFOR forces, which in line with its mandate, have to facilitate free movement within Kosovo. As a measure of reciprocity towards the non-acceptance of Kosovar goods in and through Serbia, the government applied a blockade of Serbian goods and services in Kosovo for a period of almost two months, before finding an agreement in the EU-led talks.

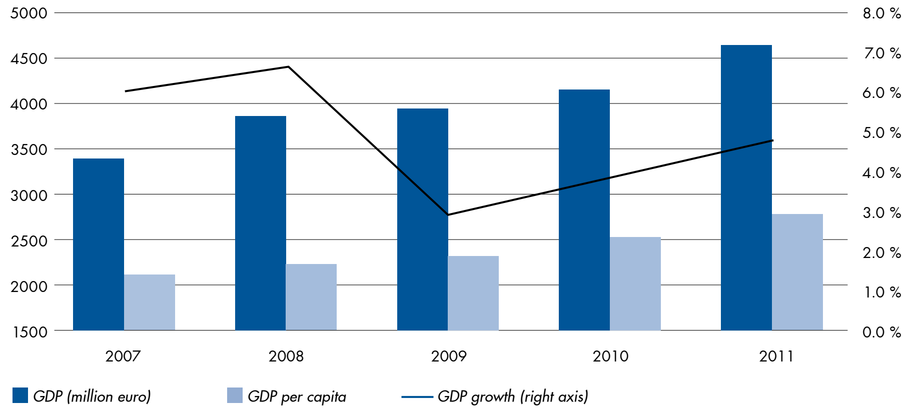
After a significant 30-50 per cent salary increase for almost all public employees the International Monetary Fund withdrew its stand-by arrangement with the government of Kosovo, arguing that this salary increase had not been agreed upon. After the withdrawal of several bidders the government announced the cancellation of the privatization of the publicly owned enterprise, Post and Telecom of Kosovo (PTK). The privatization process is scheduled to be repeated in 2012. Works on the first major highway in Kosovo advanced throughout the year and in November the first 38 kilometers were opened for public use. The construction will continue in 2012.

Output

In 2011 the economy of Kosovo had a year-on-year GDP growth of 5 per cent and hence represented one of the highest growth rates in the region. The foundations of this growth are the continued high inflow of remittances, a growing trend of loan issuances from commercial banks and continuing public expenditure, in particular capital investments.

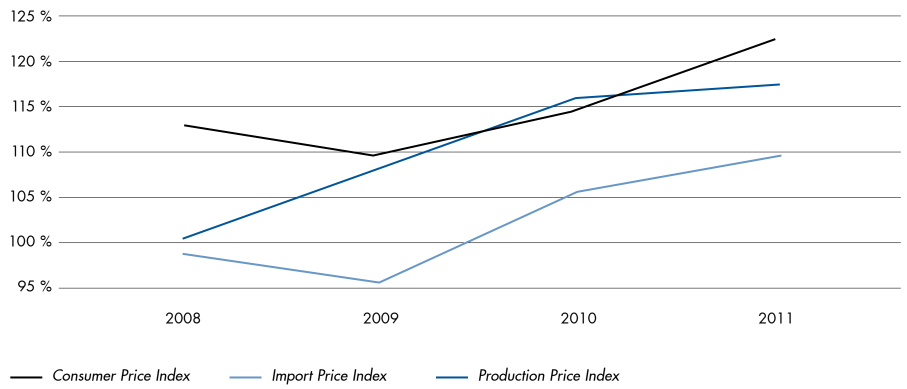
The economic downside consists of stagnant high unemployment at around 45 per cent, dependency on imports resulting in a considerable trade deficit, and inflationary volatility due to sensitive reactions to global prices, in particular for foods and fuels.

Economic Growth



Consumption and Investments are the main constituents of the GDP, where private consumption has increased and public consumption has decreased. Positive growth in foreign direct investments was sustained this year, although at a slower rate. Remittances from expatriates on the other hand surged and contributed to the reduction of the current account deficit balance of the nation. From the beginning of 2010 inflation rose constantly and only stabilized in mid-2011. The production price index followed this trend due to the dependence on imports of raw materials.

Inflation

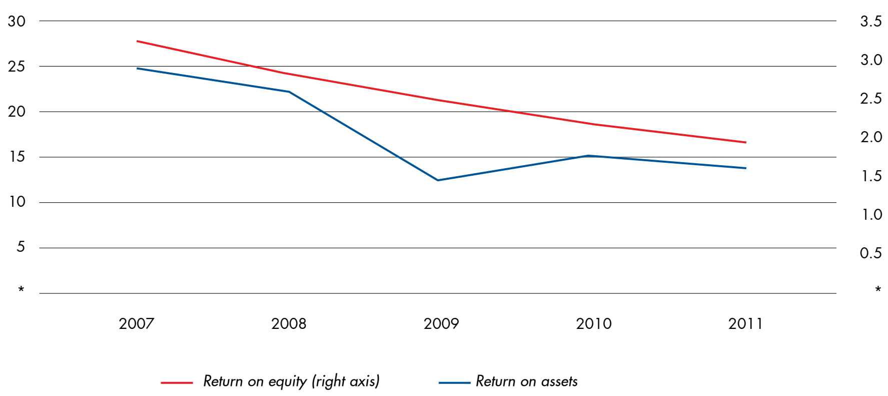


Kosovo Financial Sector

The financial sector continues to be well-capitalized, liquid and profitable. Non-performing loans stood at 5.7 percent, up from 5.2 percent at the end of 2010, but the increase mostly reflects more prudent loan classifications by banks rather than deteriorating credit quality. Moreover, in all systemically important banks, non-performing loans are fully provisioned. A continuous expansion of activity defines the financial sector as having a slower growth in the first half of the year, but a more prominent rise during the summer months and in the autumn.

The sector is dominated by the banking sector, of which 90 per cent is foreign-owned. The high concentration rate of the market has been in constant decline since 2008 as recorded by the Herfindahl-Hirschman Index. Most banks have consolidated their infrastructure throughout the country, which is reflected in lower expenditures. The recovery of economic activity in the country and in the global economy affected the confidence of commercial banks positively, and hence was reflected in stronger lending activity to the economy and increased investments in securities in foreign markets.

Profitability of Banks



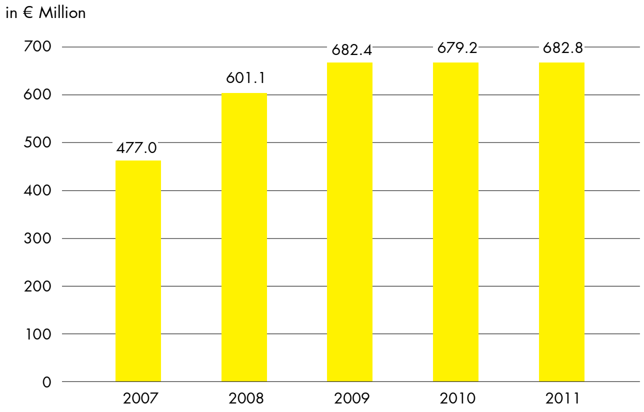
Bjeshkët e Nemuna, Peja

Raiffeisen Bank Kosovo Overview

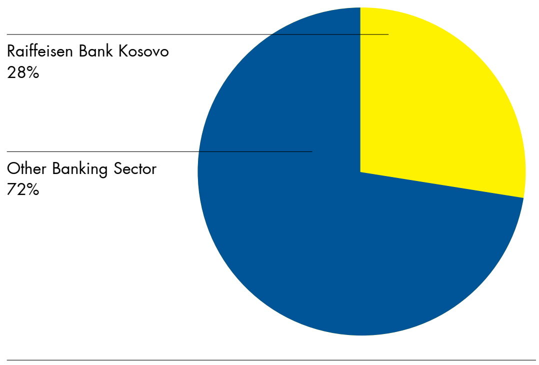
Note: The market analysis is based on the published financial results of Commercial Banks prepared in compliance with the Central Bank of the Republic of Kosovo (CBK) rules.

During 2011 the Kosovo Banking sector continued to be immune from the ongoing crisis in the EU zone. This is evidenced by the growth in profitability and total assets of the Commercial Banks. Raiffeisen Bank Kosovo continued to be one of the key market players in the Banking Sector in Kosovo during 2011. Raiffeisen Bank Kosovo closed the year 2011 with total assets of EUR 682.8 mn. The Bank's market share was calculated to be 28 per cent of the total banking asset market in Kosovo.

Total Assets

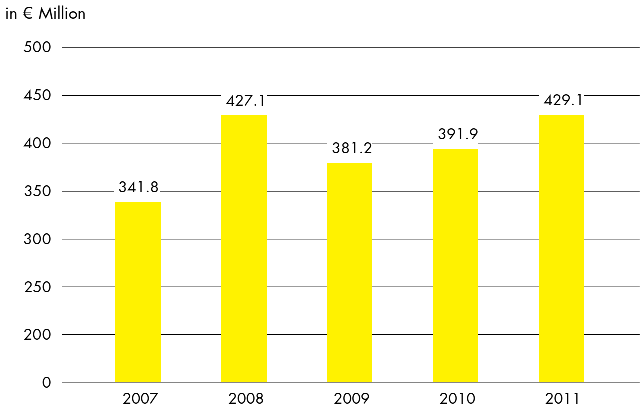


Total Assets Market Share

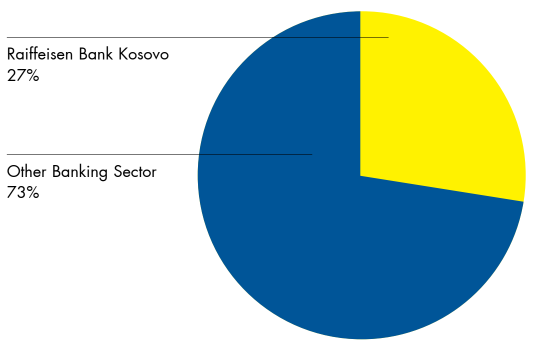


The Financial Sector has continued to be the main source of financing investment and continues to be one of the most important pillars in the economic stability of the country. Market gross loans and advances portfolio in 2011 grew by 28 per cent to EUR 1.6 bn (2010: EUR 1.3 bn). The Bank's share in the customer loans and advances market was 27 per cent of the total banking sector in Kosovo.

Customer Loans and Advances - Gross

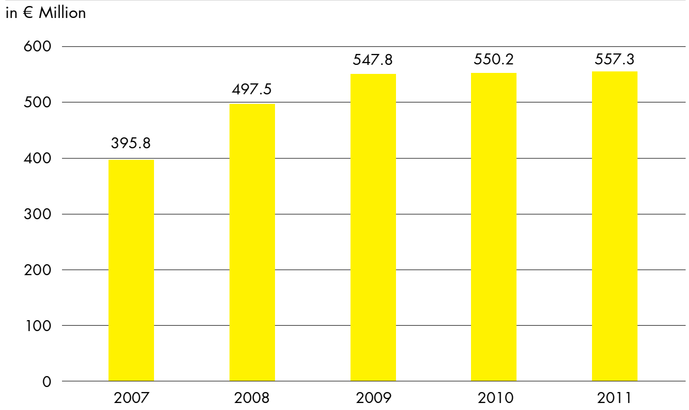


Market Share - Customer Loans and Advances

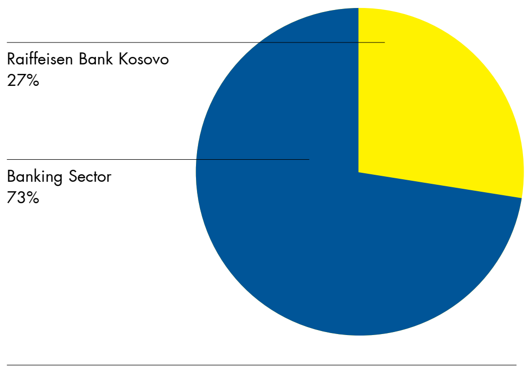


Customers deposits in 2011 were EUR 557.3 mn (2010: EUR 550.2 mn). The Bank's share in the deposits market was 27 per cent of the total banking sector in Kosovo.

