Raiffeisen Bank Albania

Annual Report 2022

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MANAGEMENT BOARD
of Raiffeisen Bank Sh.a

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the MB

Elona Mullahi (Koçi)
Board Member Corporate

Vilma Baçe
Board Member Retail

Erion Serti
Board Member Operacionet dhe TI

Report of the Board of Directors

Ladies and Gentlemen,

The economy of Albania once again proved to be resilient in a turbulent geopolitical environment. In 2022, the economy performed above the most optimistic expectations regardless of the adverse consequences from food and energy price shocks. The solid economic growth of 4.8% in 2022 was underpinned by an excellent touristic season, robust activity in construction and services.

Raiffeisen Bank sh.a. had a very positive performance, expanding the assets and deposits volumes, while outperforming the market in lending activity. All business lines contributed to a significant increase in the net profit compared to the previous year, while maintaining a solid liquidity and capital position. Raiffeisen Bank sh.a. is perceived as the most trusted and innovative bank in the market and the strongest in product and service expertise. Further progress in digitalization of banking products and services significantly contributed to increasing the customer base and upgrading customer experience. On behalf of the Board of Directors, I would like to express our appreciation for the results and the progress achieved, which are beyond expectations.

During the financial year 2022, the members of the Board of Directors held four meetings. The overall attendance rate for the meetings of the Board of Directors meetings was 100 per cent.

The Board of Directors regularly and comprehensively monitored the business performance and risk developments at Raiffeisen Bank sh.a. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity, as well as on the direction of the bank's business and risk strategies. The Board of Directors also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. In the course of its monitoring and advisory activities, the Board of Directors maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives from supervisory authorities on topical issues.

Moreover, the Management Board provided the Board of Directors with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Board of Directors maintained close contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the Board of Directors, where applicable with the involvement of experts on matters being addressed.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Board of Directors passed resolutions after fully considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Board of Directors without delay and to their satisfaction.

The Board of Directors carried out its tasks as defined by the Albanian Banking Law, pursuant to the Articles of Association and in compliance with the Bylaws of the Board of Directors. The Board of Directors discussed important matters relating to the bank, with special consideration in the form of focus topics during the quarterly meetings of the Board of Directors.

I would like to take this opportunity to sincerely thank the Management Board and all employees of Raiffeisen Bank sh.a. for their unwavering efforts, and also our customers for their continued trust.

On behalf of the Board of Directors

Peter Lennkh,
Chairman of the Board of Directors

Message from the Executive Director

2022 proved to be a very challenging year because of the war in Ukraine, the consequences of which were felt all over the world. Despite the tough environment, Raiffeisen Bank sh.a. achieved very good financial results. The bank remained well-capitalized and highly liquid.

Due to the contribution of all business lines, net profit after tax (IFRS Standard) reached 3.84 bn Lek (or 32.4 mn euros) by the end of 2022. The volume of deposits increased by almost 9 per cent versus the previous year. As the second largest lender in the country with approximately 17.3 per cent market share, we continued to support individuals and businesses with loans throughout the year, increasing total lending by 9.2 per cent, which is higher than the total credit increase in the banking system of 7.7%.

During 2022, Raiffeisen Bank sh.a. accelerated its efforts towards digital transformation. We are continuously investing in our digital platforms strengthening our leading position as the bank with the widest digital offer in the country. An important milestone towards digital lending was the implementation of the digital signature process, becoming the first bank in the market to offer complete end-to-end lending products through the digital platform RON. Also, we were the first bank toto launch the digital wallet in Albania through our app RaiPay which achieved remarkable results shortly after its launch.
Furthermore, the bank embraced Cloud technology to transform IT operations, offering more secure and efficient services to customers. Now, more than 50 per cent of data are stored in the Cloud enabling more flexible, scalable, cost-effective and secure solutions for data storage and processing.

In Retail, the private individuals' segment, in addition to accelerating digitalization, attained outstanding results with loans volume reaching 441 mn euros by the end of the year, rating Raiffeisen Bank Albania as the largest lender for the segment in the country with 21.4 per cent market share. New lending volumes at 142 mn euros account for 39 per cent of total private individuals' loans outstanding volume. Very good results were achieved in private individuals' deposits with a growth of almost 15 per cent year on year.

The corporate segment achieved remarkable results with loans outstanding volume reaching 544 mn euros by end of 2022, which is 11.6 per cent higher than the previous year. New lending volume accounts for 30% of total outstanding volume. ESG Loans as of December 2022 stand at 24.4 mn euros constituting 4.5 per cent of the total corporate outstanding portfolio. I would like to highlight that Raiffeisen Bank was evaluated by corporate customers as the best bank for corporate banking in the country for the 2nd year in a row based on domestic customer experience surveys.
Raiffeisen Invest sh.a. had a very challenging financial year 2022, considering the global decline in the performance of investment funds. Despite all difficulties, it remained the leading company in the Albanian market for investment funds, with a market share of 95 per cent, recording approximately 345 mn euros of assets in both investment funds and the voluntary pension fund. Raiffeisen Invest sh.a. further increased the digital channel share of gross sales by 1.51 per cent compared to previous year and it remains the only asset management company in the market that provides digital services to its clients.

Moreover, Raiffeisen Leasing sh.a. closed the financial year 2022 with satisfactory results. It continued to be the leader in the domestic market, for the leasing of vehicles and equipment with a total value of new business at 18,5 mn euros. Most of the new volumes are made with corporate and SME customers, contributing 88 per cent to the total volume. The focus of the company is to strengthen long-term partnerships with clients, providing them with prompt and highly competent service.
We expect 2023 to be a challenging but still good year as Raiffeisen Bank sh.a. has a strong financial position. We will continue to support the development of the country by financing projects that positively affect sustainable growth and improve the quality of life in Albania. Also, we commit to invest more to increase our digital products portfolio in all our banking segments to bring new or improved digital products and enhance our customers' value as innovation stands in our mission statement. We will maintain our commitment to prioritize the quality of customer service across all our business segments. Additionally, we will continue to emphasize the personal growth and development of our employees to ensure that we uphold the highest standards of customer service.

To conclude, on behalf of the Management Board I would like to extend my genuine appreciation to all our valued customers and business partners for their trust and collaboration throughout the year 2022. Also, I would like to express my gratitude towards our hardworking employees, who have shown great commitment, teamwork, and dedication in achieving our business objectives. We are committed to continuing our agile transformation and becoming an adaptable organization that is prepared for the challenges of the future.

Christian CANACARIS
Chief Executive Officer
Chairman of the Management Board

Vision & Mission

Our Vision for 2025

To be the most recommended financial services group.

Mission

Our Mission is to transform continuous innovation into superior customer experience.

Values

Collaboration

When we work with each other, talk to each other, listen to each other, and support each other, we can achieve so much more. We constantly create an environment of mutual understanding, respect, and trust.

Proactivity

We believe in looking ahead. We drive change. Concentrating on the possibilities rather than the impossibilities. Replacing indecision with the decision. Action instead of reaction.

Learning

Learning means personal progress. We learn from experience, education, and sharing. Experimenting and applying new knowledge may involve failure. We consider failure the best teacher to draw lessons from it.

Responsibility

When each of us undertakes responsibility, we can change for the better. Individually and together, we own our decisions. We are accountable for the results of our work.

Perspectives and Future Plans for 2023

Raiffeisen Bank intends to continue in 2023 its development and will further contribute to the country's economy, despite facing successive crises. Striving to improve customer experience and enable our clients to achieve more in their lives and businesses shall be at the centre of the Raiffeisen world. Raiffeisen Bank is focused to stand by the customer under these challenging times by attentively evaluating the position of our customers, in these tough times of inflationary pressure and high interest rates that will keep weighing on the economy and will accompany us in 2023.

Digital transformation shall be the mainstream of all our banking segments, as an opportunity to enhance our customers' value in this disruptive environment. We will further invest in our digital platforms to maintain our leading position representing the most innovative and advanced bank in the country. In this context, we plan to enrich our digital platform 'Raiffeisen ON' with new features and functionalities, especially by digitalizing our loan offer. Furthermore, the quality of customer services in all our segments will continue to remain a priority. Retail, Corporate & SE Segments will keep on focusing on providing the best customers products and services in the market, like digital banking services, innovative paying methods, loans, etc. We will continue focusing on the personal development of our employees, to obtain the highest customer service standards. We value expertise and create a working environment that promotes collaboration, creativity, and entrepreneurial spirit. A transformative way of working will permit more collaboration and enhance the creativity of our employees. We will experiment with the new avant-garde ways of working, just taking shape in the most developed markets worldwide, by providing our employees the opportunity to partly work from home. Hybrid working between the office and home will furthermore contribute to the development of our working force. In the meantime, we will continue improving the branch's network in line with our digital transformation, to deliver contemporary and customer-friendly branches. Finally, Raiffeisen Bank will enhance its focus on a holistic implementation approach for all customer groups with an aim to contribute significantly toward RBAL's business growth through responsible banking. In this fast-changing world and climate changes with the increase in temperatures that expose to climate disasters, we will do our best to implement environmentally and socially responsible banking operations across RBAL. Raiffeisen Bank will also contribute to this epochal change by sponsoring community projects that go in the same direction and help mitigate temperature changes at manageable levels.

Management Board
Raiffeisen Bank Sh.a

Christian Canacaris	**Alexander Zsolnai**	**Elona Mullahi (Koçi)**	**Vilma Baçe**	**Erion Serti**
Chief Executive Officer Chairman of the Management Board	Vice-chairman of the MB	Board Member Corporate	Board Member Retail	Board Member CIO/COO

Governing Bodies

BOARD OF DIRECTORS

The Board of Directors is responsible for approving and controlling the implementation of the policies and strategies of the bank in connection with the business plan, risk management, annual budget; setting out long-term objectives of the bank and monitoring their realization, monitoring the effectiveness of management practices in the bank and effecting appropriate changes for the purposes of improving such practices, etc.

Members of the Board of Directors

Peter Lennkh	Chairman
Heinz Wiedner	Vice-Chairman
Harald Kreuzmair	Member
Thomas Matejka	Member
Petro Merkulov	Member

AUDIT COMMITTEE

The Audit Committee audits and supervises accounting procedures and internal control of the bank, including the procedures defined by the Bank of Albania, supervises the implementation of these procedures as well as audits the bank accounts and respective registrations; considers internal audit reports and monitors the way conclusions from such reports are dealt with; evaluates the financial situation of the bank based on the report of the statutory auditor, etc.

Members of the Audit Committee

Heinz Wiedner	Chairman
Ulf Leichsenring	Vice-Chairman
Johannes Kellner	Member

During 2022, the Audit Committee held four meetings.

RISK COMMITTEE

The Risk Committee shall advise the Management Board and the Board of Directors on the Bank's overall current and future risk appetite and strategy and assist the Management Board and the Board of Directors in overseeing the implementation of that strategy by senior management.

Members of the Risk Committee

Thomas Matejka	Chairman
Harald Kreuzmair	Vice-Chairman
Heinz Wiedner	Member

During 2022, the Risk Committee held two meetings.

MANAGEMENT BOARD

The Management Board organises and manages the activity of the bank continuously. It sets out and delegates the duties to the personnel and supervises the enforcement of delegated responsibilities, in compliance with the adopted policies and procedures; it takes the necessary measures to monitor and manage all the risks the bank is exposed to in line with the adopted strategies, it implements the adopted policies and strategies, and provides that the process on risk management be continuously in compliance with the risk profile of the bank and with the approved business plan.

Members of the Management Board

Christian Canacaris	Chairman/CEO
Alexander Zsolnai	Vice-Chairman/Deputy CEO
Elona Mullahi	Member
Erion Serti	Member
Vilma Baçe	Member

Report of the Management Board

Economic Developments

The domestic economy, as well as the world economy, operated in a difficult environment with high energy and food prices, triggered by the war in Ukraine. Despite the emerging and challenging circumstances, the domestic economy surprised, surpassing any optimistic projections. According to preliminary official estimates, the economy expanded by 4.8% year-on-year in 2022, significantly exceeding our projection of 3.9%. The substantial growth of the economy in 2022 resulted from an excellent performance of the service sectors, mainly in tourism and real estate, but also from construction and other industry sectors respectively growing by 10.7% and 7.1% on year-on-year basis. The performance of these sectors is due to the high domestic and foreign demand, confirmed by the increase in household consumption by 7.2% compared to last year, the increase in gross capital by 5.6% on year-on-year basis and the expansion of the export of commodities and services with 7.5%. For 2023, we foresee that the economy will continue to grow, at a slow pace and by accelerating in the following year. For the entire 2023, expectations are for gross domestic product to grow by 3%, conditioned by the financial austerity measures, the slowdown of the Eurozone economy, as well as due to widened fiscal consolidation.

The headline inflation in 2022 because of the increase in the prices of the basket of goods that includes commodities like food and energy in the international markets, especially since the start of the war in Ukraine. Thus, the average inflation reached 6.7%, a historical level not seen in more than 20 years. However, inflation in Albania remained below the inflation level of the countries of the region, due to a strong position of local currency. In October 2022, inflation reached the maximum value of 8.3% and after that it started to decline in the first months of 2023. However, core inflation, excluding more volatile items, remains a concern, as it reached 8.4% at the end of 2022 compared to the headline inflation of 7.4%.

Higher import prices and expectations for continued high inflation were the reasons for the Bank of Albania to start applying a tightening monetary policy after a decade of quantitative easing policy. Due to the situation the Bank of Albania immediately intervened since the start of the war in Ukraine by increasing the base interest rate to the pre-pandemic level of 1.0%. In its efforts to contractionary monetary policy to slow down inflation, the Central Bank intervened four more times, raising the base rate to 2.75% at the end of 2022. We expect inflation to moderate in 2023, due to the base rate effect and the fact that some of the commodities and energy prices have fallen slightly from previous highs in international markets. However, the promised increase in salaries in the public sector on the part of the government as well as those in the private sector will keep inflationary pressures high in the domestic market. Taking into consideration the high rate of core inflation (8.7% in February 2023) we expect the monetary policy to continue towards normalization and thus the core rate is expected to reach 4.25% at the end of 2023.