Customer Deposits

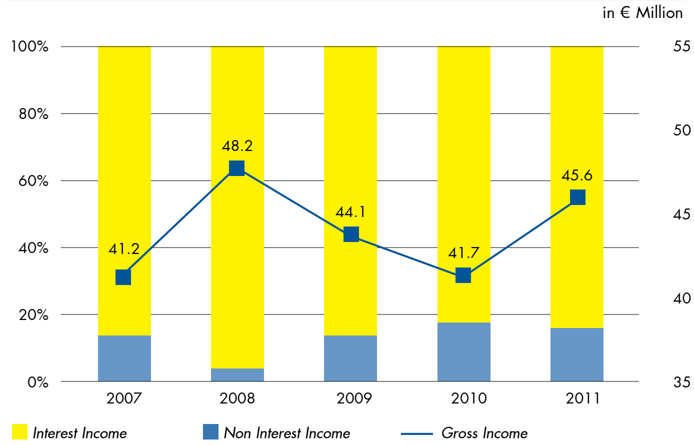


Market Share - Customer Deposits



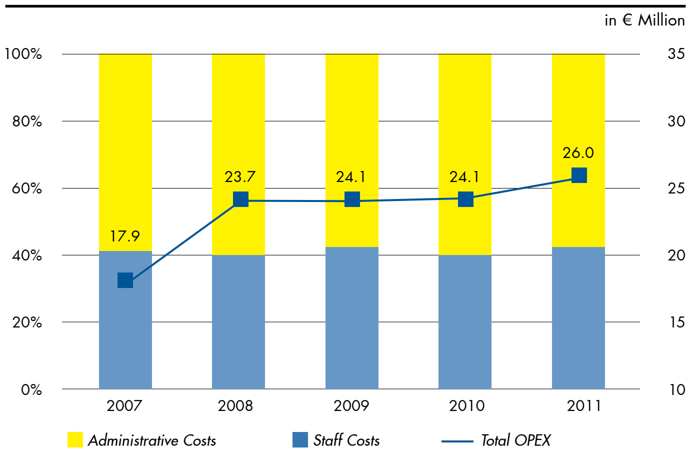
Net income after tax in 2011 was EUR 12.4 mn, an increase compared with 2010 (2010: EUR 10.2 mn). The bank's income is dominated by the loans and advances business, mainly generated from local customers. This means that income is mainly generated in the territory of Kosovo and is not affected by the ongoing crisis in some of the EU countries. The income structure for 2011 is presented in the chart below.

Gross Income Development and Structure



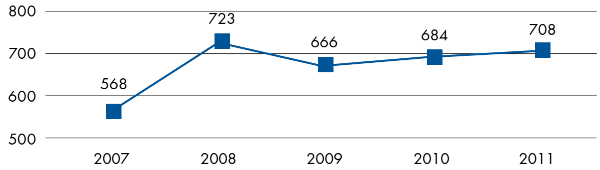
The general and administrative expenses (excluding depreciation of fixed assets) as of 31 December 2011 were EUR 22.9 mn. The cost income ratio was 57.3 per cent, which represents an improvement in cost effectiveness when compared with 2010 by over 1 percentage point.
Staff costs which include staff related costs such as training and other professional development costs, continue to be an important part of operational expenses as the Bank continues to increase the number of employees as well as investing in their professional development.

General Administrative Expenses Development



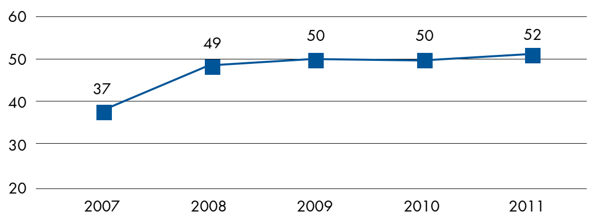
The total number of employees in Raiffeisen Bank Kosovo as of 31 December 2011 was 708.

Number of Employees

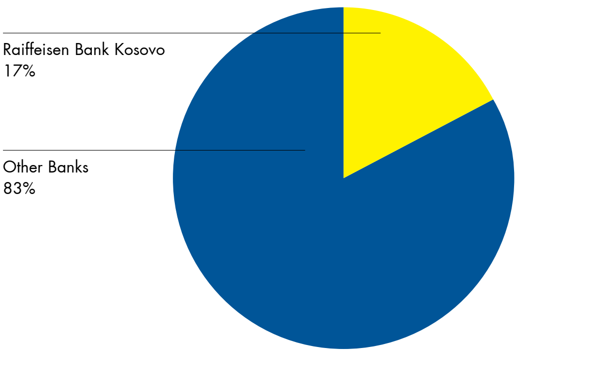


The number of Bank Branches, ATM's and POS's has continued to increase in the Kosovo market, making banking products more accessible for Kosovo citizens. As of 31 December 2011, Raiffeisen Bank Kosovo operated 52 business outlets covering the whole territory of Kosovo. Its multichannel strategy enabled the smooth distributions of products and services to its customers. The branch network consisted of 9 main branches, 43 sub branches, one premium banking office and one corporate office. The branch network of Raiffeisen Bank Kosovo represents 17 per cent of the total number of branches in the banking sector in Kosovo.

Number of Branches and Sub-Branches



Market Share / Number of Branches and Sub-Branches



Rugova Gorge, Peja

Corporate Banking

As in previous years our strategic priorities in 2011 were customer focus, sustainable profitability and strong liquidity. We used our strong capital and liquidity position for the benefit of our customers, resulting in significant growth of transactions to support their business ambitions and ending the year with substantially higher interest and fee income. As a universal bank, we continued to offer to large companies the full range of banking products including lending, cash management, documentary business, deposits, and foreign exchange.

No year is without its challenges and the persistently fragile business environment certainly posed a challenge in 2011, though corporate activity clearly picked up throughout the year. Raiffeisen Bank Kosovo remained the largest creditor to corporate customers with a market share of over 50 per cent. New loans to corporate customers in 2011 increased by 52 per cent compared with the previous year. Profit was also above target, with higher interest income and lower interest expenditure compared with 2010. Customers' deposits remained stable throughout the year which is evidence of the confidence in the bank and in the strong brand. The implementation of Customer Relationship Management (CRM) technology was considered a significant step towards the increased efficiency of our sales process and a higher quality of bank services for our customers.

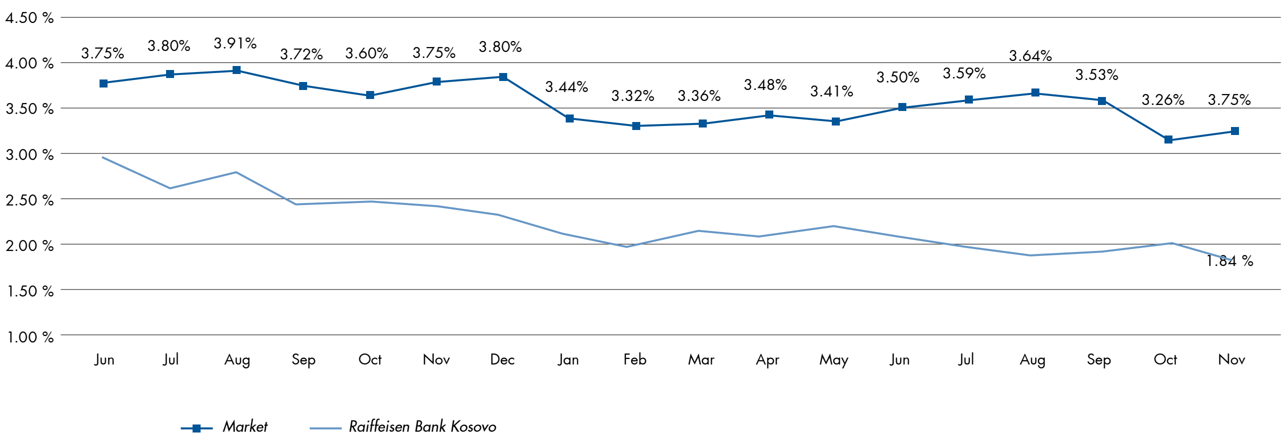
In line with our strategy for maintaining a sound loan portfolio we will continue to optimize our risk profile by keeping a close watch on our Corporate Loan portfolio and in 2011 we reduced non customer-related activities that we no longer regard as core. We also worked hard to ensure the quality of our assets, conducting a careful assessment of risks before granting new lending and structured loans. This has been executed in such a way that value can be preserved to the maximum extent in these times of increased macroeconomic uncertainty. Overall, we enter 2012 with a well-planned strategy, a strong financial position and an unshakeable commitment to supporting our customers in the months and years to come.

Treasury

The Kosovo Money Market and the Cost of Money

2011 was successful as far as the collection and consolidation of deposits is concerned. The Bank managed to retain its core deposit customers. Following the increased confidence in the financial system, especially in the brand of Raiffeisen Bank Kosovo, the Bank's liquidity remained at stable levels, thus lowering significantly the liquidity costs on a year-on-year basis.

Cost of Funds (Accounting), New Business Annualised



Prudent asset and liability management made it possible for the Bank to keep the lowest cost of funds in the market compared to the competition; this in turn enabled lower lending rates for certain products. However, the liquidity costs of Kosovo remain high due to the Euro interest rate curve and Kosovo's country risk parameters.

Bonds

The Bank's government bond holdings increased in the Organisation for Economic Co-operation and Development (OECD) countries. As at the end of 2011, the Bank held EUR 62.4 mn of OECD government securities, an increase of EUR 22.5 mn from the end of December 2010 balance.

Financial Derivatives

Raiffeisen Bank Kosovo's interest rate swaps portfolio stands at EUR 32.7 mn. In 2011 the Bank acquired EUR 18 mn of Interest Rate Swaps (IRS) to hedge the bond portfolio coupon. The total level of notional amount in IRS is EUR 32.7 mn as at the end of December 2011, which is used for hedging the interest rate risks, loans and bond positions. The credit spread had a negative impact on the hedge relation of the underlying bonds, especially in the second half of 2011.

Liquidity and Risk Management

The Bank manages its overall liquidity and interest risk management through an Assets and Liability Committee which includes the Treasury Department. The deposit growth has shown a substantial increase while the loan book growth has been steady. This combination produced lower liquidity levels in 2011, compared with December 2010. The percentage of liquid assets to total assets as at the end of 2011, is 28 per cent, whilst in 2010 it was 37 per cent.

Foreign Exchange Business

Foreign Exchange business produced more than EUR 1.8 mn in revenues in 2011. It is 33 per cent higher than 2010 and therefore 2011 marks the best year ever for the foreign exchange income. The Raiffeisen Bank Kosovo desk is the most profitable desk in the banking industry in Kosovo. In addition, foreign exchange business increased the Bank's turnover in the funds transfer commission income business.

(in € Million)	*2007*	*2008*	*2009*	*2010*	*2011*
Foreign Exchange income	*1,052*	*1,073*	*1,392*	*1,326*	*1,766*

Kosovo has the Euro as its official country currency. The Euro currency itself imposes limitations on foreign exchange business.

Rugova Valley, Peja

Retail Banking

Small Enterprises

Raiffeisen Bank continues to support and finance Small Enterprises (SE) with products and services tailored specifically for this segment. In 2011, we managed to increase financing to Small Enterprises by 4.3 per cent compared with the previous year, despite the transfer of EUR 8.5 mn of loans with 17 successful customers to our larger corporate business segment. This enabled the SE segment to increase its loan portfolio by 2.1 per cent, achieving a total of 1,152 customers. At the same time the number of new customers increased rapidly (226 per cent) in comparison with the previous year.

Taking into consideration these developments, Raiffeisen Bank maintained its leading position in the market with an estimated market share of around 38 per cent in the SE Segment. We encouraged small businesses to increase their transactional business through our bank by offering a range of products, customized to their needs.