Labour market indicators showed a continued improvement in unemployment in the country, which has fallen from 11.4% at the end of 2021 to 10.8% at the end of 2022, although compared to the third quarter of the year unemployment was affected by a slight increase from 10.6%. On the other hand, employment has increased to new levels of 56.3% at the end of 2022 from 53.5% at the end of the previous year. These labour market dynamics, as well as the increased demand for employees that some sectors are experiencing, puts pressure on salaries. Thus, salaries in the last quarter of 2022 showed a double-digit increase of 10.8%, where the biggest increase comes from the private sector, which shows an increase of more than 14% on year-on-year basis.

Furthermore, fiscal policy has played a crucial role in mitigating the indirect consequences that the local economy faced with the start of the war in Ukraine. Thus, the public sector bore the effect of the energy imports' price increase while keeping the final price of electricity consumption for households and businesses unchanged. Two packages were approved to mitigate the effect of high inflation especially on the marginalised and vulnerable groups. Approximately 2.8% of GDP was allocated to cover the increase in inflation and keep the price of electricity unaltered. However, the performance of public finances showed improvements in 2022, where budget revenues due to economic growth and high import prices increased by 12.0% year-on-year, while budget expenditures increased by 9.2% compared to the previous year. Consequently, the budget deficit reached 3.6% of the GDP, decreased compared to 4.6% of the GDP in 2021. Public debt to GDP ratio continued its downward trajectory in 2022, and due to the high nominal GDP because of the high GDP deflator, which fell to 64.6% compared to 74.3% in 2021. Fiscal policy is expected to remain tight in the near future and the budget deficit will decline further to only 2.5% of GDP in 2023.

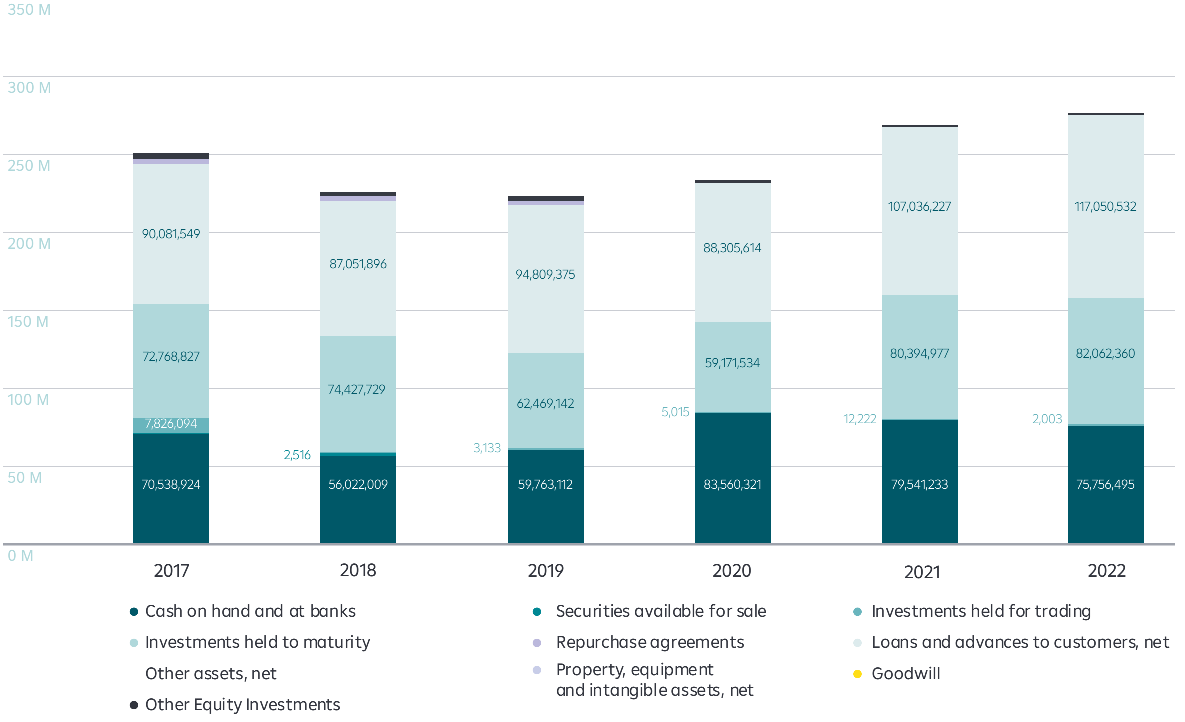
The country's external position improved during 2022. Thus, the current account deficit narrowed by 7.4% yoy, reaching the value of EUR 1.1 billion at the end of 2022. The improvement of the current account deficit was achieved through the contribution of the services, which marked an improvement of 33.7% yoy, mainly based on tourism receipts which increased by almost 1.5 times on annual basis. Remittances, the main component of secondary income, recorded an annual increase of 9.6%. In addition, Albania continues to be attractive for foreign investors, as foreign investments in Albania reached EUR 1.4 billion in 2022 or 33.0% more than a year ago. It is worth highlighting that 53% consists in the form of the reinvested profit.

Nevertheless, the banking sector operated in a new and challenging environment, the activity continued to expand in 2022, but at a slower pace compared to the previous year. The annual growth rate of the banking sector's assets was 5.8% a moderate growth compared to 12.1% of the previous year. Lending activity and investments in securities consisted of the two main components that contributed to the growth of the total assets. Lending activity recorded an annual increase of 7.7%, a slowdown from the level of 9,4% expansion in 2021. This was to a certain extent a consequence of the tightening of financing conditions and especially the increase in the loan interest rate following a tighter monetary policy, due also to a stronger local currency. The new environment with high inflationary pressures poses risks for the lending activity in 2023 manifested in a weaker demand. During 2022, retail loans grew by a remarkably high annual rate of 18.9%, while business and corporate loans expanded by only 2.4%. The quality of the loan portfolio improved further, hitting the level of only 5.0% of the total loans. Nevertheless, quality is expected to deteriorate slightly in 2023, the ratio will be close to current levels. The sector's financial indicators point to high profitability (RoA 1.2%, RoE 12.3%, net profit EUR 190 mn), good levels of liquidity and of capital (CAR 18.4%) enough to handle assets quality deterioration in 2023.

Financial Results

Total assets at the end of 2022 were ALL 281,959 million (2021: ALL 273,400 million). The loan book at the end of 2022 represented 42 per cent (2021: 39 per cent) of the Bank's total assets. The investments in securities represented nearly 29 per cent of it in 2022 (2021: 29 per cent). While Cash on hand and balances with banks decreased with 5 per cent year on year.

Structure of Balance Sheet Assets
(in '000 LEK)

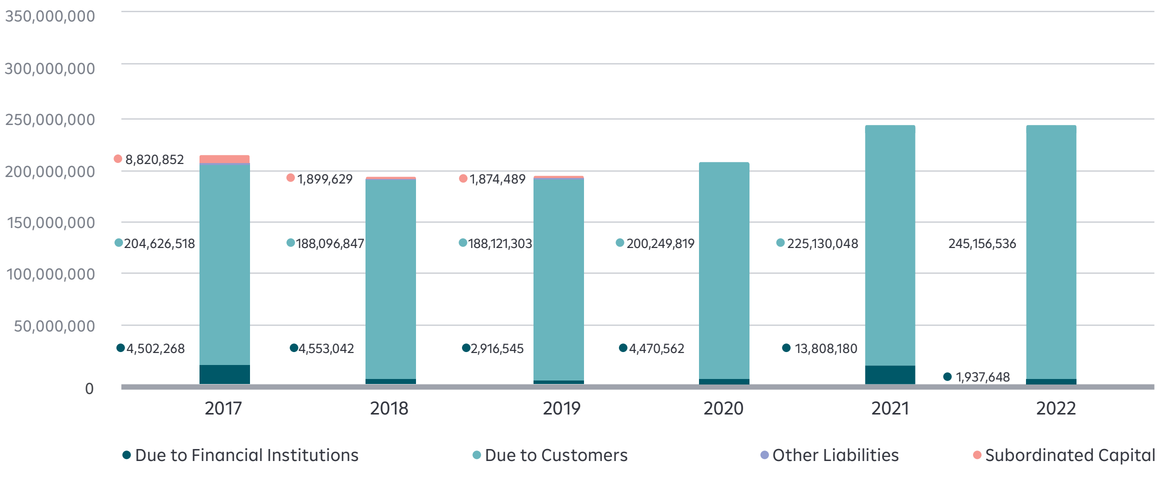


Total gross loans and advances to customers at year end 2022 stand at ALL 127,426 million (2021: ALL 116,634 million) representing a 9 per cent increase in lending over the year. Corporate Sector in percentage terms is 50 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 63,679 million (2021: ALL 59,040 million). The SE recorded a 8 per cent increase yoy and Micro Business recorded a 30 per cent increase yoy and their outstanding loan book amounting to ALL 11,351 million (2021: ALL 10,145 million).

Structure of Loans to Customers
(in '000 LEK)

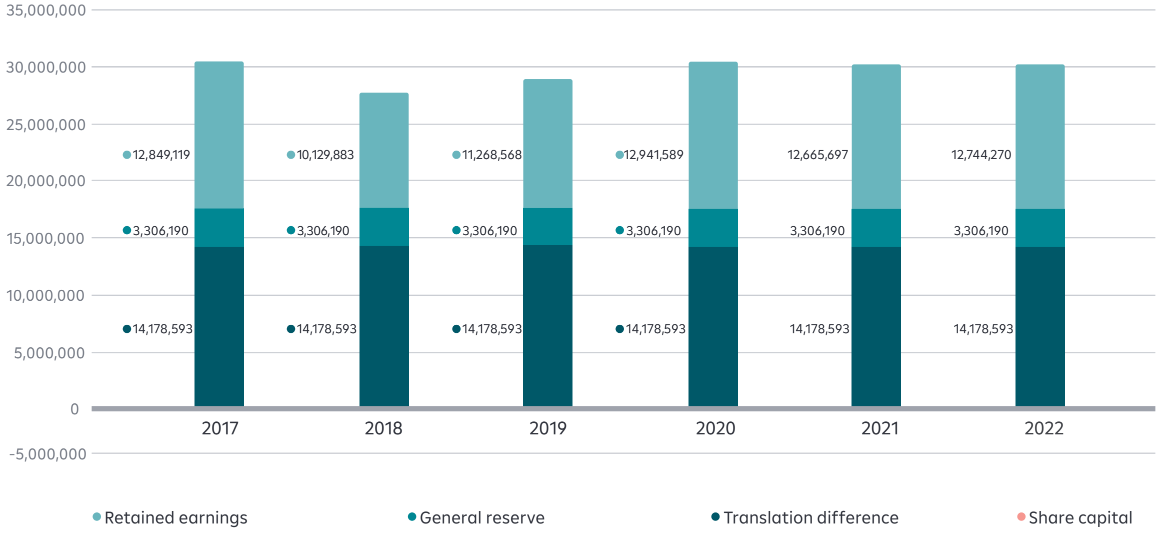
The total liabilities at the end of 2022 were ALL 251,730 million (2021: ALL 243,249 million). In 2022, customer deposits represent nearly 97 per cent (2021: 93 per cent) of the Bank's liabilities.

Structure of Balance-Sheet Liabilities
(in '000 LEK)



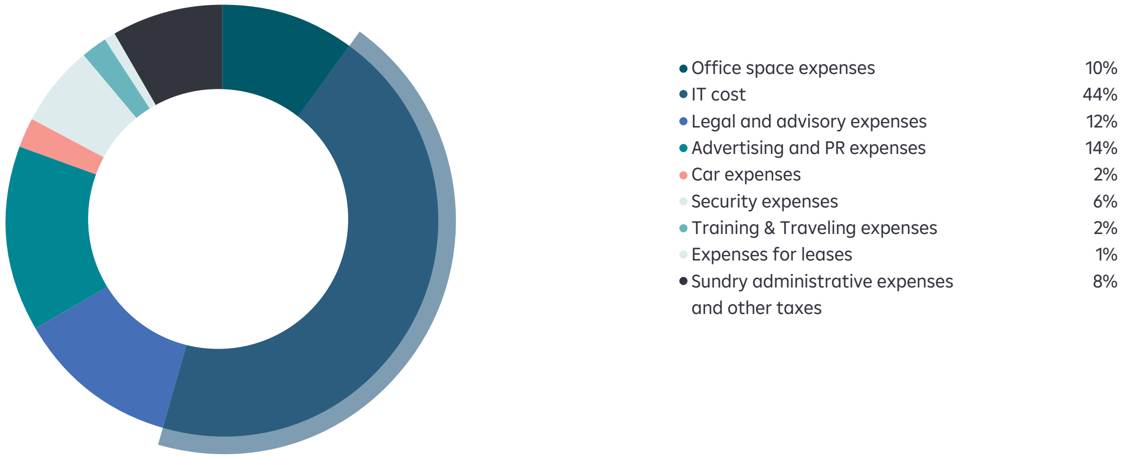
2022 showed a 8 per cent increase in net profit after tax over 2021 to ALL 3,702 million (2021: ALL 3,412 million). Dividend declared and paid in 2022 is 3,623 million (2021: ALL 3,688 million). The Group maintains a sound capital profile with Local Capital Adequacy Ratio of 18.70 per cent, well above regulatory minimum requirement of 12 per cent.