Micro Enterprises

Raiffeisen Bank offers a wide spectrum of banking products and services, standard and tailored, to its Micro Enterprise segment (ME) customers. 2011 can be summarized as a year of stable business development in our Micro Segment with financial performance being in line with the expectations of both management and the financial markets.

The Micro Enterprise Segment managed to achieve considerable results in the areas of market diversification, performance quality and market share. During 2011, the number of new loans increased by 51 per cent compared with the previous year, the number of loans processed increased by 20 per cent, while the amount disbursed during this period was 13.97 per cent higher in comparison with the previous year.

In Agro business, the number of loans generated in 2011 increased by 55 per cent, with a 42.36 per cent increase in the disbursed amount, while new volumes increased by 21 per cent compared with the previous year. Raiffeisen Bank and USAID reached an agreement for financing new businesses, which in 2012 will enable a considerable number of agro customers to benefit from this facility. Moreover, cooperation with the Ministry of Agriculture and USAID for the developing, supporting and financing of agro businesses demonstrates our focus on a market which we consider to be one of the main pillars for the economic development of the country.

We continued to apply a clear vision for the Micro Enterprise Segment and have provided clarity on how we now “Build a long term relationship with our customers”. During this period many changes were made to improve the quality of service as well as the scope and features of our existing products.

Private Individuals

Raiffeisen Bank was very active in the private individual sector carrying out a series of initiatives throughout 2011 including Customer Relationship Management (CRM), improving our range of mortgages and pursuing a number of marketing campaigns. In addition, all customers that participated in our campaigns were eligible for numerous prizes awarded throughout the year. Overall in 2011, we managed to increase new loan volumes by 19 per cent. This resulted in an increase of 8.5 per cent in the loan outstanding portfolio. At the same time, we managed to improve the quality of our loan portfolio. Our deposit base ended 2011 with a 3.5 per cent increase year-on-year. Our bank continued to be the brand of choice for many new depositors.

As for our Premium Banking service, Raiffeisen Bank ensured that its Premium Banking customers had the opportunity to discuss in detail their financial plans and investment opportunities with their dedicated Premium Relationship Manager. Moreover, Premium Customers enjoy a range of additional benefits such as Premium membership cards, prioritized treatment and products and services tailored exclusively for their needs. A dedicated and tailored advisory approach is at the core of our philosophy and we believe it is crucial in establishing long-term relationships with our customers. Now that the infrastructure is well established our aim is to take it to the next level. This approach was well-appreciated by our customers and can be best illustrated by the increased numbers of customers and loans outstanding. The number of customers grew by almost 23 per cent, while loans outstanding increased by more than 20 per cent.

Product Management and Development

Amidst the changing business environment, our relationship with the customer during 2011 changed as well, shifting from a relatively static relationship towards a more dynamic individualized relationship, which contributed to us retaining our competitiveness in the market. Customer Relationship Management (CRM), a business strategy that Raiffeisen Bank started to use for managing the interactions with customers, entailed developing the technological infrastructure, analysis, processes and operations that will enhance the relationships of customers with the Bank. During 2011, we implemented analytical CRM, a project that is also used in other banks of Raiffeisen Bank International. This serves us as a database to maintain our relations with our customers, allowing us to identify and target our customers, manage marketing campaigns and generate quality leads for the sales team. This technology allows for better organization of data which can now be utilized for producing further data for marketing, customer service and technical support.

Apart from our increased interactions and relationships with our customers during 2011, we implemented a number of products and services which further allow us to reach the customers with the right products at the right time. Our new mortgage product, launched during November 2011, offers a fixed or variable interest rate and different types of loan payments such as annuity or non-redemption. The product has new features such as the property and payment protection insurance, monthly processing fees, and the possibility to decrease its existing loan/debt ratio. While we are the first Bank in the market to offer mortgage insurance, we have also extended the range of products covered by payment protection insurance, with Overdraft PPI implemented in June, while Micro Flexi Loan insurance was implemented in October 2011.

Taking into consideration that today we face very dynamic developments in electronic banking, Raiffeisen Bank continues to position itself as a leader in the market for these services. In September 2011, we developed a modern banking application called M-Banking, to be used through "smart" phones. The M-banking application is used for performing balance checks, executing payment orders and other banking activities. It can be used by all those who already have accounts with Raiffeisen Bank or by those who want to start working with our Bank in the future. This application is available in three versions: - WEB application (works on the vast majority of currently available mobile phones); iPhone application (supported also by Apple); ANDROID application (supported by Google for Android mobile phones).

We also focused on innovative improvements to our existing services, and a number of these improvements were launched during 2011. In order to fulfill the customers' needs, we upgraded our e-banking service and customers will now be able to see more details about their loan portfolio in our bank as well having as opportunities to be more informed about our products and campaigns through the marketing banners placed on our e-banking services.

Distribution Channels

Branch Network

The best-in-class branches is the contact concept for mass, affluent, retail customers and this will continue to re-assure all customers that the Bank keeps pace with the latest technology and branch standards. During 2011, Raiffeisen Bank successfully renovated four of its branches, relocated two branches, opened a new Sub Branch in Peja Region and opened a new specialized point of sale in the border-crossing point with Albania. This increased the total number of outlets from 50 in 2010 to 52 by the end of 2011.

The aim of making banking as straightforward as possible remains high in the Bank's agenda, knowing that the branch is the most frequented channel and it is expected to remain as such in the future. Further, Raiffeisen Bank is committed to serve its customers by providing a quality network that utilizes key factors such as the degree of customer proximity, visitation frequency and accessibility.

In 2011 a project to optimize network resources has been successfully implemented and is now an integrated tool of branch network management. The new tool supports rigorous demographic and financial modeling, and ensures that customers receive prompt, accurate and reliable services across the whole network.

Call Center

Through our Call Center, we provide an all year round 24-hour service employing well prepared and professional staff with extensive knowledge of all banking products. As a result of this well-established professional atmosphere with 100 per cent focus on customers, our Call Center known as Raiffeisen Direct continues to provide superior services and build customer trust and value. Raiffeisen Direct's aim is to be as close to customers as possible by offering different products and services on the telephone. During 2011, it expanded its activities specifically in the Micro Segment, where top up loans, direct mails, education calls and e-banking sales were initiated. During 2011, outbound connects increased by 298 per cent while outbound calls in the Call Center increased by 31 per cent which shows the increasing trend for customers to use our Call Center. Furthermore, the SMS based e-Banking and m-banking help desks were created to answer all customer enquiries and requests.

Direct Sales Agents

Raiffeisen Bank Direct Sales Agents (DSA) network consists of two sub networks these serving Private Individual customers and Micro Business customers respectively. The Direct Sales Agents are a welcome an on-the-spot delivery service to customers who may be too busy to visit the bank or may prefer banking in the comfort of their offices or homes. The total number of agents was 72 in 2010, and increased to 81 during 2011, representing growth of 12.5 per cent. During 2011, new micro customers recruited by DSA's were 81 per cent higher in comparison to previous year, and new Private Individual customers showed an increase of 7.5 per cent compared with the previous year.

Mobile Banking

Our unique service "Bank on Wheels" is a channel mainly present in rural areas and aims to fulfill the needs of customers who live far from our branches. "Bank on Wheels" made over 2,000 visits during 2011, focusing mainly on Private individuals, Micro and Agro customers.

Merchants and Point of Sales terminals

Our main POS (Point of Sales) focus has been in having POS terminals at the viable and active businesses and at the end of December 2011, the number of active POS terminals at merchants was 1,611. Raiffeisen Bank customers may easily fulfill their shopping needs using POS while being assured that their transactions are successfully and securely processed every time.

Cash Dispensing Network (ATM)

Raiffeisen Bank's ATM network has expanded further in 2011 with a total of 108 ATMs installed all over Kosovo. By covering all parts of Kosovo, we now enable our customers to have easy and friendly access to their accounts any time and anywhere. Cash withdrawals, balance inquiries and additional services such as mini statements and PIN changes are also available.

Customer Service

Throughout 2011, Raiffeisen Bank determinedly continued to work on creating great opportunities for the whole customer base through the delivery of professional, market leading services. The main focus of the year was to ensure that the bank platform and its people are meeting customers' expectations; as well as matching words and actions in achieving the goal of setting high customer service standards in the banking market.

To provide consistent services to all its customers, Raiffeisen Bank applied a tool for measuring, monitoring, tracking and improving the quality of services. This tool enables close monitoring of employees' and branches' performance related to customer service ensuring each and every customer receives the professional service they deserve.

Additionally, a number of customer impact internal processes were reviewed during the year so that they have a positive impact on customer experience. These processes were focused on improving transaction experiences, employee personal interaction, branch organization, customer waiting time and complaints handling. In total 68 ideas for improvements were identified and 32 of these actions were implemented successfully.

Knowing customer requirements is an integral part of all the services offered by Raiffeisen Bank, therefore in 2011 a number of surveys and studies were conducted to gain a better insight into these. One of the means used to collect customer feedback was through Focus Group sessions which were based on different types of customers.

Furthermore, during 2011 Raiffeisen Bank commissioned a quantitative survey through a professional research company whereby 1200 respondents were interviewed. The main findings show that customers are satisfied with the services and products they receive from the bank. Raiffeisen Bank customers are highly satisfied with the quality of the advice they receive from bank employees; the customer information is kept confidential at all times. They also see branch proximity to their homes and offices as an important factor and Raiffeisen Bank's reputation and image is highly appreciated by customers.

For the first time, Raiffeisen Bank Kosovo participated in a service quality benchmarking study organized by Finalta which included another 20 Central European and nearly 40 Western European Banks as part of the study. Findings show that Raiffeisen Bank Kosovo uses a combination of techniques to measure branch service quality, as do 25 per cent of other Central and Eastern European Banks.

Raiffeisen Bank is shifting from customer satisfaction to customer experience management.

Credit and Risk Management

Active risk management continued to be one of the core functions of Raiffeisen Bank Kosovo. In order to recognize, measure, assess and manage risks effectively, the Bank complies with Raiffeisen Bank International risk management tools and systems that are in place, which are of highest international standards.

During 2011, risk management continued to focus on improving internal processes and tools in order to give the best possible service to its clients. Some of the areas of focus during 2011 were: strengthening of collateral management, further adaptation of score cards used for retail clients and commencing the implementation of Basel 3 regulations. Collection and workout has remained one of the key functions during 2011, delivering very important results for the bank.

Retail models: Score Card

During 2011 risk management further strengthened its retail models by developing score cards. This has been a significant step forward as, by using score card and scoring in general we can respond to our customer needs more quickly while accurately differentiating among the pool of customers.

Collateral Management

Collateral is of particular importance when it comes to minimizing credit risk. While the solution was implemented several years ago, during 2011 we evaluated all bank collaterals and at the same time re-evaluated all previous assessments. This was done by our internal collateral evaluation department. Now we can claim that we have very accurate evaluations of all collaterals that can be used for different purposes and that have significant importance during normal credit business.

Basel II and Basel III

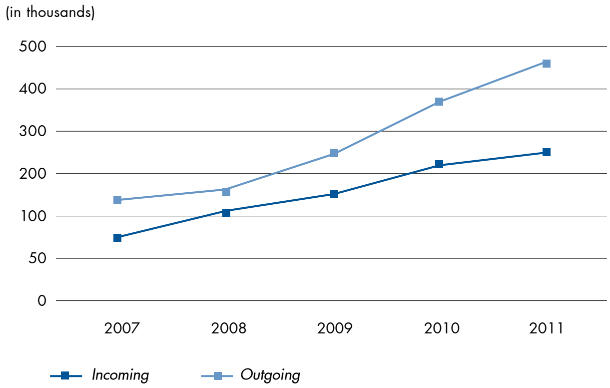
Raiffeisen Bank Kosovo is very proud to confirm that all requirements for implementation of Basel II were fulfilled within given timeline as required from our Head Office in Vienna. All methods, tools, processes and procedures implemented are state of the art risk management practices. Based on new developments in financial markets and new requirements for further developments, the Bank risk management department has started to implement new requirements of Basel III, focusing on the area of liquidity risk.

Operations

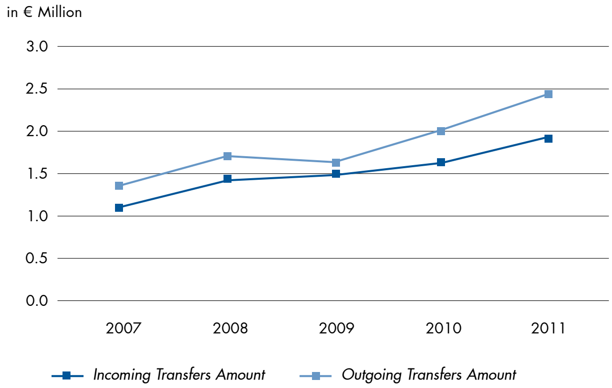
Payments

During 2011, there was an increasing trend in the payments area. The number of international payments in 2011 was 105,572 increasing by 8 per cent, compared with 2010. The value of international payments totaled EUR 1.9 mn or 30 per cent more than in 2010. Local payments increased by 17 per cent with 586,374 payments whereas the total amount of these payments amounted to EUR 1.9 mn increasing by 13 per cent compared with 2010.

Trends for Incoming and Outgoing Payments

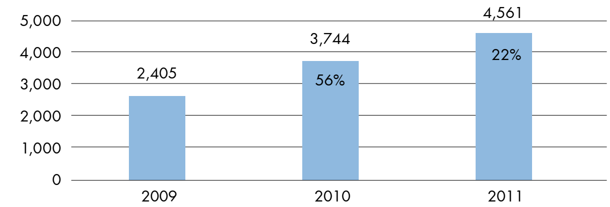


Amounts for Incoming and Outgoing Payments

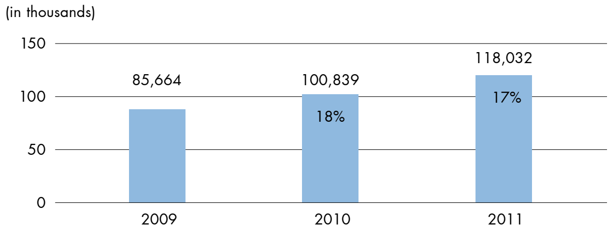


The application of the e-banking service had an impact on the number of transactions and users. The chart below illustrates the significant growth. During 2011 it shows that the number of e-banking users increased by 22 per cent compared with 2010 whereas the total number of transactions increased by 17 per cent.

Number of e-banking Users



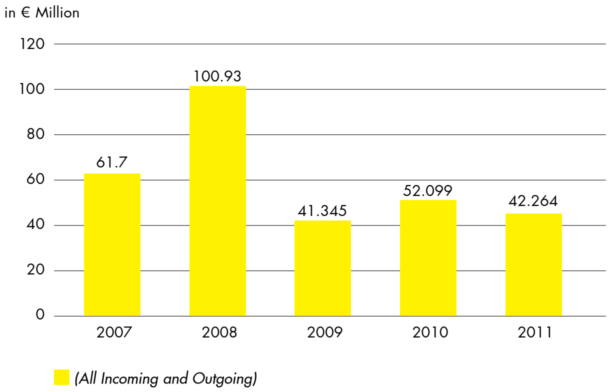
Number of e-banking Transactions



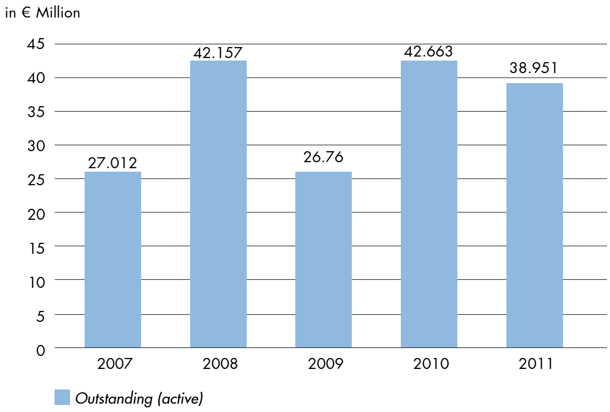
Trade Finance

Raiffeisen Bank Kosovo facilitates and finances a significant volume of domestic and International Trade by providing different Trade Finance Products. As is shown in the figures below, during 2011, the volume of Trade Finance Products was EUR 42.3 mn.

Trade Finance Products - Volume



Trade Finance Products - Outstanding



Furthermore, the outstanding value of Trade Finance Products at the end of 2011 reached EUR 38.9 mn.

Cash Management and Treasury Back Office

The Treasury Back Office supports the Treasury Front Office in:

- Processing of the transactions
- Maintenance Process
- Back Office Treasury Front Sales – Customer Business Foreign Exchange
- Branch Front Sales – Customer Business Foreign Exchange
- Updating the Standard Exchange Rate
- Banknotes Shipment

The Treasury Back Office supports the Treasury Front Office Department in processing Front Office deals into the core system, deals on behalf of our own account and maintenance / monitoring transactions performed by Treasury / Branch Front Sales. Deals include both Money Market transactions and also Foreign Exchange transactions.

Payroll Processing

Payroll processing is one of the products that our bank offers to business customers; by processing payroll lists and handling reconciliations. The total number of payrolls processed in 2011 was 6,120 with a total turnover of EUR 173.6 mn. Compared with 2010 this product achieved a growth of 26 per cent in 2011.

Collection Accounts

Collection Accounts are services that our bank offers to business customers who have accounts with Raiffeisen Bank Kosovo. The total number of payments in 2011 reached 361,025, with a total turnover of EUR 145.4 mn. Compared with 2011, the number of payments showed a growth of 5.4 per cent in 2011.

Cash Management

Cash Management Services include: Cash Transfers between Head Office and Branches, Cash in Transit CIT, Depositing and withdrawing in the Central Bank of the Republic of Kosovo, Depositing and withdrawing in RZB.

Organization and Process Management

In 2011, Process and Productivity Management continued its development with extensive work on LEAN. This is a process improvement methodology and forms part of our day to day working philosophy. Thinking LEAN we make the best use of our resources at the lowest costs and aim to deliver what the customer wants, when they want it, where they want it and how they want it. Every day, Raiffeisen Bank Kosovo works on process improvement projects to achieve absolute customer satisfaction.

We are proud of being the first and only financial institution in Kosovo using LEAN and of having knowledgeable employees devoted to process optimization on a daily basis. Keeping the focus on our final customers, every minute there is at least one employee in our bank that is thinking LEAN: analyzing processes, brainstorming for solutions, conducting surveys, programming computerized solutions, or monitoring the service level. When our customers tell us what their requirements are, we do our best to meet them just in time, at the most appropriate price, at the right quantity and quality. We are grateful to our customers for sharing with us the power of their thoughts and feelings on their banking experience!

Information and Computer Technology

Raiffeisen Bank Kosovo continued to invest in information and computer technology (ICT). The ICT department manages and maintains a large number of sophisticated and complex applications and systems. As a result of the high level of professionalism, in 2011, the ICT department achieved the 'ISO/IEC 20000-1:2005' certification and Raiffeisen Bank Kosovo became the first Bank in South Eastern Europe to acquire such international recognition. The ICT department is determined to continue its success and to enable the Bank to seek new business opportunities by providing cost-efficient and reliable solutions for its customers

Personnel Training and Management

The training and development of employees has always been one of the main focus points of the Bank, especially as employees represent the most valuable asset of the Bank. We therefore organised many staff development and social activities during 2011. In recruitment and selection terms, 2011 was marked by an increase in job-seekers interested in joining Raiffeisen Bank Kosovo, and the number of applications through external and internal advertisements reached almost 7,000. This confirms the bank's strong reputation, indicating that it is the leading choice of financial institution among job-seekers.

In total, there were 117 vacancy announcements in 2011; 93 external and 24 internal. Raiffeisen Bank continues to view internal vacancy announcements as a very important method of advancing and developing existing employees. As a result, 101 internal transfers were accomplished, and most of the transfers were promotions. The number of new employees that joined the Bank in 2011 was 78.

Developing internal and external human capacities continues to be one of the main goals of the Bank. With this in mind, the Human Resource and Training Department managed and participated in various growth related activities that played an important role in developing the highest achieving top students in Kosovo. The Bank continued its internship program with the best students of several universities in Kosovo and our internship program during 2011 was the largest ever run by the Bank.

Additionally, Raiffeisen Bank continued to support internship programs which aimed to increase the level of employability of students. For example, the project of USAID-AFAS facilitated the engagement of 26 students, of which eight are now Raiffeisen Bank employees. Overall, the number of students who participated in growth related activities was over 100.

Throughout the internship sessions, students were given the possibility to consolidate their theoretical knowledge with practical experience, during which one of the major components was the formation of a solid professional attitude. The ultimate purpose of the internship program was to offer competent, professional, and dedicated entry-level students the opportunity successfully to complete their internship and gain practical work experience. Following completion of the internship program during 2011, several interns were selected and appointed to join particular departments and branches as full or part time members or on project assignments.

The Human Resources and Training Department has been very active in offering non-financial benefits to its employees. Life Insurance has been offered to all employees in addition to health insurance. The number of leave days has been increased and a series of leisure activities took place focusing on non-formal Team Building amongst all employees such as: a Football and Basketball tournament arranged through the Sports Association of the Kosovo Employees, Happy Hours, Bowling and different other activities. Along with other surprises in the Year End Party, the selection and award of Best Employees also took place. In Prishtina, a kindergarten continues to function for many children of employees that work there. All this contributes to creating a better working environment for Raiffeisen Bank employees.

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

During 2011, 85 per cent of the employees participated in various training programs and almost 100 per cent took part in workshops. The figures show an excellent level of achievement according to European standards, with an average of 4.7 training days for per employee in 2011. By expanding the range of training, increasing the number of internal trainers, and continuously improving on the quality of training delivery, the Department of Human Resources and Training managed to organize more courses for the Bank's employees. During 2011 the number of training days was 4,178 days, and 362 sessions took place within the year. This shows an increase of 25 per cent on training days and 19 per cent on training sessions compared with 2010.

Raiffeisen Bank Kosovo cooperates with various training providers in and out of Kosova for specific training programs. Training needs analysis is done continuously in order to have tailored programs that meet employees' needs. There are also individual development plans for a number of employees. During 2011, Raiffeisen Bank Kosovo entered a new era of learning by launching e-Learning as a new approach to learning and development. During the year under review, we had over 100 staff enrollments in RBI courses and most of our employees attended our two first internally designed courses. It is envisaged that through e-Learning and blended learning we will be even more efficient and cost-effective in delivering programmes to all employees in a very short period of time.

In addition to the activities already mentioned, Raiffeisen Bank Kosovo continued to sponsor post-graduate studies and special courses as part of our specific support to capacity building. As a result of bank sponsored post-graduate studies, in 2011 three of the Bank staff graduated, while 10 others were financially sponsored and are expected to finish their studies in 2012. In addition, there were a number of existing professional and new courses offered to Bank employees on a wide range of topics from technical to soft skills training. Lifelong learning is one of the key messages in the bank.

Sharr Mountains, Brezovica

Financial Statements

Statement of Management's Responsibilities

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

We have prepared the financial statements as at 31 December 2011 and for the year then ended, which present fairly, in all material respects the financial position of Raiffeisen Bank Kosovo J.S.C. (the "Bank") as at 31 December 2011 and the results of its operations and its cash flows for the year then ended. Management is responsible for ensuring that the Bank keeps accounting records that comply with the Kosovo banking regulations and can be suitably 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 accounting 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 judgement and estimates, and that appropriate International Financial Reporting Standards have been followed.

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

Shukri Mustafa
Chief Operations Officer
Management Board Member

Johannes Riepl
Corporate Business
Management Board Member

Iliriana Toçi
Retail Banking
Management Board Member

Robert Wright
Chief Executive Officer
Management Board Chairman

Prishtina, Kosovo
March 16, 2012

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Deloitte.