Structure of Shareholder's Equity
(in '000 LEK)



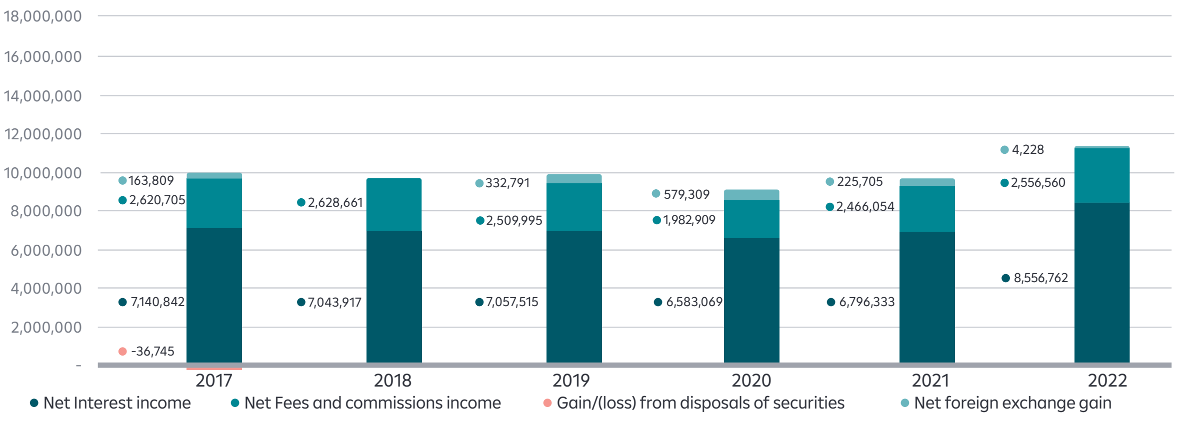
Other Administrative Expenses (excl. Staff cost & depreciation) at year end 2022 were ALL 2,064 million (2021: ALL 2,066 million). In 2022 the cost/income ratio decreased from 52.5 per cent to 50.35 per cent.

General Administrative Expenses
(in '000 LEK)

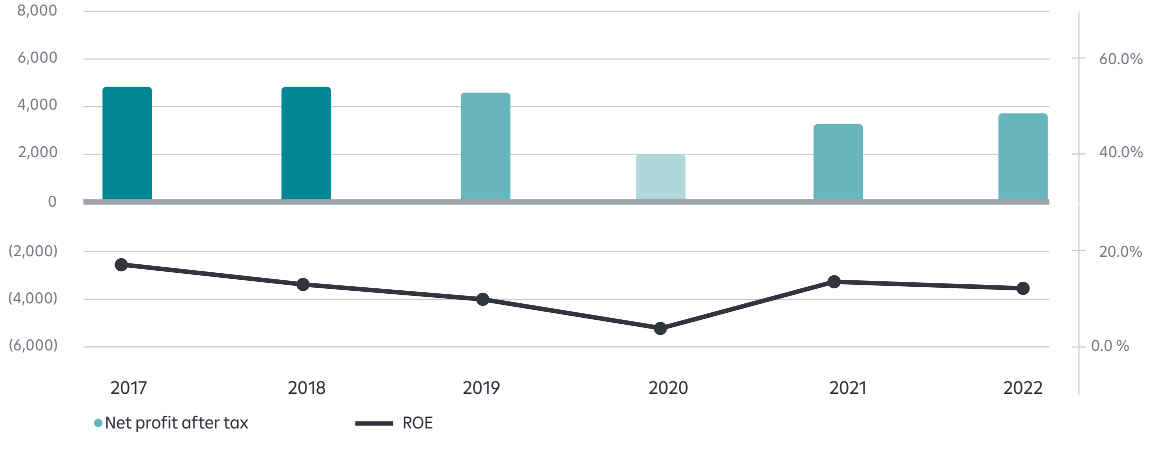


Group net interest income increased with 26 per cent in 2022 and Bank's total balance sheet increased (3.1 per cent) due to surplus liquidity. Net interest margin (calculated in relation to average balance sheet – total) increased from 2.66 per cent in 2021 to 3.08 per cent in 2022.

Net Income
(in '000 LEK)



Profit & ROE
(in '000,000 ALL)



RISK APPETITE/TOLERANCE STATEMENT

The Risk Appetite Framework (RAF) aims to provide the management, together with the formulation and approval of a top-down Risk Appetite statement, a tool to set and constrain the level of overall risk the Bank is willing and able to take on, to achieve its strategic and business goals. There is a close interconnection to the Internal Capital Adequacy Assessment Process (ICAAP) as the main objective of the RAF is to align strategic and business targets with the necessity to fulfil minimum regulatory capital requirements in adverse scenarios as well as in the case of large singular risk events, and to ensure that senior creditors do not bear losses in an extreme risk scenario. Bank of Albania requires bank to hold a minimum amount of capital for all their material risks. For so called Pillar 1 risks (i.e. credit, market and operational risk) explicit quantification and assessment procedures are given; adding up those numbers yields the regulatory capital requirement. Risk management in Raiffeisen Bank must ensure that regulatory capital requirements are met. Raiffeisen Bank hold capital more than the regulatory minimum requirement as an extra buffer to avoid regulatory intervention and subsequent reputational losses. This level of capital is called risk taking capacity ("RTC"), differently stated as Regulatory Capital which is the sum of: Common Equity Tier-1, Additional Tier 1 capital, and Tier-2 capital. The level of capital held by the Bank also contributes to an increased business activity and future growth. Since RTC is mainly based on the surplus of capital over the minimum capital requirement ("MCR"), a definition of the MCR for the RTC concept is needed. Generally, the MCR is the needed regulatory capital requirement for Pillar I risks (namely credit, market, and operational risk). In order to have an optimal level of held capital, when assessing RTC level, shareholders should be aware that besides the level of MCR, the Bank may also face events which might trigger unforeseen and/or unmeasured risks. These types of risks are assessed under Pillar II capital requirement which consists of requirement for: credit concentration risk, residual risk, risks deriving from any external environmental factors (i.e. stress test) and any risks referred to as other risk types which are estimated annual through the risk assessment process. Given the volatility in financial markets and the economic environment, and the unpredictability of large singular risk events, the Risk Appetite has to be set below the level of Risk Tolerance with a large enough cushion in order to avoid a frequent breaching of targeted RTC warning level. Risk Appetite is defined as the limit of 85 per cent of targeted RTC. Risk Tolerance is defined by the limit of 95 per cent of Targeted Risk Taking Capacity. Targets are set in line with the Budget and Mid-Term Planning Process and includes managerial buffer adequate to cover ordinary volatility of market conditions.

Regulatory RWA (in EUR tsd)	2023	2024	2025
Credit Risk	1,038,569.83	1,096,232.61	1,172,553.24
Market Risks	10,679.23	10,610.77	10,593.81
Operational Risk	149,683.66	173,592.01	199,693.24

	December 2022
Regulatory Total Capital Adequacy Ratio	18.70%
Capital Adequacy Ratio in line with local ICAAP methodology	16.97%

Segment Report

Corporate Products Division

The corporate segment achieved remarkable results with loans outstanding volume reaching EUR 544 million by end of 2022, which is 11.6 per cent higher than the previous year. New lending volumes count for 30% of total loans outstanding volume.

Many initiatives and campaigns were run to reach operational excellence of services, especially in the lending activity by increasing by 6% base of the borrowing customers.

With the goal to improve customers' journey 2021 marked an important milestone through introduction of lending speedboat concept in corporate area. The first full year of operativity in the new set up resulted successful in achieving the financial goals and the customer experience.

The aim of this internal reorganization is to become a responsive organization, adapt fast and create a good customer experience. Adapting agile methodology through the establishment of cross functional lending teams with stakeholders from business, risk and legal, contributes directly to reduce the time needed to process lending products.

Currently the customers are served by two segments:
→ Large Corportate
→ Mid-Market

The lending speed boats are also closely monitoring the customers' performance, which is reflected in better portfolio quality.

As part of long-term strategy, Raiffeisen is focused on the positive impact in the overall Albanian Economy through raising banking standards in the market. On this regard has continuously invested into maintaining and growing of a consolidated long-term partnership with all Public Institutions, Central and Local Government, by playing an essential role in supporting of important infrastructural projects through introduction innovative IT solutions and banking services. This synergy has placed Raiffeisen as main partner bank for Albanian Government.

Corporate Products & Digital Banking Division

In the framework of the Bank's transformation towards an "Adaptive Bank", the reorganization of the Corporate Products department was carried out through the implementation of the hybrid structure. This reorganization aims for the Bank to be the absolute leader in innovation & quality, providing a superior experience to the corporate customers through digital & automated products & services.

Project Finance, ESG and Agri financing Unit

The Project Finance, ESG and Agri financing Unit is committed to assess the financing needs and helps to facilitate financial services for long-term Industrial and Real Estate Projects as well as structured long-term transactions like mergers and acquisitions. During 2022 the project finance portfolio increased significantly.

Our focus is to finance social and green projects, to act synchronized with worldwide sustainable transformation. We remain focused in financing the renewable energy sector, which for the moment includes Hydropower Plant Projects and Solar Power Plants.

We are continuously focused to increase cooperation with our clients to find in Raiffeisen Bank a reliable partner by providing tailor made products and customised solutions in complying with market best practices. The professional experience and competences displayed during our collaborations, have ranked Raiffeisen Bank as a valuable partner among international financial institutions, becoming an active party of national and cross border/international financing syndications.

In a dynamic market environment, the main qualities distinguishing us are creativity, competence, and continuous transformation.

Agri financing - Another success story was the agreement signed in March 2019 between RBAL, EBRD and the Albanian government by supporting the loan portfolio up to EUR 35 million. Taking in consideration the market development we are negotiating with EBRD to wider the spectrum of the financing by also including the Tourism sector. This collaboration is in line with our Government Politics to support agricultural and tourism sector.

In continuity to our collaboration with EBRD, in September 2020 we have signed another agreement to share financing risk up to 50 million euros, The agreement aims to increase the Bank's loan portfolio to help corporations be successful and competitive in the market, while keeping risk-weighted activities under control

Cash Management Department and Digital Channel (Raiffeisen ON)

Cash Management Team focus during the year has been digitalization of the products and enhancement customer experience. Raiffeisen Bank Albania continued to invest in the technology to be the most recommended Bank for Mobile and Internet banking.

During 2022 the platform was upgraded and enriched with new innovative features and improvements of existing process whereas key services improved or newly introduced for businesses are:

- implemetation of the new clearing route and new commissions for the domestic EURO, through the nationa central bank.
- the possibility to apply online for a new debit card and supplementary card for their employees.
- online approval with one signature of multiple invoices for fiscalized invoices.

Trade Finance & Digital Lending Products Department

During 2022, the Trade Finance Team continued to support corporate customers in all matters related to utilization of Trade Finance Products.

We have preserved our market share in Trade Finance Products during 2022, thanks to our dedicated team that closely supports and advises our customers in better understanding and structuring their needs for such products to mitigate their risk in international trade.

The Bank continued to sustain a high level of expertise in the field and worked to improve it further through constant training of the specialists, valuable support received from Raiffeisen Bank International AG, Vienna, cooperation with other Network Banks and by making use of its well - balanced structures and wide distribution channels.

We can also say that during this year we have continued to provide our contribution to the projects of the ICC Commission of International Trade and Finance in Albania. We are very active part of the local projects of the Commission one of which has been being part of the Working Group for the translation in Albanian Language of the Incoterms 2020 to be published.

Retail Banking

Customer Segment Development

Private Individuals Customers

In the **Retail business** line, Raiffeisen Bank Albania provides various packages of current accounts designed for all subsegments aiming to fulfil all customer needs; debit and credit cards, and loan solutions from personal loans to mortgage products. Despite the challenges we encountered in the preceding year, we were able to successfully launch the new PI Mass packages' model, which introduces a new customer self-selection feature and, for the first time, offers reimbursement options for our clients. Through this model, customers can now select each package at a price point of their choosing, regardless of whether they are current salary depositors or not. Additionally, for those seeking premium features, they can opt for a higher-priced package with the best attributes available, all while remaining in the Mass segment. Customers will be reimbursed for their activity, if they perform at least one transaction on their RON mobile and one transaction at a point-of-sale (POS) terminal, aiming to increase the number of active customers and 2+ products usage. The new PI packages will also have a maturity date to increase flexibility in our product offerings and allow customers to have a short-term contract with us. Our PI Mass packages model continues to provide a simple, practical, and innovative concept, aligned with the Bank's mission and digitalization strategy.

The **Premium Banking** business line of the Bank provides services of the highest quality with separate desks and meeting rooms that are available in most of the branches. Premium Banking at Raiffeisen Bank Albania continues to provide a unique package of banking services to affluent customers. During 2022, the two levels of Premium Banking, namely Classic, i.e., clients who receive special services from senior branch positions, and Club, the most exclusive and upscaled service channel, have steadfastly enhanced the quality of services and benefits offered to affluent customers.

Raiffeisen Albania is the first bank in Albania to provide Remote Service for Premium customers through Premium Direct via RaiConnect platform, using an advanced communication platform and support for the daily activities of the best customer category. The aim is to reach more clients and foster client experiences by offering E2E products.

Small Enterprises segment (SE)

In 2022 SE segment demonstrated an exceptionally good performance. Asset Outstanding recorded a YOY increase by more than 30%, and all budgeted parameters have been achieved or even surpassed while still maintaining a good portfolio quality. Due to the dedication of our sales force, we have increased the borrowing customer base by 10%.

Our strategy for 2023 is to expand the customer base and especially the lending customer base.
Our RON platform maintains the leading position as per our NPS survey and continues to play a crucial role in the increase of transactions number. The Income from Commission fees item in the budget is overachieved by 11% due to higher transaction volumes.

As part of Raiffeisen Bank International, responsible banking became part of our strategy representing a key priority for Retail. During 2022, we started lending ESG compliant loans for our SME customers. Apart from Green/ Environmental Loans, in SME, the social contribution is of utmost importance and will continue to be in focus during Y2023.

Micro Segment

The year 2022 for Micro segment was a year full of achievements. The outstanding volumes increased by 52% from the previous year while on bank deposits side the increase was approx. 24% yoy. This positive outcome in terms of volumes as well as in terms of profitability comes because of the revitalization process that has started few years ago and due to the combined efforts of products, sales, and risk teams to enhance our offer to our Micro customers.

During 2022 we have intensively worked towards the digitalization of our lending offer. In December, we launched the first unsecured digital overdraft for the Micro segment, being the first bank in the market to provide a digital business loan application by automatic approval. All the process happens in a few minutes and within hours the customer accesses the funds in the respective account. The customer feedback and application performance were very good, and we managed to generate more than 25% digitally approved unsecured limits during December. Our strategy for the year 2023 consists in further automation and digitalization of our lending offers to all micro customer base.