Independent Auditors' Report

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of RAIFFEISEN BANK KOSOVO J.S.C, which comprise the separate statement of financial position as at December 31, 2011, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of RAIFFEISEN BANK KOSOVO J.S.C.. as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Kosova sh.p.k

Deloitte Kosovo sh.p.k.
Prishtina, Kosova
March 16, 2012

Separate Statement of Financial Position as at 31 December 2011

(in thousands of Euro unless otherwise stated)

	Notes	December 31, 2011	December 31, 2010
Assets			
Cash and cash equivalents and mandatory reserve	6	90,365	96,697
Due from other banks	7	85,910	166,837
Loans and advances to customers	8	402,110	363,834
Other loans	9	30,920	-
Investment securities	10	62,873	40,190
Investments in a subsidiary	11	333	249
Other assets	12	1,945	2,368
Leasehold improvements, equipment and intangible assets	13	8,318	8,985
Total assets		***682,774***	***679,160***
Liabilities			
Deposits from customers	14	557,277	550,202
Deposits and borrowings from banks	15	12,684	29,688
Other liabilities	16	12,910	6,807
Deferred tax liability		846	941
Total liabilities		***583,717***	***587,638***
Shareholders' equity			
Share capital	17	58,000	58,000
Retained earnings		40,615	33,224
Other reserves		442	298
Total shareholders' equity		***99,057***	***91,522***
Total liabilities and shareholders' equity		***682,774***	***679,160***

Approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on March 4, 2012

Shukri Mustafa
Chief Operations Officer
Management Board Member

Robert Wright
Chief Executive Officer
Management Board Chairman

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 44 to 83.

Separate Statement of Comprehensive Income for the year ended 31 December 2011

(in thousands of Euro unless otherwise stated)

	Notes	For the year ended December 31, 2011	For the year ended December 31, 2010
Interest income	**18**	**50,144**	**48,801**
Interest expense	18	(11,834)	(14,209)
Net interest income		**38,310**	**34,592**
Provision for loan impairment	8	(6,545)	(6,230)
Recoveries from loans written off		735	521
Provision for losses on commitments and contingent liabilities	15	(23)	(21)
Net interest income after provisions		**32,477**	**28,862**
Fee and commission income	19	10,967	10,394
Fee and commission expense	19	(3,149)	(2,963)
Trading profit/loss, net		17	(90)
Net valuation of financial instruments held for trading	23	(533)	(240)
Net valuation of equity investments		84	(19)
Other operating income	20	223	389
Operating income		**40,086**	**36,333**
Staff costs	21	(10,585)	(9,270)
Other operating expenses	22	(15,724)	(15,410)
Profit before taxation		**13,777**	**11,653**
Income tax expense	23	(1,386)	(1,476)
Net profit for the year		**12,391**	**10,177**
Other comprehensive income			
Valuation result of available for sale financial instruments recorded in equity		145	(47)
Total comprehensive income		**12,536**	**10,130**

The separate statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 44 to 83.

Separate Statement of Changes in Equity for the year ended 31 December 2011

(in thousands of Euro unless otherwise stated)

	Share capital	Retained earnings	Other Reserves	Total shareholder's equity
Balance at January 1, 2010	**58,000**	**23,047**	**344**	**81,391**
Capitalization of retained earnings	-	-	-	-
Net Profit for the year	-	10,177	-	10,177
Valuation of AFS financial instruments	-	-	(47)	(47)
Balance at 31 December 2010	**58,000**	**33,224**	**297**	**91,521**
Net Profit for the year	-	12,391	-	12,391
Distributed Dividend	-	(5,000)	-	(5,000)
Valuation of AFS financial instruments	-	-	145	145
Balance at 31 December 2011	**58,000**	**40,615**	**442**	**99,057**

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 44 to 83.

Statement of Cash Flow for the year ended 31 December 2011

(in thousands of Euro unless otherwise stated)

	Notes	2011	2010
Cash flows from operating activities			
Interest received on loans		47,175	47,742
Interest received on placements		1,205	619
Interest received on government bonds		481	322
Interest paid		(13,244)	(16,761)
Fees and commissions received		10,787	7,431
Fees and commissions paid		(3,149)	(90)
Other income received		977	594
Staff costs paid		(10,309)	(9,050)
Other operating expenses paid		(12,735)	(12,067)
Income tax paid		(1,620)	(1,114)
Cash flow from operating activities before changes in operating assets and liabilities		**19,568**	**17,626**
Changes in operating assets and liabilities			
Net (decrease) / increase in mandatory liquidity reserve		(4,687)	1,063
Net decrease in due from other banks		80,887	3,386
Net increase in loans and advances to customers		(68,379)	(12,371)
Net increase in government bonds		(22,002)	(6,213)
Net (increase) / decrease in other assets		(75)	788
Net increase in customer accounts		7,100	4,874
Net increase / (decrease) in deposits from banks		249	(490)
Net increase (decrease) in other liabilities		717	(5,333)
Net cash flow from operating activities		**13,378**	**3,330**
Cash flows from investing activities			
Payments for leasehold improvements, equipment and intangible assets		(2,839)	(3,002)
Net cash used in investing activities		**(2,839)**	**(3,002)**
Cash flows from financing activities			
Repayment of borrowings		(16,603)	(9,444)
Dividends distributed		(5,000)	-
Net cash flow from financing activities		(21,603)	(9,444)
Effect of exchange rate changes		46	(83)
Net decrease in cash and cash equivalents		**(11,018)**	**(9,199)**
Cash and cash equivalents at the beginning of year	6	44,755	53,954
Cash and cash equivalents at 31 December (excluding mandatory liquidity reserve)	**6**	**33,737**	**44,755**

The statement of cash flow is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 44 to 83.

Notes to the Financial Statements for the year ended 31 December 2011

1. General Information

The 100 per cent shareholder of Raiffeisen Bank Kosovo J.S.C. ("the Bank") is Raiffeisen Bank International AG (RBI).

At the date of foundation of the Bank and up to February 2003 the Bank was called the "American Bank of Kosovo". During February 2003 the shareholders of the Bank decided to change the name of the Bank to Raiffeisen Bank Kosovo J.S.C. The change of the name was approved by the Central Bank of Republic of Kosovo (the "CBK", formerly known as Banking and Payments Authority of Kosovo - BPK) on 28 April 2003.

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

As at 31 December 2011 the Bank has 9 branches and 43 sub-branches within Kosovo (31 December 2010: 9 branches and 41 sub-branches). The Bank's registered office is located at the following address:
UCK Street No 51,
10000 Prishtina,
Republic of Kosovo

2. Significant Accounting Policies

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Adoption of new and revised standards

2.2.1 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS

3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),

- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies, statement of financial position and performance.

2.2.2 Standards and interpretations in issue not effective

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective. None of these is expected to have a significant effect on the financial statements of the Bank.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015),
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,
- Amendments to IAS 1 "Presentation of financial statements" -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 "Financial instruments: presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. Summary of Significant Accounting Policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial assets at fair value through profit and loss, available-for-sale financial assets and derivative instruments, which are carried at their fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

IFRS defines a so-called hierarchy of fair value determination which reflects the relative reliability of different ways of obtaining a fair value:

(a) Active market: Quoted price (Level 1)

Observe quoted prices for identical financial instruments in active markets.

(b) Valuation technique using observable inputs (Level 2)

Observe quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs (Level 3)

Use valuation models where one or more significant inputs are not observable.
Only if the first best way of determining the fair value is not available may the next best determination method be applied. If possible, the Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the balance sheet positions are part of the accounting policies listed below.

The principal accounting policies are set out below.

3.3 Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

These financial statements represent the result and financial position of the Bank alone and do not include those of its subsidiary, as detailed in Note 10.

A parent need not present consolidated financial statements if the parent is itself a wholly-owned subsidiary and the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards. The Bank prepares separate financial statements in accordance with IFRS. Interests in subsidiaries are accounted for at cost in the separate financial statements.

3.4 Currency of presentation

In accordance with IAS 21 the Bank's functional currency used in preparing the financial statements is EUR as it is the currency of the primary economic environment in which the Bank operates and it reflects the economic substance of the underlying events ("functional currency").
These financial statements are presented in EUR.

3.5 Foreign Currencies

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

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in EUR):

Compared to EUR	31 December 2011	31 December 2010
1 USD	0.7710	0.7479
1 CHF	0.8190	0.8002
1 GBP	1.1976	1.1614

3.6 Classification of financial assets

Financial assets are classified in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, investments held to maturity and loans and receivables. The classification of financial assets is determined at their initial recognition.
All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit or loss for the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized through other comprehensive income, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss of the period through adjustment. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale is recognized in the profit or loss for the period.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

The investments and other financial assets of the Bank are classified into the following categories:

3.6.1 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.

Financial assets are designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. The fair values reported are usually observable market prices; as a guideline, the Bank prefers to invest in securities for which market prices in active markets can be observed. Only in rare circumstances is the fair value calculated based on current observable market data by using a valuation technique.

Financial assets at fair value through profit or loss are initially recognized at cost, and transaction costs, if any, are expensed in the profit or loss. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognized in the profit or loss for the period. Together with interest earned on financial instruments designated as at fair value through profit and loss they are shown as "net result from financial assets at fair value through profit or loss".

Purchases and sales of financial assets at fair value through profit or loss are recognized on the trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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

A financial 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.

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 significantly modify the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in net income from financial assets designated at fair value through profit or loss.

3.6.2 Available for sale financial assets

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

At initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs, if any. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on current observable market. For very short-term financial assets it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized through other comprehensive income in the position “other reserves”, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss through adjustment. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the profit or loss.

Dividends, if any, on available-for-sale equity instruments, are recognized in the profit or loss when the entity’s right to receive the payment is established.

Purchases and sales of available-for-sale financial assets are recorded on the trade date. The available-for-sale financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

3.6.3 Loans and receivables

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

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

3.6.4. Investments held-to-maturity
Investments held-to-maturity, are investments in government bonds that the Bank has the intent and ability to hold to maturity. As a result they are classified as held-to-maturity assets.

3.6.5. Investments at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

3.6.6 Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

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

3.8 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 includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.9 Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

3.10 Impairment of financial assets

(a) Impairment of loans and advances

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

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

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

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit and loss.

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

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

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

Estimates of changes in future cash flows for groups of assets reflect and 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 in impairment charge for credit losses.

(b) Impairment of available-for-sale financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of debt investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss.

3.11 Cash and cash equivalents

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

3.12 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 EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the EUR deposits with the CBK and 50 per cent of the EUR 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.

3.13 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet.

3.14 Leasehold improvements and equipment

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

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

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

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

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the profit and loss.

Land is not depreciated. 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:

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

Leasehold improvements are depreciated over the lower of useful life and the lease term. Depreciation methods, useful lives and residual values are reassessed at balance sheet date.

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

3.16 Borrowings
Borrowings are recognized initially at cost, 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.

3.17 Provisions
Provisions for legal claims are recognized when: the Bank has a present legal or constructive obligation as a result of past events; it is probably that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.18 Employee benefits
The Bank pays only contributions to 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.

3.19 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.

3.20 Off balance sheet commitments and contingencies

In the ordinary course of its business, the Bank enters into credit related commitments, which are recorded to off-balance sheet accounts and primarily include guarantees, letters of credit and un-drawn loan commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

3.21 Income tax

The income tax charge in the profit or loss for the year comprises current tax and changes in deferred tax. Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. Effective from January 1, 2009, the tax rate on corporate income is set at 10 per cent in accordance with Kosovo tax regulations currently in force, Law no. 03/L-113 "On Corporate Income Tax". Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in force at the balance sheet date. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accounted for using the balance sheet liability method for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3.22 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.