The portfolio quality has continued to remain on good levels, and we shall continue working to make sure this trend continues. We focus on introducing new products to our customers especially in other industries where we aim to be active (as in agro segment).

We want to be present and close to our customers physically and digitally – addressing their needs and scope of activity. Improvement of our internal processes in order to increase efficiency and ease our customer life, promote Green Business, and keep our promise to be a responsible bank, shall be our main drivers during 2023.

Daily Banking Agile Team:

Raiffeisen Bank Albania is committed towards undertaking a major agile transformation aiming become an adaptive organization that stands ready for the next bank generations. We have repurposed our product teams into self-organized agile squads and tribes, with T-shaped members that have the autonomy to make business decisions and remove impediments. The goal is to add more value for our customer by improving products and services, removing pain points, expanding the array of end-to-end digital offerings ultimately resulting in improved customer experience.

During 2022 we made significant progress towards this objective, as we have several Agile Teams dedicated to Daily Banking and Lending products, which have managed to solve important pain points of our customers reducing time to answer and streamlining the customer journeys across various touchpoints.

This team within almost three years of its formation has managed to improve major daily banking processes in retail. We are now the only bank in the market which enables the opening of a bank account outside the bank premises. This team aims to improve customer experience, branch, online or HO processes as well as ensuring compliance with European and local regulatory framework. So far, with the implemented changes, the processing time has been significantly improved for some major daily banking processes.

Product Management Division

Savings Products

During the last quarter of the year, Raiffeisen Bank introduced two updates, providing customers with a comprehensive range of financial products and services.

The first announcement was the re-offering of Term Deposits in all currencies we operate.

Another product that Raiffeisen Bank re-introduced during the last quarter of 2022 was the saving account "Extra Deposit". The bank lowered the minimum balance required to open an account from 5000 ALL to 2000 ALL or 20 EUR/USD/GBP/CHF. This adjustment aims to make the savings account more accessible to a broader customer base.

The decision to reoffer both Term Deposit and the "Extra Deposit" savings account has had a positive impact on Raiffeisen Bank's customers. By expanding the range of savings products available, the bank has given the customers more options to grow their savings and achieve their financial goals. Additionally, by reoffering the "Extra Deposit" saving account, the bank offers its customers an excellent opportunity to save money while earning interest rates.

Raiffeisen Bank's commitment to offering a diverse range of financial products and services reflects its dedication to meeting the needs of its customers and ensuring that they have access to the best possible financial products and services.

Individual Loans

RBAL is a well-established bank in the Albanian market, widely recognized as a leader in lending due to its diverse product mix, strength in digital channels, and high standards in risk management. Throughout 2022, banks in Albania continued to finance the private sector at high rates, indicating the resilience of the economy despite the ongoing challenges posed by the pandemic.

However, one trend that emerged during the year was a drop in demand for loans by individuals, encountered for the first time in the last six months. The high interest rate environment has been identified as the main reason behind this decline, with borrowers being discouraged by the cost of borrowing. Despite this, RBAL has been able to

exceed the market's growth, as evidenced by its rising market share.
In terms of currency mix, RBAL tends to lend more in local currency (LCY) compared to the market. This approach has allowed the bank to maintain a strong position in the market and ensure a stable customer base. Moreover, the net promoter score (NPS) for loans has remained consistently high, indicating that RBAL's customers appreciate its lending approach.

Over the past three years, RBAL has made significant progress in developing a market-leading digital channel to complement its existing branch network. During 2022, the bank was able to reap the benefits of these efforts, with a good portion of its lending being conducted via digital channels. RBAL started the year with only 3% of its total new volumes end-to-end (E2E) in digital, but by the end of the year, this had risen to 12.5%. Additionally, digital-initiated loans made up 22% of the total personal loan volumes.

To improve customer experience, RBAL has invested significantly in improving the customer journey for its digital loans and offering other digital and remote sales options. The bank has also paid special attention to the new-to-bank customer segment to provide them with a robust and fully end-to-end digital experience when it comes to personal loans. In this regard, RBAL successfully launched Kredi Flash, a digital personal loan dedicated to this customer group. KrediFlash is an online loan application, where no enrollment is needed. Loan Application can be started at any moment, 24/7, and this application can last up to 7 days. Also, customer journey is built in such a way to be easy & fast, and no need for branch visit. During application, transparency is a main topic, in order that applicant can decide based on detailed loan information. At the end of the application, it is possible to do electronic video identification and contract signature, and after this the loan is disbursed on new bank account of the client. With the launch of this new digital personal loan, RBAL has covered all customer segments with a simple and fast digital lending process.

Despite the challenging economic conditions, RBAL's lending to the individual segment showed very positive trends in 2022. The bank saw an increase in new volumes by 107% compared to the previous year, reflecting an increase in outstanding balances by 110%. This growth was observed in all loan products for individuals, reaffirming RBAL's position as a leader in unsecured lending and a favorable position for secured lending in the Albanian market.
At the end of December 2022, RBAL had achieved a market share of 42.14% for new unsecured loans and 12.88% for secured loans. The bank's primary focus remains on customer experience and fulfillment of customer expectations. To this end, RBAL has continued to look for new ways to improve the loan application process and come closer to its customers.

The year 2022 was particularly challenging for mortgage lending, especially housing loans, due to the significant rise in real estate market prices on one hand and the increase of interest rates on the other. Despite this, RBAL continued to lend to clients for home purchases, mainly by financing loans from programs in cooperation with several municipalities in the country and the Ministry of Finance.

During 2022, RBAL's project for soft loans with the Ministry of Finance continued, bringing a satisfactory inflow of loans from this program, with new cities involved in the program. Despite the challenging environment, the secured lending team continued working on finding new ways of lending, particularly by collaborating with the bank's corporate team and construction companies for specific projects in Tirana.

Continuous product improvements were made throughout the year, with the aim of offering the market a completely new approach to these products. The customer satisfaction for these products is at maximum levels. The index of NPS for secured loans, at the end of 2022, marked a level of 84 out of 100, while the satisfaction of clients marked a level of 4.79 out of 5.

Cards Business and E-Banking Division

Cards business

2022 was a successful year for card payment innovation. During 2022, the digital wallet - RaiPay was introduced for the first time in Albania. A unique innovation for our country strongly supporting the bank's strategy towards digital transformation coupled with the excellence of the customer experience. The RaiPay application, functional for devices using the Android operating system, offers a simple and secure way of card payments from the mobile phone using Contactless/Near Field Communication (NFC) technology. Through the digital wallet application, after registering cards issued by Raiffeisen Bank, cardholders can perform withdrawals/payments at POS and ATM terminals equipped with contactless functionality. The application also offers many other services, such as card PIN verification, etc. The digital wallet is constantly enriched with new functionalities, offering a unique payment experience.

During 2022, the new Mastercard World credit card was introduced, dedicated to customers who embrace new technology and value travel and experiences. This product contains an exclusive set of premium services tailored to meet and exceed customer expectations. This card was accompanied by another innovation for the Albanian market, offering a vertical and special image.

The digitization strategy was also supported by the application initiative on the bank's digital credit card platform. Now customers do not have to wait in queue at the branch but can complete the application process very quickly over the phone. This new channel was widely embraced by customers for its ease and speed.

The year 2022 continued to show increasing results for card sales as well as card payment volumes. Growth has been solid with +37% for credit cards and +56% for debit cards in card payment volume.

POS Network

Raiffeisen Bank has strengthened its presence in the POS network in the category of large and medium merchants. The 2022 results showed growth with +25% new merchants and +60% in volume. This strengthening of the growth in payment volume comes as a result of the wide network and in important merchants, the differentiating service and the change in the behaviour of using the POS of the customers compared to cash transactions.

Electronic Commerce

Raiffeisen Bank continues to be the market leader for e-commerce services in the Albanian market with a 47% increase in the volume of transactions compared to 2022. This payment channel has already taken an important position due to the facilities and experience it offers to clients. Raiffeisen Bank has it in constant focus and therefore every year invests in its improvement as well as the security of payments for the online purchase process through 3-D Secure Technology.

ATM network

Raiffeisen Bank's ATM network continues to be one of the leading advantages. This service, which is provided with the most complete distribution of the Albanian territory, is always in continuous improvement. Cash-In functionality has again seen significant volume growth in 2022 with a +59% year-over-year increase in transaction volume. There are 99 ATMs across the country that enable our customers to deposit into their accounts 24/7 without having to physically visit a branch. In addition to offering self-service canters, contactless operations at ATMs are preferred by customers for the speed of service, being the only one we offer in the Albanian market. Raiffeisen Bank continues with investments to provide a fast service and aiming to increase availability.

Digital Banking

Raiffeisen Bank Albania has made digitalization its top priority and has designed an ambitious strategy to transform customer's banking experience by providing it through an omni-channel dimension.

As technology is gaining prominence in practically every aspect of our customers' lives, Raiffeisen Bank was the first in the market to recognize the exigency to digitalize its products and service with the goal of providing its customers with convenient multi-touchpoint access, allowing them to move seamlessly between various touch points like a pc, laptop, mobile, ATM and Self-Service Terminal.

In 2022, we have been working to improve the digital experience of new Individual customers, considering the possibility of opening an entirely online bank account via Raiffeisen ON. The customer's experience in opening an online account has been significantly improved thanks to the cooperation with our partner Evrotrust, - which covers the service of identification and signature/electronic signature at a distance, - fully integrated in our mobile application Raiffeisen ON.

We did not limit our customer engagement only by opening an account end-to-end online. Furthermore, we provide with the possibility to apply for other products such as personal loan, debit, or credit card by enabling the customer to sign electronically remotely through Evrotrust totally integrated in Raiffeisen ON Mobile app.

Following the latest trends of digital financial apps, and being a market leader in innovation, this year we have provided with a wide range of other functionalities in Raiffeisen ON platform such as:

- New design in the application for Loans and Credit Cards - new unique look, which enables a simpler experience in the application for all our customers.
- Reserve Money – Individual Customers can reserve their funds directly from RON mobile by selecting the branch to which they wish to withdraw the funds, without the need to appear in advance and wait in line at the Branch.
- Improvements in payments to third parties – online payments have been improved and facilitated.
- Improvements to the main menu with a new design that is easily usable by our customers on the Raiffeisen ON web platform.

Digitization is mandatory, representing a differentiator to keep the pace of digital direct banks and set new trends.

During 2022 the number of customers that subscribed to Raiffeisen ON reached 68% of total active individuals. It is important to mention the mobile banking penetration reached 35.5% of total active individuals. For the first time the percentage of digital loans was 12.5% in Raiffeisen On platform and website, which was another success story that just began. It is worth mentioning the number of new to bank customers digitally acquired, which reached 14.1% of the total number of new Banks customers.

We are committed that more digital sales for various products and services will be in forthcoming years. Digital transformation in our bank will help customers to reach out to the newer and more technology-savvy generations and millennials.

Bancassurance

Albanian Financial Supervisory Authority licensed Raiffeisen Bank as a Broker in insurance products for both life and non-life classes. Raiffeisen Bank was the first bank in the market licensed as Broker. Brokerage activity for Raiffeisen Bank is conducted through internal staff also licensed as private brokers. Further utilizing the existing branch network and sales staff, the brokerage activity conducted through this license contributed significantly on lowering risks for secured and unsecured loans portfolio and contributing to client satisfaction and fee income.

Payments

The number of payment transactions through the digital platform Raiffeisen ON has continued to grow rapidly during the year 2022. Our existing customers are now increasingly using online payments. They have avoided branch queues and 88% of payments are processed online. Private Individuals payments through Raiffeisen ON is increased by 115% during 2022. We also made further improvements in processes to adapt to the rapid changes due to the needs of new customers to provide more ease and comfort to all our customers. A new process for domestic payments in Euro was introduced where all payments are conducted in real time in D +0, which has been an innovation for our customers.

Customer Experience

During 2022, Raiffeisen Bank has been focused on transforming into a customer-centric organization. Our vision and brand promise lies on providing an excellent experience for our customers, at every touchpoint. That starts primarily with understanding customer behaviours, preferences and needs.

Thus, collecting customer voice has been one of the main pillars of our transformation. Transactional and Relationship NPS programs, various surveys and pulse checks, customer complaints and suggestions, are some of the main sources, we use to collect customer voice. Through the implementation of a dedicated feedback collection platform and other available tools, we have managed to collect over 18,000 customer opinions on their experience with our products and services and address them to the relevant stakeholders for further improvements.

Nevertheless, the transformation into a customer-centred organizational culture, requires that all bank employees, customer facing and non-facing staff, work with the same mindset. For this reason, among other priorities, we have been focused on training bank employees both in Branches and Headquarters. During 2022, 1/3 of the bank's employees have received "Customer Experience" training modules. Also, around 80 members of the Agile teams were certified in the Service Design Academy. Therefore, we have created a significant group of local experts, who will be able to design products and services by putting customer needs and expectation at the centre of every improvement and development.

Involving our customers in the design process, is an innovative way of working, getting more and more focus in our bank. Some of the products launched in 2022, were designed in close collaboration with our customers. Customer journey mapping and priorly testing solutions with them, gives us the opportunity to offer products and services that are closer to customer needs and expectations.

Customer Relationship Management (CRM)

Customer communication during 2022, improved substantially, by enabling high-level platforms used worldwide in the field of CRM. Customers received adequately designed and personalized communications, together with promotional offers, based on their behaviour and banking activity.

Using data-driven models, enabled us to get to know our customers better, analyse their behaviour and provide them with products that meet their needs, at the right time and in the most preferred channel of communication.

Raiffeisen Bank represents a leader when it comes to customer digitalization, which has been the key word in 2022, in all customer communications.

Through personalized communication we aim to invest in our customers financial literacy. Raiffeisen Bank, through CRM programs, has helped many customers make better financial decisions when it comes to banking, including acknowledging the different types of banking products/services and how to use them. We advise our customers on monthly bases about the "Tip of the Month Activity", providing information on their spending habits and some tips how to optimize their financial well-being.

Furthemore thousands of customers, every month, receive updated information on carbon emissions, based on their financial activity with the bank. Our aim is to raise awareness and literacy and encourage them, through advice and fun facts, to educate regarding how banking activity affects the environment and how we can reduce carbon emission.

Contact Center

Our Contact Center has managed over 400K customer communications through the year, offering support and sales advisory to our customers, providing timely service and creating the best customer experience.

Contact Center conducted its activity focused in two main directions: 1. reviewing customer requests through incoming calls and other alternative channels such as email, Chatbot and the Digital platform, Raiffeisen ON. 2. Performing of telemarketing campaigns for the bank's products and services.

During 2022, Contact Center has provided 24/7 service to all bank customers, mainly individuals, but also to also small and medium enterprises, being an important point of contact in all communication channels phone, e-mail, and chat.

Sales & Distribution Channels - 2022

Raiffeisen Bank continues to be the market leader with the largest branch network in Albania, 74 branches distributed in 43 cities, covering most of the country. The branch network is supported by 26 Self Service Zones attached to the key branches equipped with cash in/cash out ATM-s.

17 branches throughout the country have a Premium Corner, where a dedicated Premium Account Manager offers advisory services to Premium customers in a private space dedicated only to this group of customers. Premium Direct Service, via RaiConnect application, continues to expand as a channel, designed for additional communication by providing remote advisory and services to the Premium clients of the bank.

Maintaining the high standards in all banking outlets through investments, has continued to be one major pillar for the bank, to provide comfortable service space and privacy to customers. During 2022, Raiffeisen Bank has completed several development projects as well as continuing to invest throughout network to bring a superior customer experience. Among the other development projects for Raiffeisen Bank, has been the conversion of several branches to new standard model and new digital branch model.

Another achievement during the year 2022 is the equipment of 20 main branches with electronic queuing system (Qless) to help them manage the queue, especially during business peak hours, considering the high flow of customers.

Raiffeisen Bank continues to operate with digital (cashless) banking concept, in 8 branches. The digital branches offer all the variety of bank products and services, excluding cash service which is offered through cash in/cash out ATM-s. The staff is focused on customer digital education, strongly pushes the customers through the digital platforms, showing them the usage and how to perform transactions in digital channels and ATM-s.

The hybrid branch concept has been implemented in more branches, reaching a considerable number of branches as end of 2022. This type of branch is a combination of standard and digital branch, with reduced cash servicing hours and increased focus on sales and digital education of the customers.

Raiffeisen Bank Albania continues successful cooperation with Albanian Post Office for cash deposit transactions. The list of postal offices that offer the service of Cash Deposit toward RBAL customers is 31 offices throughout the country.

11% of branches are working in Agile mode, an innovative way of working, showing very good results in productivity, staff and customer satisfaction. "Agile in branches" has helped us to empower employees, to foster collaborative thinking, to further drive workplace innovation, to help business grow and foster a consumer-first mindset.

Branch staff training has been in focus during 2022, based on Skill Matrix needs identification as well as trainings on new products or features launched. Digital Training Package has been done to increase awareness and referrals of digital products.

Our branch staff is multiskilled, offering simple and complex products to our customers, fulfilling their needs with a superior customer experience.

Raiffeisen Bank in Albania, is the biggest bank that provides fast financing onsite in Retail Shops, counting 35 locations as end of 2022. 5 new Retailers (especially furniture & services) were introduced to our customers, enhancing the benefits they receive, combined with very high service standards.

No other bank has a dedicated Direct Sales Force, which continues to give Raiffeisen a key competitive advantage in attracting, retaining, and increasing services for bank and non-bank customers. Based on the agreement with state and private universities, the best students (economy and management) are offered the opportunity to work as interns in our branches. During 2022, 194 students have participated in this program supporting the branches in daily activities, especially in digital products.

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Treasury and Investment Banking

Fixed Income

Year 2022 started out as a year of recovery, with high hopes for a return to a degree of normality following the onset of the COVID-19, but everything took a turn after the first trimester. It was once again a year that showed the difficulty of making investment decisions based on predictions of where markets were aiming to go.

Coming out of a volatile 2021, investors sought signals as to which way the global economy was headed. The distribution of vaccines and the easing of lockdowns were followed by an economic rebound, but the beginning of the War between Ukraine and Russia was a tough setback for the recovery. 2022 was a volatile year for the bond market. In 2020, we entered a prolonged zero percent interest rate environment lasting until March 2022. At that point, all Central Banks started an aggressive inflation fighting campaign bringing the base rate from a range of -0.50% for EUR and 0% to 0.25% for USD at the beginning of 2022, to a range of 2.50% for EUR and 4.25% to 4.50% for USD by year-end. The pace and magnitude of rate hikes throughout 2022 caught investment managers off guard, leading to various rate calls that impacted performance of bonds in the markets.

Despite these challenges, Albanian economy rebounded during 2022, showing signs of transition from recovery to surpassing its pre-pandemic figures. Still, the recovery was accompanied by labor shortages, supply chain issues, and rising inflation. The annual inflation rate rose to 6.7% percent at the end of the year reaching its highest level in last decade. The monetary policy remained accommodative throughout the entire year, transmitted through low policy rate, which increased by only 2.25% by the end of the year, from 0.50% to 2.75% and through high injection of liquidity into the system, to provide the necessary stimulus for fuelling economic growth and to contain inflation.

Nevertheless, all the accommodative policy of the Central Bank, 2022 featured inclining yields in securities of all types and maturities, which had an impact of our portfolio performance and on our investment strategy for this period.

Despite all challenges faced during this year, our investment portfolio has been in line with the overall group strategy to be compliant with the European Union financial regulators and their requirements. The treatment of the risk weighted assets has been on focus, by impacting our investment's objectives.

Our main purpose has been to keep stable the investment level by always being in line with all regulators. The portfolio structure followed some changes during 2022 as we were able to increase furthermore investments in Foreign Currency Bonds, taking advantage of the improved yield environment. We have also changed a little the structure of our portfolio during this year concentrating more on securities with longer term maturity.

During this year, our bank has continued to contribute to further developing secondary market in Albania Government paper, by increasing the volumes traded within the banks. The 3 and 5 years are benchmark bonds and participation in these auctions is exclusive to the market makers. Although we're not still part of the panel, we own part of all the benchmark issues in our portfolio and trade them in secondary market in way to enrich and diversify but also to contribute to the development of a well consolidated secondary market.

Throughout the entire year 2022 we continued to be very active in the secondary and retail market, generating high profit from trading in that market.

Money Market

For the Money Market unit, as part of the Treasury Department, 2022 was a very good year. The unit has taken very good advantage of the base rate hikes performed by all Central Banks. During 2022, Money Market unit has had one of the best years in terms of interest income.

The money market portfolio throughout the whole year 2022 has been well managed and expanded in maturities that have respected all limits constrains in place by assuring and fulfilling in any moment the bank and bank clients` liquidity needs in each currency.

Money Market unit as an important part of the Dealing Room in Treasury Department. The unit played an active role on the Bank`s RWA target for 2022 by using different instruments on maintaining the Minimum Reserve requirement at the Central Bank. The unit has continuously contributed to keeping the liquidity ratio at the required level as per Bank of Albania's regulation.

This unit has contributed on short term liquidity management by increasing the number of interbank transactions, in the domestic and international markets, and by further developing the interbank activity.
In addition to its usual lending activity, during 2022, part of our liquidity has been invested in government papers in the international markets, as being an attractive investment alternative at the best return rate.
Money Market unit continued to contribute daily for the TRIBID/TRIBOR publications. These quotations are a very important aspect of the local market development, reflecting its activity and TRIBID/TRIBOR are also a relevant issue in forecasting and interpreting market situations.

The Money Market unit continuously has given its contribution, in way to further impacts in development of the market, instruments and investment possibilities in short term.

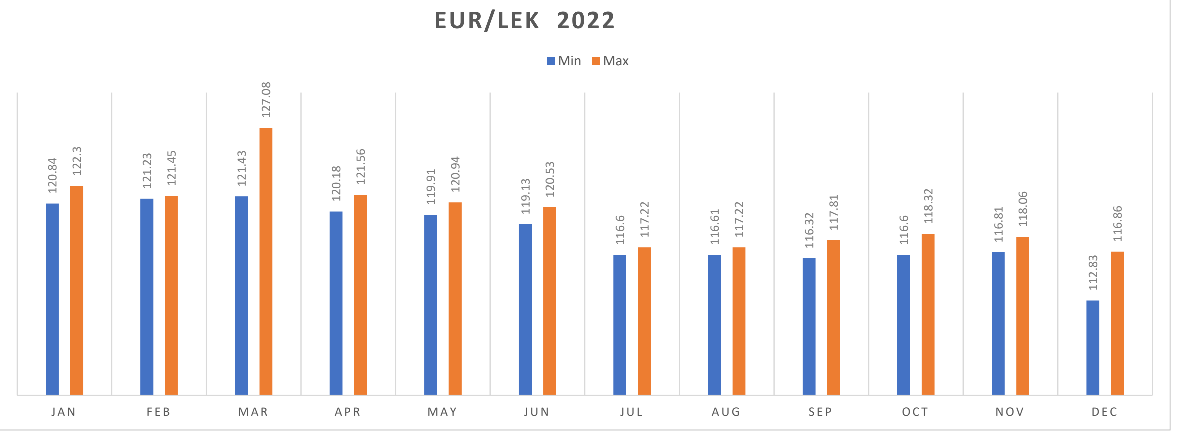
Foreign Exchange

It was a year full of ups and downs for markets — in the end, a year with more downs than ups. The world gave financial markets a lot to process. The coronavirus pandemic eased but still remained a global concern, as did the supply-chain issues that accompanied its arrival. Inflation reached a 40-year high in the US and the Federal Reserve pursued a series of interest rate increases to combat rising prices, actions like those taken by European Central Bank and other nations' central banks. Russia's invasion of Ukraine in February brought uncertainty about political stability and energy prices, among other worries.

Inflation was front and centre all year long. The US and Europe experienced the highest price increases in four decades, and the Fed and ECB lifted rates in a bid to reduce inflation from above 9% to the long-term target of 2% and 8.4% ne 2.3 % in Europe. Price increases showed signs of peaking late in the year, with inflation easing to 7.1% in the US in November, although a slow retreat from multidecade highs could keep it a concern for central banks well into 2023.

The increase in inflation beyond the historical average as a global phenomenon also hit the Albanian economy. Both the events mentioned in paragraph above damaged supply chains for several vital products such as energy, oil, and food. At the beginning of the war in Ukraine it was at the level of 3.9% and reached the pick in Oct 2022 at 8.3% the highest level ever when the objective is to remail at the level of 3%. To reach the objective the Albanian Central Bank followed the same politic as other central banks raising the interest rate from 0.5 to 2.75% in Nov 2022.

In the domestic market, the first half of 2022 the situation had a lot of fluctuations because of response from financial markets to the war in Ukraine. Panic from economic and political uncertainty triggers financial markets to have a response. Meanwhile during the second half of the year we can easily see that was a steadier situation of EUR/LEK markets have been more optimistic about a period of stronger growth as inflation is being more in control and an easy in increasing the interest rates from BOA.



Despite all fluctuations in local market, the Forex Exchange Unit managed the bank Foreign Exchange Open Position and all the associated risks with high due diligence. This was achieved based on a very professional analysis on financial markets and closed the year with the outstanding result.

US dollar followed the same trend as in international market, however affected more by the excess of liquidity in local market. Foreign exchange unit gave its maximum support in the local market by maintaining a small spread in the bid / ask and quoting at competitive prices in the interbank market and with customers.

Volumes of foreign exchange transactions continued to be significant especially Euro/USD transactions, by running at EUR 190 million per month. The digital platform had a great impact on this success, through which in this period about 85% of exchange transactions from customers have been performed.

Treasury Sales

During 2022, a new product was introduced to the online platform of treasury services. From September of this year, the bank's customers can buy online Treasury Bills with preferential rates without appearing at the bank's counters, thus saving time and energy for our customers. The success of using the online services for Treasury products and the growing demand from the customers, we have managed to increase the services offered through the digital platform and increase the quality of this services. Almost 88% of Treasury services are performed by customers via this platform, optimizing the time of our customers and benefit from the best prices. Although 2022 was a difficult year, the Treasury Sales Unit closed it with high results. In their focus, it is always the fulfilment of the needs of the clients in accordance with the policies and strategies of the bank. This difficult year demonstrated in the best possible way how oriented we are toward our clientele requirements and provide them with all the possible channels where they can meet their requests with the best prices in the market. The resolute, professional, and cooperative staff played a key role in achieving this performance, together with all the business lines of Raiffeisen Bank.

The Treasury Sales Department continues to be the leader in the Albanian financial market by offering the most competitive prices in the market.

CSR annual report 2022

At Raiffeisen Bank Albania, we take great pride in our devotion for upholding the highest standards in the way we do business.

Our Corporate Social Responsibility events during 2022 highlight how we deliver exceptional value for our clients while also focusing on our bank's role in creating positive impacts for people and the planet.

Throughout 2022, we have supported 71 projects in various areas. Our approach to environmental, social and governance issues aligns with 17 UN's Sustainable Development Goals and is rooted in the community and country where we live and work.

Education, more specifically financial education, was a major field of support during 2022 where more than 1,000 pupils and students had access to various educational activities or equipped with computer appliances for better access to literature. As main project we can mention "Know your money 2", "Online safety and digital financial education", "Saving or investing - when is the time", etc.

People are at the heart of what we do therefore we paid attention to social projects and marginalized groups by sponsoring eleven social projects. We would like to highlight "Donate with heart" program where Raiffeisen Bank provided help to 250 families in need for Christmas, donated to the kids in Shkodra Orphanage, made entertainment with puppet theatre for children in need in ten locations, day-care centres & children hospital in Albania.

As the last year was troubled form the war in Ukraine, Raiffeisen Bank Albania, as part of Raiffeisen Bank International group, contributed together with Stepich CEE Foundation based in Vienna with humanitarian help kits for the children in affected areas in Ukraine.