3.23 Critical accounting estimates and judgments in applying the Banks accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and 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 and 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 a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Impairment of available for-sale investments

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. 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.

c) Impairment of foreclosed assets

The process of calculating impairment loss requires that the management make significant and complex assumptions regarding the projected period of sale of foreclosed assets, their estimated net sales value and the corresponding discount rate, in order to discount to net present value the expected cash flow from sale of specific items of foreclosed properties.

Management of the Bank believes that the foreclose assets will be sold in a reasonable time frame, with no loss.

d) Recent volatility in global financial markets

The unprecedented crisis in international financial markets, during 2011 and 2010, had some but limited impact in the financial sector in Kosovo, as there was no major exposure of the sector abroad. Kosovo banking sector continued its normal operations by relying on lending to the domestic economy, while its main source of finance remained deposits in Kosovo.

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.

4.2 Risk management framework

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

From January 2008, the Bank has been complying with and reports based on Basel II requirements at the Group level covering credit and market risks. The standardised approach is being applied so far. Its transformation into the latest approach is in the development phase. 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.

4.3 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, houses)
- Apartments
- Vehicles
- Equipments
- Personal Guarantee

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 0.5 to 5 in the Bank's internal credit risk grading system.

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

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

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

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

Set out below is an analysis of financial assets which are neither past due nor impaired, based on customer rating:

Rating	2011	2010
0.5	47	-
1	-	-
1.5	509	-
2	25,272	35,626
2.5	52,037	42,701
3	28,274	22,016
3.5	38,315	26,613
4	7,843	10,981
4.5	2,982	6,829
5	-	-
Unrated	9,031	3,078
Retail	165,540	150,766
Total	**329,850**	**298,610**

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
2011					
Loans and advances to customers Past Due, but not impaired	4,494	9,371	18,050	30,055	61,970
Loans and advances to customers Past Due, and not impaired	13,980	1,433	2,939	18,904	37,256
2010					
Loans and advances to customers Past Due, but not impaired	4,767	5,879	17,602	30,839	59,087
Loans and advances to customers Past Due, and not impaired	15,239	421	3,193	15,376	34,229

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2011 and 31 December 2010 is shown below:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
2011					
Legal Entities	12,397	1,280	2,087	14,188	29,952
Individuals	1,583	153	852	4,717	7,305
Total Loans and advances to customers impaired	13,980	1,433	2,939	18,905	37,257
2010					
Legal Entities	13,662	349	2,797	12,666	29,474
Individuals	1,577	72	396	2,710	4,755
Total Loans and advances to customers impaired	15,239	421	3,193	15,376	34,229

4.4 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 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. It is unusual that the bank matches its maturities. The Bank issues long term assets, such as PI loans and Mortgages, and these portfolios are mainly financed by demand deposits and Term Deposits up to 1 year. The management receives on a daily basis the liquidity ratio information of the Bank, and also on a weekly basis receives a liquidity report sorted by Business segment. Since the Bank issues mid to long term assets, and finances it with short to mid term debt, it is also exposed to interest rate risk.

The table below shows assets and liabilities as at 31 December 2011 and 2010 by their remaining contractual maturity. Some of the assets however, may be of a longer term nature; for example loans are frequently renewed and accordingly short term loans can have longer term duration.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non-Specific	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	13,464	-	-	-	76,901	90,365
Due from other banks	85,910	-	-	-	-	85,910
Loans and advances to customers	46,351	43,788	132,586	179,385	-	402,110
Other Loans	508	-	3,821	26,591	-	30,920
Investment securities	-	947	22,330	39,154	442	62,873
Investments in subsidiaries	-	-	-	-	333	333
Other assets	-	471	1,442	-	32	1,945
Total financial assets	**146,233**	**45,206**	**160,179**	**245,130**	**77,708**	**674,456**
Liabilities						
Deposits from customers	449,133	20,572	77,749	9,823	-	557,277
Deposits and borrowings from banks	103	90	4,155	8,336	-	12,684
Other liabilities	42	63	8,917	3,888	-	12,910
Total financial liabilities	**449,278**	**20,725**	**90,821**	**22,047**	**-**	**582,871**
Net gap position at 31 December 2011	**(303,045)**	**24,481**	**69,358**	**223,083**	**77,708**	**91,585**

	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	17,377	-	-	-	79,320	96,697
Due from other banks	153,487	13,006	344	-	-	166,837
Loans and advances to customers	32,824	35,302	113,278	182,430	-	363,834
Investment securities	-	-	3,286	36,606	298	40,190
Investments in subsidiaries	-	-	-	-	249	249
Other assets	-	118	2,045	-	205	2,368
Total financial assets	**203,688**	**48,426**	**118,953**	**219,036**	**80,072**	**670,175**
Liabilities						
Deposits from customers	453,747	19,891	67,131	9,405	28	550,202
Deposits from banks	396	-	8,090	21,202	-	29,688
Other liabilities	61	104	263	6,194	185	6,807
Total financial liabilities	**454,204**	**19,995**	**75,484**	**36,801**	**213**	**586,697**
Net gap position at 31 December 2010	**(250,516)**	**28,431**	**43,469**	**182,235**	**79,858**	**83,478**

The maturity analysis of loans to customers is based on the interim 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.

Overdue assets are fully provided against, and thus, have no impact on the above table. 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 2011 was customer accounts being on demand and maturing in less than one month. Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

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

4.5 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 2011 and 2010 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	76,901	10,215	3,249	90,365
Due from other banks	-	81,428	4,482	85,910
Loans and advances to customers	402,110	-	-	402,110
Other Loans	-	22,118	8,802	30,920
Investment securities	-	53,698	9,175	62,873
Investments in subsidiaries	333	-	-	333
Other assets	1,945	-	-	1,945
Total financial assets	**481,289**	**167,459**	**25,708**	**674,456**
Liabilities				
Deposits from customers	535,911	7,821	13,545	557,277
Deposits from banks	98	11,382	1,204	12,684
Other liabilities	10,205	2,705	-	12,910
Total financial liabilities	**546,214**	**21,908**	**14,749**	**582,871**
Net gap position at 31 December 2011	**(64,925)**	**145,551**	**10,959**	**91,585**

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	79,320	13,062	4,315	96,697
Due from other banks	-	166,837	-	166,837
Loans and advances to customers	363,834	-	-	363,834
Investment securities	-	31,267	8,923	40,190
Investment in subsidiary	249	-	-	249
Other assets	2,368	-	-	2,368
Total financial assets	**445,771**	**211,166**	**13,238**	**670,175**
Liabilities				
Deposits from customers	533,029	14,889	2,284	550,202
Deposits from banks	268	23,584	5,836	29,688
Other liabilities	4,964	1,843	-	6,807
Total financial liabilities	**538,261**	**40,316**	**8,120**	**586,697**
Net gap position at 31 December 2010	**(92,491)**	**170,850**	**5,118**	**83,478**

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.

The Market Risk Report encapsulating the Interest Rate Risk Report and the Open FX currency report is sent to the management on the weekly basis. The respective report is produced by RZB Vienna 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 2011 and 2010. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currency.

	EUR	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	76,605	4,744	9,016	90,365
Due from other banks	64,002	20,710	1,198	85,910
Loans and advances to customers	402,110	-	-	402,110
Other Loans	30,920	-	-	30,920
Investment securities	53,698	9,175	-	62,873
Investments in subsidiary	333	-	-	333
Other assets	1,945	-	-	1,945
Total financial assets	**629,613**	**34,629**	**10,214**	**674,456**
Liabilities				
Deposits from customers	509,068	35,451	12,758	557,277
Deposits from banks	12,682	1	1	12,684
Other liabilities	12,910	-	-	12,910
Total financial liabilities	**534,660**	**35,452**	**12,759**	**582,871**
Net gap position at 31 December 2011	**94,953**	**(823)**	**(2,545)**	**91,585**

	EUR	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	74,289	8,013	14,395	96,697
Due from other banks	148,586	18,251	-	166,837
Loans and advances to customers	363,834	-	-	363,834
Investment securities	31,267	8,923	-	40,190
Investments in subsidiary	249	-	-	249
Other assets	2,368	-	-	2,368
Total financial assets	**620,593**	**35,187**	**14,395**	**670,175**
Liabilities				
Deposits from customers	505,226	36,191	8,785	550,202
Deposits from banks	29,538	150	-	29,688
Other liabilities	6,807	-	-	6,807
Total financial liabilities	**541,571**	**36,341**	**8,785**	**586,697**
Net gap position at 31 December 2010	**79,021**	**(1,154)**	**5,610**	**83,478**

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 EUR 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 EUR strengthens with respective percentages against the relevant currency. For the respective weakening of the EUR 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.

	US Dollar (USD)		Swiss Franc (CHF)		British Pound (GBP)	
	2011	2010	2011	2010	2011	2010
Sensitivity rates	10%	13%	14%	12%	4%	5%
Profit and loss	(35)	279	(9)	(464)	(2)	11

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 loose 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 BPK 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 derivative called Interest Rate Swap is used, whereby Raiffeisen Bank Kosovo is mainly a fixed side interest payer, where as in return the counterparty is variable rate payer, and the variable side is indexed to 6 Month EURIBOR, to insure optimal sensitivity.

Raiffeisen Bank Kosovo applies active risk management to hedge against market risk positions. Interest rate risk is hedged through financial derivatives. In order to ensure long term profitability on existing loan portfolios, maturing in 2012 up to 15 years, these positions are hedged through Interest Rate Swaps. The positions up to 5 years are hedged 75 per cent and positions from 5- 10 are hedged 100 per cent. This Risk controlling approach insures optimal VaR (value at risk).

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	13,464	-	-	-	76,901	90,365
Due from other banks	85,556	0	-	-	354	85,910
Loans and advances to customers	46,351	43,788	132,586	179,385	-	402,110
Other Loans	508	-	3,821	26,591	-	30,920
Investment securities	-	947	22,330	39,154	442	62,873
Investments in subsidiaries	-	-	-	-	333	333
Other assets	-	-	-	-	1,945	1,945
Total financial assets	**145,879**	**44,735**	**158,737**	**245,130**	**79,975**	**674,456**
Liabilities						
Deposits from customers	205,371	20,572	77,749	9,823	243,762	557,277
Deposits from banks	82	90	4,155	8,336	21	12,684
Other liabilities	-	-	-	-	12,910	12,910
Total financial liabilities	**205,453**	**20,662**	**81,904**	**18,159**	**256,693**	**582,871**
Net gap position at 31 December 2011	**(59,574)**	**24,073**	**76,833**	**226,971**	**(176,718)**	**91,585**

	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	17,377	-	-	-	79,320	96,697
Due from other banks	153,487	13,007	-	-	343	166,837
Loans and advances to customers	32,824	35,302	113,278	182,430	-	363,834
Investment securities	-	-	3,286	36,606	298	40,190
Investments in subsidiaries	-	-	-	-	249	249
Other assets	-	-	-	-	2,368	2,368
Total financial assets	**203,688**	**48,309**	**116,564**	**219,036**	**82,578**	**670,175**
Liabilities						
Deposits from customers	168,673	69,628	70,363	9,405	232,133	550,202
Deposits from banks	277	-	8,090	21,202	119	29,688
Other liabilities	-	-	-	-	6,807	6,807
Total financial liabilities	**168,950**	**69,628**	**78,453**	**30,607**	**239,059**	**586,697**
Net gap position at 31 December 2010	**34,738**	**(21,319)**	**38,111**	**188,429**	**(156,482)**	**83,478**

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	2011				2010			
	EUR	USD	CHF	GBP	EUR	USD	CHF	GBP
Assets								
Placements on call with other banks	0.7	0.1	0	0.4	0.2	0.2	N/A	0.3
Term deposits with other banks	0.9	0.2	N/A	N/A	0.4	0.2	N/A	N/A
Government Bonds HTM yield	1.6	1.4	N/A	N/A	1.6	1.6	N/A	N/A
Government Bonds AFV yield	1.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loans and advances to customers	11.1	N/A	N/A	N/A	11.4	N/A	N/A	N/A
Other Loans	1.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Liabilities								
Customer accounts	0.7	0	0	0	0.7	0.1	0.1	0.2
Term deposits	4.5	1.3	1.0	1.0	4.6	1.8	1.1	2.4
Savings accounts	2.3	0.3	0.3	0.3	2.3	0.3	0.3	0.2

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

- Risk Evaluation
- Risk Control

Interest Risk Evaluation

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

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

Interest Rate Risk Control

The mechanism of control is utilized through the banking book which is produced on a weekly basis. The Bank currently owns banking book limits, set at 418 Million EUR. The weighting factors assume that the distant future is more uncertain than the near future, therefore according to this approach the longer the maturities, the higher the weighting factors to be accounted against the limit.

4.6 Capital Risk Management.

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.

Gearing ratio
The Bank's risk management committee reviews the capital structure on a continuously 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:

	2011	2010
Debt	12,663	29,420
Equity	99,057	91,522
Net debt to equity ratio	**13%**	**32%**

5. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However judgement is necessarily required to interpret market data to determine the estimated fair value. The volume of activity in financial markets is not significant. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Fair Values of Financial Instruments

	2011		2010	
Assets	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Due from other banks	85,910	85,910	166,837	166,837
Loan and advances to customers	402,110	402,110	363,834	363,834
Other Loans	30,920	30,920	-	-
Investment securities	62,873	62,873	40,190	40,190
Liabilities				
Deposits from customers	557,277	557,277	550,202	550,202
Deposits from banks	12,684	12,684	29,688	29,688

6. Cash and Cash Equivalents and Mandatory Reserve

	2011	2010
Cash on hand	29,814	27,829
Balances with the CBK	47,086	51,491
Correspondent accounts with other banks	11,271	15,048
Money market placements	2,194	2,329
Total	**90,365**	**96,697**

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of EUR 56,628 thousand (31 December 2010: EUR 51,942 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 2011 and 2010 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2011	2010
Total cash and cash equivalents and mandatory reserve	90,365	96,697
Less: Mandatory liquidity reserve	(56,628)	(51,942)
Cash and cash equivalents for the purposes of cash flow statement	**33,737**	**44,755**

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 2011 the interest was paid at the rate of 0.10 per cent per annum (31 December 2010: 0.10 per cent per annum).

7. Due from other Banks

Term deposits and call deposits are placed with banks operating in OECD countries. Guarantee deposits represent placements with Raiffeisen Bank Austria as at 31 December 2011 and 2010. The balance due from other banks includes accrued interest income in the amount of EUR 3 thousand (31 December 2010: EUR 44 thousand).

Guarantee deposits include an amount of EUR 354 thousand as at 31 December 2011 (31 December 2010: EUR 344 thousand) which represent restricted deposits with a related party in relation to guarantees issued on the Bank's behalf, for its customers. The Bank does not have the right to use these funds for the purposes of funding its own activities.

	2011	2010
Term deposits	85,556	166,493
Guarantee deposits	354	344
Total due from other banks	**85,910**	**166,837**

8. Loans and Advances to Customers

	2011	2010
Legal entities		
Current and rescheduled loans	*208,223*	*216,671*
Overdraft facilities	*102,504*	*66,805*
Customer accounts in overdraft	*104*	*175*
	310,831	***283,651***
Individuals		
Personal loans	*114,322*	*103,801*
Payroll overdrafts	*3,438*	*3,643*
Customer accounts in overdraft	*485*	*831*
	118,245	***108,275***
Loans and advances to customers	***429,076***	***391,926***
Less: Provision for loan impairment	*(26,966)*	*(28,092)*
Loans and advances to customers, net	***402,110***	***363,834***

Loans and advances to customers include accrued interest income in the amount of EUR 1,885 thousand (31 December 2010: EUR 1,669 thousand).

Movements in the provision for loan impairment are as follows:

	2011	2010
Provision for loan impairment at the beginning of the year	***28,092***	***23,827***
Net charge for provision for loan impairment during the year	*6,545*	*6,230*
Write offs	*(7,671)*	*(1,965)*
Provision for loan impairment at the end of the year	***26,966***	***28,092***

As at 31 December 2011 the Bank has 419 borrowers (31 December 2010: 418 borrowers) with aggregated loan amounts above EUR 100 thousand. The aggregate amount of these loans is EUR 265,711 thousand or 58 per cent of the gross loan portfolio (31 December 2010: 195,219 thousand or 50 per cent of the gross loan portfolio).

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

	2011		2010	
	Amount	%	Amount	%
Trade	161,509	38%	160,223	41%
Individuals	159,128	37%	126,864	32%
Manufacturing, chemical and processing	46,761	11%	52,741	13%
Service	24,234	6%	7,770	2%
Construction and construction servicing	22,661	5%	25,787	7%
Other	12,660	3%	15,291	4%
Food industry and agriculture	2,123	0%	3,250	1%
Total loans and advances to customers before provision for loan impairment	**429,076**	**100%**	**391,926**	**100%**

9. Other Loans

	2011	2010
Other loans	30,920	-
Total other loans	**30,920**	**-**

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

Other Loans – regional distribution	2011	2010
France	22,118	-
Croatia	8,802	-
Total other loans	**30,920**	**-**

10. Investment Securities

	2011	2010
Held to maturity investments (Government Bonds)	42,727	39,892
Financial Investments at fair value (Government Bonds)	19,704	-
Available for sale equity investments	442	298
Total investment securities	**62,873**	**40,190**

Held to maturity investments as at 31 December 2011 relate to Government Bonds of Republic of Germany, Republic of Austria, and Untied States of America, Republic of France and Republic of Poland with remaining maturities ranging between 5 and 26 months.
Financial Investments at fair value as at 31 December 2011 represent 2.8-3.5 year, bonds denominated in EUR issued by the Republic of Germany, Republic of France and Republic of Austria.

11. Investment in a Subsidiary

	2011	2010
Investment in Raiffeisen Leasing Kosovo	333	249
Total Investments in subsidiaries	**333**	**249**

12. Other Assets

	2011	2010
Prepayments and advances for services	1,573	2,085
Fees receivables	340	78
Other receivables	32	205
Total other assets	**1,945**	**2,368**

13. Leasehold Improvements, Equipment and Intangible Assets

	Leasehold improvements	ATM, other bank and office equipment	Computer hardware	Intangible assets	Total
Cost as at 31 December					
2009	**3,347**	**6,784**	**4,516**	**5,747**	**20,394**
Additions	268	2,244	(344)	835	3,003
Disposals	(11)	(72)	-	-	(83)
2010	**3,604**	**8,956**	**4,172**	**6,582**	**23,314**
Additions	454	913	307	1,164	2,838
Disposals	(156)	1,297	(1,649)	(85)	(593)
2011	**3,902**	**11,166**	**2,830**	**7,661**	**25,559**
Accumulated depreciation and amortisation at 31 December					
2009	**1,952**	**3,264**	**2,374**	**3,343**	**10,933**
Depreciation/amortisation charge for the year (Note 21)	664	1,461	434	890	3,449
Eliminated on disposals	(4)	(49)	-	-	(53)
2010	**2,612**	**4,676**	**2,808**	**4,233**	**14,329**
Depreciation/amortisation charge for the year (Note 21)	561	1,715	270	856	3,402
Eliminated on disposals	(157)	(110)	(128)	(95)	(490)
2011	**3,016**	**6,281**	**2,950**	**4,994**	**17,241**
Net book value at 31 December					
2011	**886**	**4,885**	**(120)**	**2,667**	**8,318**
2010	**992**	**4,280**	**1,364**	**2,349**	**8,985**

14. Deposits from Customers

	2011	2010
Corporate customers:		
Current accounts	106,709	95,023
Savings accounts	8,681	9,574
Term deposits and margin accounts	25,325	24,597
	140,715	**129,194**
Retail customers:		
Current accounts	137,054	137,111
Savings accounts	140,930	159,099
Term deposits and margin accounts	138,578	124,798
	416,562	**421,008**
Total customer accounts	**557,277**	**550,202**

As at 31 December 2011, customer accounts include accrued interest expense in the amount of EUR 2,397 thousand (31 December 2010: EUR 2,423 thousand).

As at 31 December 2011 the Bank has 541 customers with balances above EUR 100 thousand (31 December 2010: 501 customers). The aggregate balances of these customers are EUR 203,869 thousand or 37 per cent of total customer accounts (31 December 2010: 205,080 thousand or 37 per cent of total customer accounts).

Included in customer accounts are deposits of EUR 12,578 thousand as at 31 December 2011, held as collateral for guarantees and letters of credit issued by the Bank to these customers (31 December 2010: EUR 7,740 thousand). Details of related party balances are presented under Note 25.

15. Deposits and Borowings from Banks

	2011	2010
Borrowings		
Supranational institutions and development banks	12,663	29,420
Deposits		
Other commercial banks – non OECD Countries	21	268
Total deposits and borrowings from banks	**12,684**	**29,688**

In the borrowings amount as at 31 December 2011 is included an accrued interest amount of EUR 82 thousand (31 December 2010: EUR 236 thousand).

Maturity of the loans from supranational institutions and development banks are from the shortest maturing in 2012 to longest maturing in 2015.

16. Other Liabilities

	2011	2010
Clearing deposits from payment transfer business	6,154	1,144
Negative fair value financial derivative instruments	2,363	1,201
Deferred income	1,502	1,499
Accrued staff costs	844	588
Payables	822	1,172
Accrued operating expenses	437	334
Interest Rate SWAP payable	341	250
Provision for losses on commitments and contingent liabilities (see below)	161	141
Tax payable	147	142
Liabilities on leased assets	104	80
Other	35	256
Total other liabilities	**12,910**	**6,807**

Clearing deposits from payment transfer business comprise bank's suspense accounts which result in debit balance in amount of EUR 6,154 thousand as at 31 December 2011 (31 December 2010: EUR 1,144 thousand). Clearing deposits comprise clearing accounts for debit and credit cards, payments and other items. Deferred income as at December 31, 2011 represent the amount of loan deferred fees. Details of related party balances are presented under Note 25.

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

	2011	2010
Provision for losses on commitments and contingent liabilities at the beginning of the year	**141**	**920**
Provision / (release of provision) for losses on commitments and contingent liabilities	20	21
Usage of previous year provisions	-	(800)
Provision for losses on commitments and contingent liabilities at the end of the year	**161**	**141**

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

	2011	2010
Provision for tax penalties and interests	-	-
Provision for legal cases	161	141
Total Provision	**161**	**141**

17. Share Capital

Authorised and registered share capital of the Bank comprises 100 shares of common stock. During 2011, the share capital amount remained unchanged at 58,000 thousand EUR. The structure of the share capital of the Bank as at 31 December 2011 and 2010 is as follows:

Shareholder	2011 Number of shares	2011 Amount in thousands EUR	2011 Voting share	2010 Number of shares	2010 Amount in thousands EUR	2010 Voting share
Raiffeisen International Bank-Holding AG (RI)	100	58,000	100%	100	58,000	100%

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

18. Interest Income and Expense

	2011	2010
Interest income		
Loans and advances to customers	47,486	47,519
Loans and advances to banks	1,159	653
Other loans – funded participations	482	-
Financial investments	1,017	629
Total interest income	**50,144**	**48,801**
Interest expense		
Deposits from customers	(9,870)	(11,714)
Deposits from banks	(1,263)	(1,948)
Derivative financial instruments (non-trading)	(551)	(474)
Other interest expense	(150)	(73)
Total interest expense	**(11,834)**	**(14,209)**
Net interest income	**38,310**	**34,592**

19. Fee and Commission Income and Expense

	2011	2010
Payments transfer business	8,161	7,789
Loan administration and guarantee business	967	960
Foreign currency business	1,749	1,419
Agency services for third party products	86	203
Other banking services	3	23
Total fee and commission income	**10,966**	**10,394**
Payment transfer business	(2,751)	(2,567)
Agency services for own products	-	-
Other banking services	(398)	(396)
Total fee and commission expense	**(3,149)**	**(2,963)**
Net fee and commission income	**7,817**	**7,431**

20. Other Income

	2011	2010
Income resulting from prior year booked expenses	87	307
Other	137	82
Total other income	**224**	**389**

21. Staff Costs

	2011	2010
Salaries and wages	9,571	8,258
Expenses on retirement benefits	514	438
Other voluntary social expenses	465	418
Employee services prepayment	35	156
Total staff cost	**10,585**	**9,270**

The remuneration of directors and key executives is determined by the Raiffeisen Bank International management having regard to the performance of individuals and market trends. The Managing Board related expense for 2011 amounted to EUR 361 thousand (2010: EUR 313 thousand).