To ensure a more sustainable and greener future for all, our approach to the environment and reduction to carbon footprints remain a key initiative. In climate action there are three major projects to emphasize. The bank supported the installation of photovoltaic panels to produce renewable energy at Agricultural University of Tirana. They will reduce 130 tons of carbon dioxide emission in the atmosphere. Moreover, 12 km of coastline has been cleaned in 4 coastal areas, Durrës, Vlora, Lezha and Shkodra thanks to the contribution of over 150 volunteers and the bank's staff participation. Another project with a focus on environmental education and protection for the younger generations was "We Care for the Environment" implemented in three schools in Tirana. Through lessons and educative videos related to environmental protection issues, students managed to learn more and expand their knowledge about this topic.

Our bank's contribution to the rehabilitation of the environment where we live and the improvement of the quality of life has been considerable and consistent throughout the years.

Raiffeisen Bank places significant importance on Corporate Social Responsibility and remains dedicated to playing a leading role in promoting sustainable development within Albanian society.

Sustainable Development Goals

56%

of projects fit under SDG

Main goals achieved from projects 2022

OBJECTIVE 3
Good Health and Well-Being

3 projects

OBJECTIVE 13
Climate Action

3 projects

OBJECTIVE 4
Quality Education

12 projects

OBJECTIVE 9
Industry, Innovation and Infrastructure

4 projects

Human Resources

With a staff of 1'275 employees, Raiffeisen Bank represents one of the biggest and best employers in Albania, providing with a competitive environment in terms of staff compensation, development, and motivation.

Recruitment and Selection

During 2022, staff recruitment and selection process aimed to ensure the selection of qualified, experienced personnel, with professional skills at all levels of service at the bank by being in constant and direct communication with line managers to better understand the operational requirements and necessities, also learning the objectives and focus of acquisition of talents, by identifying the individuals that have the required skills and competences.

To support all the business needs in all the areas where we operates, were hired a total of 177 new hires.

To evaluate and select the best and the most qualified candidates in the market, we applied the modality of online interviews and online feedback forms. A well-structured recruitment process is applied, which consists of several stages: logical tests, technical tests and/or psychometric tests, and personality tests. The selected candidates are interviewed by an online interview panel, composed of the respective supervisors in Departments/Districts and representatives from Human Resources Division.

The promotion and development of its staff remains the primary focus for Raiffeisen Bank. The internal candidates, based on their performance, are considered as the main potential for the vacant positions announced in the Bank. During 2022, 35 per cent of the candidates selected as winning candidates for the vacant positions were internal staff. This gives them the opportunity to build a successful career within the Bank and enhances internal staff motivation.

In order to meet the needs for staff in entry level positions, in Head Office and the Branch Network, priority was given to the outsourced staff, 30 per cent of whom were selected for the internal vacancies. In addition, the students part of the Internship Program and those part of Direct Sales Agents (DSA) program, were the primary source for filling these vacancies.

Internship Program

Raiffeisen Bank has a well-established tradition of Internship Program. Its aim is to attract students with very good results, who demonstrate a high degree of motivation, willingness and interest to work in a financial environment. The bank is committed to Corporate Social Responsibility and the internship program is an important component of it. We welcome new students from the most reputable universities of the country, so that they can learn in practice the functions of a Bank and help them prepare for the labor market.

Direct Sales Agents Student Program

In 2022, DSA Student Program consolidated the cooperation with many universities in the country, with a reach of 195 students who joined this program. The focus of this program, launched by Direct & Relationship Sales Department is to increase business sales of various products in the branches. The selected students, who serve as Direct Sales Agents, are offered training and coaching by experienced sales teams through this one-year program. At the end of the program, they acquire knowledge of Bank products and processes and are qualified for vacant positions in the Bank.

In addition to growing the business in the Branches, this program provides a very good source of staff recruitment.

Key Academy Program

The aim of Key Academy Program is to Create a Talent Pool through the program by having qualified candidates for possible vacancies in the IT Division. A number of 23 students were selected and started the program – many of whom were selected candidates filled the vacancies in the IT division.

Employees with leased contract

Even during 2022, continued its cooperation with an outsourced company, hiring 124 contract employees, according to the needs for staff in Head Office and Network Branches.

The leased staff are offered online training and on job training to efficiently perform the required tasks of the positions. The best performers are encouraged to apply for the vacancies that arise for internal staff.

Training

At our bank, learning and development activities in 2022 continued with an evident return to classroom modality. At the same time, we have promoted online learning as a suitable solution to the rhythm, time and learning style of the employees.

During 2022, we have offered a wide range of training programs, online and in classroom, different learning initiatives, aiming to motivate and orient employees toward self-learning and continuous development.
In RBAL the number of training days for 2022 is 7,741 and 100% of the staff participated in at least 1 training session. In addition to the mandatory training, the focus has been on topics related to business (products & services), data analytics, new technologies and applications, systems, and with a special focus also on interpersonal skills.
Leadership and management education is a key focus of Raiffeisen Bank. We invested in many training programs in the new perspectives of leadership such as: comprehensive leadership, leadership vs different generations, leadership and decision-making, leadership based on our values, team motivation, etc. The Agile Mindset training programs provided during 2022 helped our staff to easily embrace the Agile mindset and methodology of this new way of working.

The Human Resources Division supports long-term business goals by implementing Talent Management and Succession Planning Strategies. The bank is focused on identifying employees who show high potential and consistent performance and implements a plan that suits them, with the aim of long-term security of the staff.

Banking Group Remuneration Policy

The Banking Group's remuneration policy is designed by Human Resources and approved by Management Board and Supervisory Board. An exception to this rule is made only in the case of determining and approving the variable pay (bonus) for Raiffeisen Leasing employees, where the structure responsible for defining and approving it, is the Raiffeisen Leasing Supervisory Council.

The scope of the Remuneration Policy is the fulfilment of international standards for an objective, transparent and fair compensation structure in compliance with current regulatory requirements. The remuneration policy of Banking Group is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk. It is in line with the business strategy, objectives, values and long-term interests of the RBI Group and Banking Group in Albania.

The RBAL (RLAL Excluded) on annual basis identifies the functions / employees with material impact on Bank's risk profile. These employees are defined as "Identified Staff" and their selection process is based on the Group Directive requirements.
The categories of Identified Staff are as follows:

1) Material or Fully Affected Identified Staff. This category has a direct material risk impact on Bank's risk profile because the amount of risk which can be taken individually or collectively, can have significant impact on Bank's result & balance sheet. The number of staff who falls under this category is 43 and includes Supervisory Board members, Board Members, Audit Committee Members, and some of Middle management staff.
2) Less Material or Partially Affected Identified Staff. This category has an influence on Bank's risk profile but not necessarily in a direct way. The number of staff who falls under this category is 23 and includes some of Middle management staff.

The salary and other employee benefits are defined with the aim of establishing satisfactory and competitive levels. The policy followed in defining the salary system and structure aims to guarantee the achievement of 5 main objectives:

- Reward based on work performance and quality;
- Maintaining the competitive position in the market. The general compensation shall be in the third quarter of the domestic market (between the 50 % and 75%);
- Motivation of employees through differentiated remuneration (salary) for differentiated responsibility, job positions and professional skills;
- The extra benefits shall be competitive, but not leading the market;
- The salary expenses in the total cost of personnel and the budget in general, shall be in acceptable parameters..

For a certain category of positions, the salary is composed of two components:

- Base Pay
- Variable Pay

The Structure of Base Salary :

- represents the gross income, excluding bonuses and other extra benefits;
- is administered through salary bands, which are based on the grading structure, level of living standards in the country and market data;
- The individual salary increases are closely related to the performance evaluation results, meaning that employees are eligible to a salary increase only if their performance is above 3,5 score.
  The percentage of salary increase shall be not higher than 25% of gross salary.

Variable Pay (Annual Bonus):
Variable Pay is allocated or paid only if the Step-In-Criteria are met as described in Remuneration Policy.

- is closely related to the RBI Group (1/3); Bank (2/3); individual's performance results (above 3,50 score);
- is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
- shall be up to 16% of yearly base salary for all job positions that are included in Annual Bonus;
- In case of Identified Staff, a special bonus pay-out model is applied if their total variable compensation is over EUR 50'000 and additionally does not exceed one third of the annual total remuneration.

In case of negative financial situation, the bonus may be reduced or cancelled.

Variable Pay (Risk-Reduction Incentive Scheme):

- is closely related to the individual's performance results (above 70% of target achievement);
- is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance.
- shall be up to 30% of quarterly base salary for all job positions which are included in Incentive schemes (Sales & Support)

Table 19: Remuneration forms and elements for the Board of Directors and Executive Directors**
(every end-of-year)

(amounts in ALL '000)

The total aggregate amount of cash and bonuses for the current fiscal year	**Immediate/for the current period Year 2022**	**For past periods Year 2021**
Variable elements of remuneration	12,270	12,497
Cash/bonus	12,270	12,497
Shares		
Others		
Variable elements of reward		
Cash/bonus		
Shares		
Others		

** This table will be completed separately for a) the Board of Directors and b) the Executive Directors.

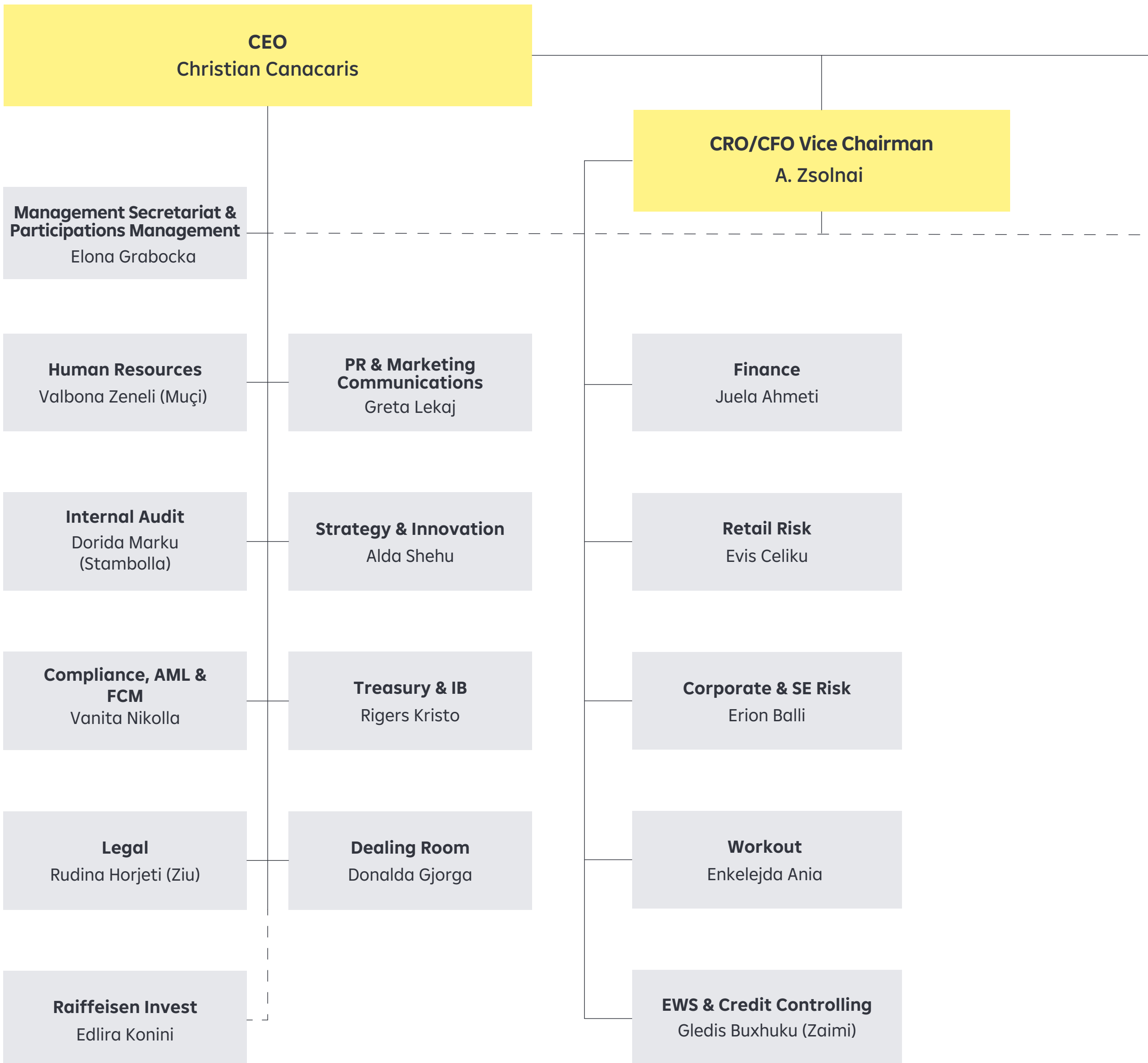
Table 19: Remuneration forms and elements for the Executive Directors** *(every end-of-year)*

(amounts in ALL '000)

The total aggregate amount of cash and bonuses for the current fiscal year	**Immediate/for the current period Year 2022**	**For past periods Year 2021**
Variable elements of remuneration	182,164	186,800
Cash/bonus	160,329	165,127
Shares		
Others	21,835	21,673
Variable elements of reward	34,544	27,702
Cash/bonus	34,544	27,702
Shares		
Others	0	0

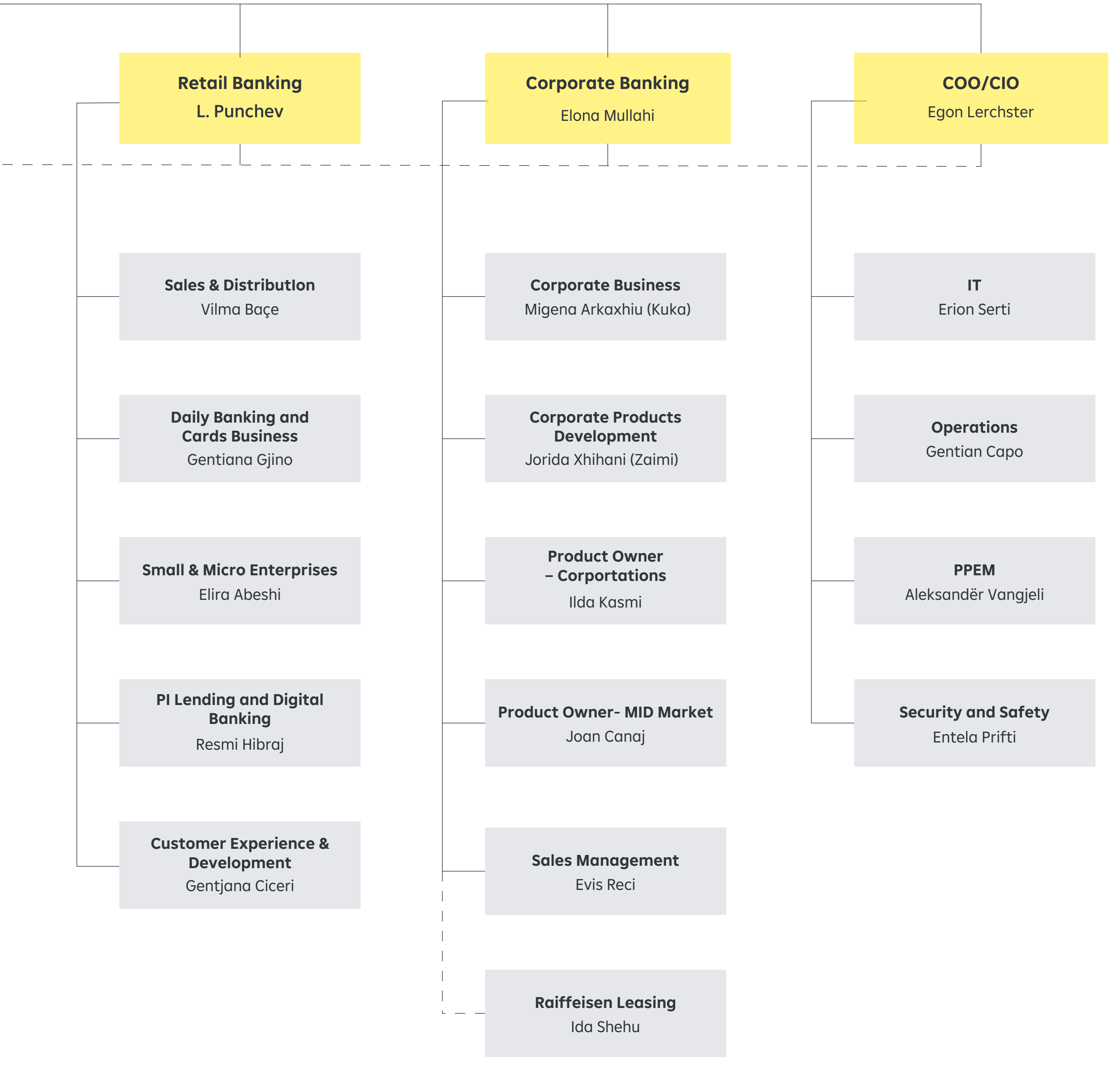
** This table will be completed separately for a) the Board of Directors and b) the Executive Directors.

Organisational structure of Raiffeisen Bank



The organizational of the Bank provides a clear division of duties, responsibilities and reporting based on the model of the three lines of control.

1. Front Line (business)
2. Operational risk, compliance functions, financial controls, internal control system etc.
3. Internal Audit



The Risk Structure is independent of the business lines and other internal units it controls. The Compliance structure is independent of the business lines and other internal units it controls.

Raiffeisen Bank sh.a. operates in accordance with the basic principles of a responsible and effective management according to the requirements of the Bank of Albania Regulation "On the basic principles of the management of banks and branches of the foreign banks and the criteria for approval of their administrators "

Content

Raiffeisen Bank Sh.a.
International Financial Reporting Standards
Consolidated Financial Statements and Independent Auditor's Report
As at and for the year ended December 31, 2022

General information

Directors and Management as of 31 December 2022

Board of Directors (Supervisory Board)	
Peter Lennkh	Chairman
Heinz Wiedner	Vice-Chairman
Harald Kreuzmair	Member
Thomas Matejka	Member
Petro Merkulov	Member
Audit Committee	
Heinz Weidner	Chairman
Ulf Leichsenring	Vice - Chairman
Johannes Kellner	Member
Management Board	
Christian Canacaris	Chief Executive Officer
Alexander Zsolnai	Vice-chairman of the Management Board
Elona Mullahi (Koci)	Member
Erion Serti	Member
Vilma Bace	Member

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Telephone: +43-1-71707-0

Auditor
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Independent Auditor's Report

To the Shareholders and Management of Raiffeisen Bank Albania SHA

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank sh.a. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"s).

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report prepared by Management of the Group in accordance with Article 53 of Law no. 9662, dated 18 December 2006 "On Banks in the Republic of Albania", amended, but does not include the consolidated financial statements and the auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report. Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Audit Albania sh.p.k

Deloitte Audit Albania SHPK

Rruga e Kavajes, ish parku i mallrave, Kompleksi Delijorgji, Godina H, Floor 2 Tirana, Albania

Identification number (NUIS): L41709002H

Enida Cara

Statutory Auditor

Engagement Partner

Tirana, Albania

June 5, 2023

DELOITTE AUDIT ALBANIA
Sh.p.k.
NUIS : L41709002H
Kompleksi Delijorgji, God L, Kati 1.2, 3 Tiranë

The Group

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2022 for Raiffiesen Bank sh.a. and its subsidiaries (the "Group"). The Group includes the parent company – Raiffeisen Bank Sh.a. (hereinafter also the "Bank" or the "Parent Company") and its 2 fully owned subsidiaries Raiffeisen Leasing sh.a. and Raiffesien Invest - Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST").

Raiffeisen Bank Sh.a. is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies", and Law 9662, dated 18 December 2006 "On Banks in the Republic of Albania", as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen Bank International AG, Austria, which is the ultimate controlling party.

The Group's principal business activities are retail banking operations, providing finance leasing to companies and individuals and collection and investment of voluntary pension funds, within the Republic of Albania. The Bank operates through a banking network of 74 service points, as of 31 December 2022 (31 December 2021: 74 service points) throughout Albania, which are managed through 3 Districts and has no overseas operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

in LEK thousand	Note	31 December 2022	31 December 2021
Cash, cash balances at central bank and other demand deposits	[6]	37,491,482	42,813,051
Debt securities		82,062,360	80,394,977
Loans and advances to financial instiutions		38,265,013	36,728,182
Loans and advances to customers		117,050,532	107,036,227
Financial assets - amortized cost	[7]	237,377,905	224,159,386
Financial assets – fair value through profit or loss	[8]	2,003	12,222
Goodwill	[9]	92,783	92,783
Tangible fixed assets	[10]	3,450,717	3,163,777
Intangible fixed assets	[10]	2,045,274	1,623,371
Repossessed assets	[11]	556,451	712,457
Other assets	[12]	942,545	822,832
Total assets		**281,959,160**	**273,399,879**

EQUITY AND LIABILITIES

in LEK thousand	Note	31 December 2022	31 December 2021
Liabilities			
Deposits from Banks		1,937,648	13,808,180
Deposits from customers		245,156,536	225,130,048
Other financial liabilities		2,988,267	3,096,467
Financial liabilities - amortized cost	[13]	250,082,451	242,034,695
Financial liabilities held for trading (derivatives)		9,342	
Provisions for liabilities and charges	[14]	407,921	346,639
Deferred tax liabilities	[15]	46,296	26,314
Current tax liabilities	[16]	200,105	147,831
Other liabilities	[17]	983,992	639,920
Total liabilities		**251,730,107**	**243,249,399**
Equity			
Share capital	[18]	14,178,593	14,178,593
Other reserves	[18]	3,306,190	3,306,190
Retained earnings	[18]	12,744,270	12,665,697
Total Equity		**30,229,053**	**30,150,480**
Total liabilities and equity		**281,959,160**	**273,399,879**

These consolidated financial statements have been approved by the Management Board of the Group on May 31, 2023 and signed on its behalf by:

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice Chairman of Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 89.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in LEK thousand	Note	2022	2021
Interest income calculated using the effective interest method		8,787,980	7,060,570
Other interest income		1,783	556
Interest expenses		(233,001)	(264,793)
Net interest income	**[19]**	**8,556,762**	**6,796,333**
Fee and commission income		4,209,160	3 840 073
Fee and commission expenses		(1,652,600)	(1,374,019)
Net fee and commission income	**[20]**	**2,556,560**	**2,466,054**
Net trading income	[21]	4,228	225,705
Other operating income		59,307	40,970
Other operating expenses		(236,369)	(286,255)
Other net operating loss	[22]	(177,062)	(245,285)
Operating income		**10,940,488**	**9,242,807**
General administrative expenses	[23]	(5,508,596)	(5,170,001)
Special governmental measures	[24]	(735,099)	(693,141)
Impairment expense/(recovery) on financial assets	[25]	(186,614)	757,124
Profit before tax		**4,510,179**	**4,136,789**
Income taxes	[26]	(808,132)	(724,534)
Profit for the year		**3,702,047**	**3,412,255**
Other comprehensive income for the year		-	-
Total comprehensive income		**3,702,047**	**3,412,255**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 89.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

në mijë LEK	Share capital	Other reserves	Retained earnings	Equity
Equity at 1 January 2021	**14,178,593**	**3,306,190**	**12,941,589**	**30,426,372**
Dividend payments	-	-	(3,688,147)	(3,688,147)
Profit for the year	-	-	3,412,255	3,412,255
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	3,412,255	3,412,255
Equity at 31 December 2021	**14,178,593**	**3,306,190**	**12,665,697**	**30,150,480**
Dividend payments	-	-	(3, 623,474)	(3,623,474)
Profit for the year	-	-	3,702,047	3,702,047
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	3,702,047	3,702,047
Equity at 31 December 2022	**14,178,593**	**3,306,190**	**12,744,270**	**30 229,053**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 89.

CONSOLIDATED STATEMENT OF CASH FLOWS

in LEK thousand	Notes	31 December 2022	31 December 2021
Cash, cash balances at central Banks and other demand deposits	**[6]**	**59,287,605**	**64,799,985**
Operating activities:			
Profit before tax		4,510,180	4,136,789
Adjustments for the reconciliation of profit/loss before tax to the cash flow from operating activities:			
Depreciation of tangible and intangible fixed assets	[10]	792,709	709,958
Impairment and reversal of impairment of assets	[11]	168,885	(831,111)
Net provisioning for liabilities and charges and impairment losses		17,729	73,986
Net interest income	[19]	(8,556,409)	(6,795,264)
Interest received		9,516,556	6,264,157
Interest paid		(756,772)	(1,173,230)
Income taxes paid		(723,878)	(351,835)
Effect of unrealized exchange rate changes		17,459	(246,708)
Loss from disposal of tangible and intangible fixed assets		(7,649)	(24,414)
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:			
Increase/decrease in restricted balances	[6]	3,720,501	(2,071,895)
Financial assets - amortized cost	[7]	(10,741,486)	(18,212,389)
Financial assets - fair value through profit or loss	[8]	9,571	(7,207)
Other assets	[12]	15,267	339,982
Financial liabilities - amortized cost	[13]	8,277,222	37,318,481
Provisions for liabilities and charges	[14]	44,665	18,525
Other liabilities	[17]	295,970	59,737
Net cash from operating activities		**6,600,520**	**19,207,562**
Investing activities:			
Purchase of Investment securities and shares		(30,167,447)	(42,159,321)
Purchase of Tangible and intangible fixed assets		(1,501,551)	(1,118,175)
Proceeds from matured Investment securities and shares		27,169,075	21,675,762
Proceeds from Tangible and intangible fixed assets		7,649	12,761
Net cash used in investing activities		**(4,492,274)**	**(21,588,973)**
Financing activities:			
Dividend payments		(3,623,474)	(3,688,147)
Lease Liabilities repayments		(242,933)	(266,796)
Net cash from financing activities		**(3,866,407)**	**(3,954,943)**
Effect of exchange rate changes		(17,459)	246,708
Net decrease during the year		**(1,758,161)**	**(6,336,354)**
Cash and cash equivalents as at 31 December	**[6]**	**57,511,985**	**58,710,339**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 89.

INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2022 for Raiffiesen Bank sh.a. and its subsidiaries (the "Group"). The Group includes the parent company – Raiffeisen Bank Sh.a. (hereinafter also the "Bank" or the "Parent Company") and its 2 fully owned subsidiaries Raiffeisen Leasing sh.a. and Raiffesien Invest - Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST").

Raiffeisen Bank Sh.a. is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies", and Law 9662, dated 18 December 2006 "On Banks in the Republic of Albania", as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen Bank International AG, Austria, which is the ultimate controlling party.

Principal activity.

The Group's principal business activities are retail banking operations, providing finance leasing to companies and individuals and collection and investment of voluntary pension funds, within the Republic of Albania. The Bank operates through a banking network of 74 service points, as of 31 December 2022 (31 December 2021: 76 service points) throughout Albania, which are managed through 3 Districts and has no overseas operations.

Presentation currency.

These Consolidated financial statements are presented in Albanian Lek ("LEK"), unless otherwise stated. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

1. OPERATING ENVIROMENT OF THE GROUP

The Albanian economy has fully recovered of earthquake & pandemic. GDP showed a growth of 8.5% in 2021, due to Energy production being the main component of the industry that posted a significant increase due to heavy rainfall that boosted the hydroelectric energy production. Construction also contributed significantly to GDP growth, as post-earthquake reconstruction gained speed and pre-election public investments surged. Relaxed containment measures due to COVID19 and gradual opening of Eurpian countries contributed to an increase in tourism sector during the second half of 2021.

However, with initiation of the war in Ukraine and all uncertainties it brough afterwards stopped the economic momentum of the country. The Albanian economy has low direct links with Ukraine and Russia, as trade with these countries contributes to less than 2% of the total. However it clearly felt the effects through an elevated energy and food prices. The inflation rate hit 6.7% in average in 2022 from 1.3%-2% in the last 10 years, weakening the purchasing power of the consumers and leaving the mark on economic activity. Nevertheless, the economy maintained a positive momentum on the back of robust tourism, real estate, and services. Therefore, we expect the real GDP to expand moderately by 3.9% yoy in 2022, yet less than half of 2021 GDP growth.