22. Other Operating Expenses

	2011	2010
Office space expenses (rental, maintenance, other)	3,340	3,030
Depreciation of tangible assets	2,547	2,558
IT cost	1,965	2,070
Advertising, PR and promotional expenses	1,911	2,044
Security expenses	1,303	1,281
Amortization of intangible assets	856	890
Other administrative expenses	687	752
Communication expenses	638	629
Office supplies	539	557
Legal, advisory and consulting expenses	508	677
Training expenses for staff	454	417
Deposit insurance fees	433	-
Car expenses	389	355
Travelling expenses	155	150
Total other operating expenses	**15,725**	**15,410**

23. Income Taxes

	2011	2010
Current tax charge	1,481	1,549
Deferred taxation	(95)	(73)
Income tax expense for the year	**1,386**	**1,476**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2010: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

	2011	2010
Profit before taxation	**13,776**	**11,653**
Tax charge for the year at the applicable statutory rate	1,378	1,165
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	103	278
Adjustment on previous year tax expense	-	107
Current tax charge	**1,481**	**1,550**

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.

	2010	Movement during 2011	2011
Tax effect of deductible temporary differences			
Leasehold improvements, equipment and intangible assets	(76)	(12)	(88)
Term deposits – accrued interest	-	164	164
Gross deferred tax asset/(liability)	**(76)**	**152**	**76**
Tax effect of taxable temporary differences			
Loan impairment provision	(852)	(51)	(903)
Off Balance sheet provision	(13)	(7)	(20)
Total net deferred tax asset / (liability)	**(941)**	**94**	**(847)**

24. Contigencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. As at 31 December 2011 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 EUR 161 thousand as the nearest estimate of possible cash outflows arising from possible court decisions. The amount of EUR 20 thousand was included in the 2011 result.

Tax regulations. Raiffeisen Bank has calculated the tax profit and has paid to the TAK all advance payments as required by law.
The difference between actual charge and booked estimation has been booked in 2011 as a profit.

Capital commitments. As at 31 December 2011 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2010: Nil).

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

	2011	2010
Not more than 1 year	2,280	1,963
More than 1 year and not more than 5 years	3,782	3,291
Total operating lease commitments	**6,062**	**5,254**

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:

	2011	2010
Commitments to extend credit	*40,564*	*49,051*
Guarantees and similar commitments issued (credit facility)	*23,775*	*25,706*
Guarantees and similar commitments issued (cash covered)	*11,619*	*5,119*
Letters of credit (credit facility)	*515*	*1,293*
Letters of credit (cash covered)	*99*	*95*
TF line of credit	*2,859*	*10,354*
Stand by letter of credit	*99*	*96*
Letters of comfort	-	-
Total credit related commitments	***79,530***	***91,714***

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

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

Interest Rate SWAPs. The main purpose of these instruments is to mitigate the interest rate risk associated to the fixed rate lending. As of December 31, 2011, the Bank has 43 interest rate SWAP contracts with a notional amount of EUR 32,700 thousand (December 31, 2010: EUR 14,700 thousand). The Bank pays fixed and receives variable interest rates.

The net valuation result of these contracts for the year ended 31 December 2011 EUR 1,163 thousands (2010: EUR 240 thousand).

25. Related Party Transactions

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

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

	2011 Parent	2011 Other related party	2010 Parent	2010 Other related party
Balance Sheet				
Cash and cash equivalents and mandatory reserve	6,434	-	11,378	-
Due from other banks	-	-	-	-
Loans and advances to customers	-	9,029	-	4,209
Other Loans	30,920	-	-	-
Investment securities	-	117	-	201
Other assets	53	14	53	17
Liabilities				
Customer accounts	-	1	-	7
Borrowings	-	1,206	-	5,836
Other liabilities	2,839	167	1,645	74
Profit and loss				
Interest income	507	236	13	77
Interest expense	(597)	-	(492)	-
Fee and commission expense	(118)	(18)	(167)	(8)
Net valuation result financial instruments carried at fair value	(1,163)	-	(240)	-
Net valuation of equity investments	-	84	-	(19)
Other operating expenses	(733)	(1)	(924)	(156)
Purchase of intangible assets	116	-	292	-
Off Balance Sheet				
Guarantees	-	-	-	-
Letters of credit	-	120	-	-

26. Subsequent Events

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

Raiffeisen Glossary

Gable Cross

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

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria's largest banking group by total assets. As per year-end 2010, RBG's consolidated balance-sheet total amounted to more than € 255 billion. It represents about a quarter of all banking business in Austria and comprises the country's largest banking network with more than 2,200 business outlets and 24,000 employees. RBG consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB also acts as the link between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as general service retail banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 89 per cent of RZB's ordinary shares.

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

Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market. In CEE, RBI operates as a universal bank through a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. At the end of 2011 around 56,000 staff served approximately 13.8 million customers in around 2,915 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. Moreover, RBI is represented in the world's financial centers and operates branches and representative offices in Asia. All in all, RBI employs about 59,000 staff and has total assets of approximately € 147 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB is the majority shareholder holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI's shares are in free float. With its long-term "A" (S&P, Fitch) and "A1" (Moody's) ratings, RBI is also a regular issuer of debt securities.

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

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

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Gjilan Sub-branch
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60000 Gjilan
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Fax: +381 (0)38 20 30 13 00

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Fax: +381 (0)38 20 30 14 20

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Fax: +381 (0)38 20 30 13 60

Mitrovica Sub-branch
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40000 Mitrovica
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Fax: +381 (0)39 390 800

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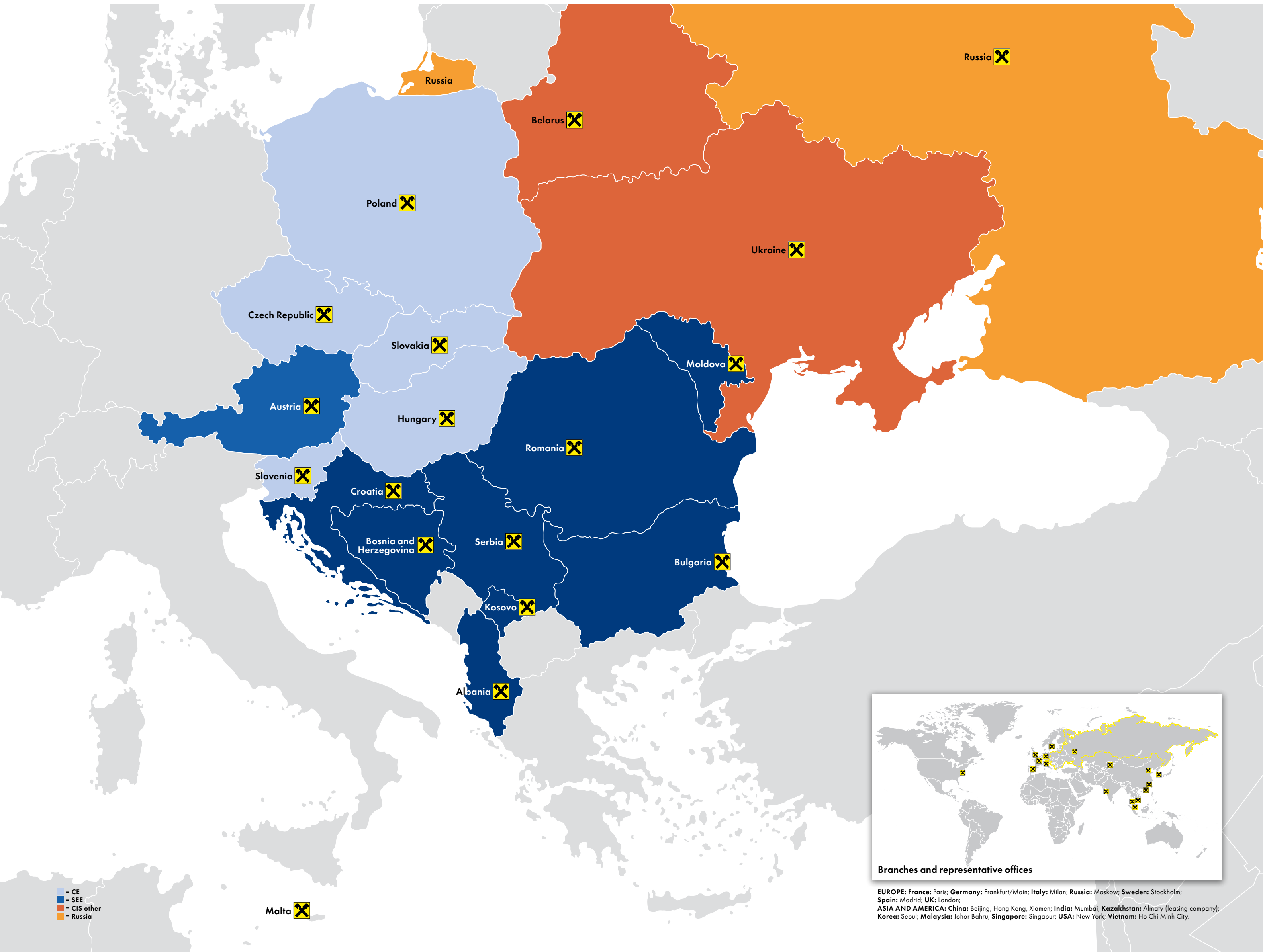
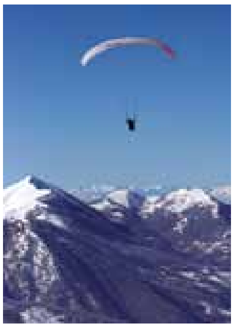
RBI Group in Europe



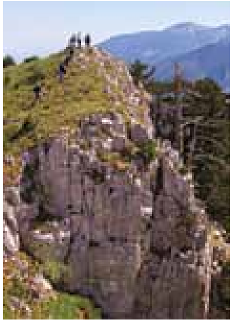
Photos in the Annual Report 2011

The concept of the photos in the Annual Report includes some of the sporting activities that are available in various tourism centres in Kosovo. The photos below are captioned with the description of the activity, where it took place and the author of the photo.

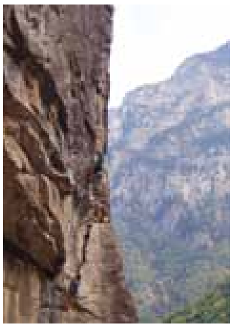
Trekking
Boga, Peja
Author: Kosovoguide



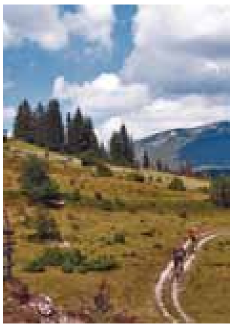
Paragliding
Sharr Mountains, Brezovica
Author: Arben Islami



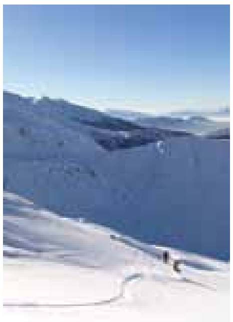
Hiking
Bjeshkët e Nemuna, Peja
Author: Arben Islami



Climbing
Rugova Gorge, Peja
Author: Virtyt Morina



Biking
Rugova Valley, Peja
Author: Kosovaguide



Skiing
Sharr Mountains, Brezovica
Author: Arben Islami