Persistent high inflation and upside expectations of economic agents as a consequence of the war in Ukraine, forced the Bank of Albania to embark for the first time on a tightening cycle of the monetary policy. In an attempt to combat elevated inflation rate, it has marched ahead toward the normalization of the monetary policy. The base rate has reached 2.75% or a 225 bp jump overall from March 2022 to November 2022. Even though the headline inflation rate has started the slowdown in the last three months to 7.2% in January 2023, the core inflation goes up, peaking 8.7% in January 2023.

Albania, contrary to other European countries is a net exporter of energy therefore not impacted from the energy crisis which followed the conflict in Ucraine. Nevertheless, facing the challenge of increased consumer prices, the government support was circa EUR 509 mn or 2.8% of the estimated GDP in 2022 (EUR 18.1 bn) to assist the most vulnerable part of the population trying to tame inflation and energy risen costs. The subsidy of the increased price of electricity went to about 1.3% of the GDP for families and businesses.

The long-term effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from the actual results.

For the purpose of measurement of expected credit losses ("ECL") the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Notes 3 and 32 provide more information of how the Group incorporated forward-looking information in the ECL models.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.

The accounting policies set out below have been consistently applied to all the periods presented, unless otherwise stated.

The Group has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'Group'). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from http://www.raiffeisen.al/. Users of these consolidated financial statements should read them together with the group's consolidated financial statements as at and for the year ended 31 December 2022 in order to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole.

a) Foreign currency transactions

The consolidated financial statements of the Group were prepared in LEK which is the functional currency of of all members of the Group. The functional currency is the currency of the principal economic environment in which the company operates.

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2022 and 31 December 2021 were as below:

	31 December 2022		31 December 2021	
	Period end	Average	Year end	Average
United States dollar (USD)	107.05	112.53	106.54	103.49
European Union currency unit (EUR)	114.23	118.87	120.76	122.55

b) Interest

Interest income and expense are recognised in profit or loss Consolidated statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented as profit or loss in the Consolidated statement of comprehensive income include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Fees and commission

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

Other fees and commission income, including account servicing fees, sales commission, placement fees, are recognised as the related services are performed. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

e) Staff costs

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

f) Operating lease payments and other operating expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. The operating expenses are recognised when incurred.

g) Employee benefits

Defined contribution plans.

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Group makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

Paid annual leave

The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

For termination benefits, the Group specified that amounts payable are recognised when, and only when, the Company is demonstrably committed to either:

- Terminated the employment of an employee or Group of employees before the normal retirement date, or
- Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Group is demonstrably committed to a termination when, and when, it has a detailed formal plan for the termination and is without realistic possibly of withdrawal.

h) Income tax epense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
H) INCOME TAX EPENSE (CONTINUED)

recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

(i) Financial instruments

Key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a Group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the Group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the Group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 27.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)

loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight-line basis over the term of the loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Classification and measurement of financial assets and financial liabilities

All financial assets, financial liabilities and derivative financial instruments are to be recognized in the statement of financial position. A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. On initial recognition, financial instruments are to be measured at fair value, which generally corresponds to the transaction price at the time of acquisition or issue. According to IFRS 13, the fair value is defined as the exit price. This is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For subsequent measurement, financial instruments are recognized in the statement of financial position according to the respective measurement category pursuant to IFRS 9, either at (amortized) cost or at fair value.

The classification of financial assets under IFRS 9 is firstly based on the business model under which the assets are managed, and secondly on the cash flow characteristics of the assets. For the Group, this results in five classification categories for financial assets:

- Financial assets measured at amortized cost (AC)
- Financial assets at fair value through profit or loss (FVTPL)

In the Group, a financial asset is measured at amortized cost if the objective is to hold the asset to collect the contractual cash flows and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. An asset is subsequently measured at fair value through other comprehensive income (FVOCI) if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets. In addition, the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis for each investment and essentially covers strategic interests that are not fully separate.

All other financial assets – i.e. Financial assets that do not meet the criteria for classification as subsequently measured at either amortized cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recognized in profit or loss. In addition, the Group has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. An accounting mismatch – that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. A financial asset is classified into one of these categories on initial recognition.

Financial liabilities are generally recognized according to IFRS 9 at (amortized) cost (financial liabilities – amortized cost) applying the effective interest method unless they are measured at fair value. This includes financial liabilities that are held for trading (financial liabilities – held for trading) and designated as FVTPL (financial liabilities – designated fair value through profit/loss). Changes in the fair value of liabilities designated at fair value through profit or loss which are caused by changes in banks's own default risk are to be booked in other comprehensive income.

Embedded derivatives are not separated from the host contract of a financial asset. Instead, financial assets are classified in accordance with the business model and their contractual characteristics as explained in the chapter business model assessment and in the chapter analysis of contractual cash flow characteristics. When recognizing financial liabilities, embedded derivatives are only separated from the host instrument and separately accounted for as derivatives if their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract, the embedded derivative meets the definition of a derivative and the hybrid financial instrument is not associated with a financial liability item that is held for trading or designated at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)

Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The following factors are considered as evidence when assessing which business model is relevant:

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

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

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

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

For all the assets of the Group recognised under held to collect business model, the sale of less than 10 per cent of the portfolio (carrying amount) during a rolling three-year period will potentially be considered 'more than infrequent'.

Analysis of Contractual Cash Flow Characteristics

Once the Group determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or to both collect contractual cash flows and sell financial assets), it must then assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. This assessment will be carried out on an instrument-by-instrument basis on the date of initial recognition of the financial asset.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it no longer meets this condition. The Group considers:

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

Modification of Time Value of Money and the Benchmark Test

The time value of money is the element of interest that provides consideration for only the passage of time. It does not take into account other risks (credit, liquidity etc.) Or costs (administrative etc.) Associated with holding a financial asset. In some cases, the time value of money element may be modified (imperfect). This would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case units must assess the modification as to whether the contractual cash flows still represent solely payments of principal and interest, i.e. The modification term does not significantly alter the cash flows from a 'perfect' benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FINANCIAL INSTRUMENTS (CONTINUED)

MODIFICATION OF TIME VALUE OF MONEY AND THE BENCHMARK TEST (CONTINUED)

A benchmark test is applied for the following main contractual features that can potentially modify the time value of money:

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

There are not any cases of modified time value of money occurred in the bank.

Financial assets – amortized cost

In the Group a financial asset is measured at amortized cost (AC) if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These conditions are explained in more detail in the chapters Business model assessment, Analysis of contractual cash flow characteristics, and Modification of the time value of money and the benchmark test.

Financial assets – amortized cost include debt securities, loans and advances to financial institutions and loans and advances to customers, are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Income from banking operations, including income from loans and advances to customers, income from banks and other financial institutions, are recognized in profit or loss by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3'the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Financial assets and financial liabilities – fair value through profit or loss

Financial assets and liabilities – fair value through profit or loss are acquired or incurred principally for the purpose of generating profit from short-term fluctuations in market prices. Securities held within a business model whose objective is achieved by selling financial assets are measured at their fair values. If securities are listed, the fair value is based on stock exchange prices.

Positive fair values (dirty price) are shown under financial assets – fair value through profit or loss. Negative fair values are shown under financial liabilities – fair value through profit or loss. Changes in fair value are shown in net trading income.

Interest income is shown in other interest income, valuation results and proceeds from disposals are shown in net trading income/(loss).

Financial assets and financial liabilities – designated fair value through profit or loss

This category comprises only all those financial assets that are irrevocably designated as financial instruments at fair value (so-called fair value option) upon initial recognition in the statement of financial position. An entity may use this designation.

Only when doing so eliminates or significantly reduces incongruities in measurement or recognition. These arise if the measurement of financial assets or the recognition of resulting gains or losses has a different basis.

Financial liabilities are also designated as financial instruments at fair value to avoid valuation discrepancies with related derivatives. The fair value of financial obligations under the fair value option in this category reflects all market risk factors, including those related to the credit risk of the issuer.

In the reporting year, as in the comparison year, observable market prices were used for the valuation of liabilities of subordinated issues measured at fair value. The financial liabilities are mostly structured bonds. The fair value of these financial liabilities is calculated by discounting the contractual cash flows with a credit-risk-adjusted yield curve, which reflects the level at which the Group could issue similar financial instruments at the reporting date. The market risk parameters are determined based on similar financial instruments. Valuation results for liabilities that are designated as a financial instrument at fair value are recognized in net trading income and fair value result.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)
FINANCIAL ASSETS AND FINANCIAL LIABILITIES – DESIGNATED FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

These financial instruments are measured at fair value. Interest income is shown in net interest income; valuation results and proceeds from disposals are shown in net trading income and fair value result. For financial liabilities designated at fair value through profit or loss, changes in fair value attributable to a change in own credit risk is not reported in the income statement but in other comprehensive income.

Financial liabilities – amortized cost

Liabilities are predominantly recognized at amortized cost. In addition to interest expense, if there are differences between the amount paid and face value, the effective interest method is applied and the amounts are shown in net interest income. This category mainly includes customer deposits and securities issues for refinancing purposes.

Relationships between assets/liabilities, measurement criteria and category pursuant to IFRS 9

Assets/Liabilities	Fair value	Amortized cost	Category
Assets classes			
Cash, cash balances at central banks and other demand deposits		X	AC
Financial assets - amortized cost		X	AC
Financial assets - fair value through other comprehensive income	X		FVOCI
Non-trading financial assets - mandatorily fair value through profit/loss	X		FVTPL
Financial assets - designated fair value through profit/loss	X		FVTPL
Financial assets - held for trading	X		FVTPL
Liabilities classes			
Financial liabilities - amortized cost		X	AC
Financial liabilities - designated fair value through profit/loss	X		FVTPL
Financial liabilities - held for trading	X		FVTPL

AC: “Amortized Cost”

FVOCI: “Fair Value Through Other Comprehensive Income”

FVTPL: “Fair Value Through Profit or Loss”

Amortized cost

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and allocating interest expenses and interest income to the relevant periods. The effective interest rate is the interest rate used to discount the forecast future cash inflows and outflows (including all fees which form part of the effective interest rate, transaction costs and other premiums and discounts) over the expected term of the financial instrument or a shorter period, where applicable, to arrive at the net carrying amount from initial recognition.

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows arising from a financial asset have expired, when the Group has transferred the rights to the cash flows, or if the Group has the obligation, in case that certain criteria occur, to transfer the cash flows to one or more receivers. A transferred asset is also derecognized if all material risks and rewards of ownership of the assets are transferred. The Group has in place a write-off policy based on the principle that the bank being the creditor of loans does not expect any recovery/payment either on the entire exposure (full write-off) or on a part of the exposure (partial write-off). Furthermore, the loans have to be either fully impaired in amount of the entire exposure or, in case of collateralized loans, they are impaired in the extent not being collateralized. Further information on write-offs is provided in (31) Expected credit losses.

Modification of financial assets

A financial asset is derecognized on account of a modification if the underlying contract is modified substantially. In the Group, terms are substantially modified if the discounted present value of the cash flows under the new terms using the original effective interest rate differs by at least 10 per cent from the discounted present value of the remaining cash flows of the original financial asset (present value test). In addition to the present value test further

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)
MODIFICATION OF FINANCIAL ASSETS (CONTINUED)

quantitative and qualitative criteria are considered in order to assess whether a substantial modification applies. The other quantitative criteria primarily consider the extension of the average remaining term. Stage 3 loans are often restructured to match the maximum expected payments from the customer. If this is the case, then additional judgement is required to determine whether the contractual change is a new instrument in economic terms. The Group has defined qualitative criteria for a significant change in the terms of the contract as a change in the underlying currency and also the introduction of clauses that would normally cause the contractual cash flow criteria according to IFRS 9 to fail, or a change in the type of instrument (e.g. A bond is converted to a loan).

Derecognition of financial liabilities

The Group derecognizes a financial liability if the obligations of the Group have been paid, expired or revoked. The income or expense from the repurchase of own liabilities is shown in the notes under (22) Other net operating income. The repurchase of own bonds also falls under derecognition of financial liabilities. Differences on repurchase between the carrying value of the liability (including premiums and discounts) and the purchase price are reported in the income statement in other net operating income.

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Reclassification of financial assets

Reclassification is only possible for financial assets, not for financial liabilities, In the Group a change in the measurement category is only possible if there is a change in the business model used to manage a financial asset. Reclassification is then mandatory in such cases. Such changes must be determined by the Management Board and be significant for corporate activities. If such reclassification is necessary, this must be affected prospectively from the date of reclassification and approved by the Group Management Board.

Fair value

The fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability, in an orderly business transaction between market participants on the measurement reference date. This applies irrespective of whether the price is directly observable or has been estimated using a valuation method. In accordance with IFRS13, the Group uses the following hierarchy to determine and report the fair value for financial instruments.

Quotation on an active market (Level I)

If market prices are available, the fair value is reflected best by the market price. This category contains equity instruments traded on the stock exchange, debt instruments traded on the interbank market, and derivatives traded on the stock exchange. The valuation is mainly based on external data sources (stock exchange prices or broker quotes in liquid market segments). In an active market, transactions involving financial assets and liabilities are traded in sufficient frequency and volumes, so that price information is continuously available. Indicators for active markets are the number, the frequency of update or the quality of quotations (e.g. Banks or stock exchanges). Moreover, narrow bid/ask spreads and quotations from market participants within a certain corridor are also indicators of an active liquid market.

Measurement techniques based on observable market data (Level II)

When quoted prices for financial instruments are unavailable, the prices of similar financial instruments are used to determine the current fair value or accepted measurement methods utilizing observable prices or parameters (in particular present value calculations or option price models) are employed. These methods concern the majority of the OTC-derivatives and non-quoted debt instruments.

Measurement techniques not based on observable market data (Level III)

If no sufficient current verifiable market data is available for the measurement with measurement models, parameters which are not observable in the market are also used. These input parameters may include data which is calculated in terms of approximated values from historical data among other factors (fair value hierarchy level III). The utilization of these models requires assumptions and estimates of the Management. The scope of the assumptions and estimates depends on the price transparency of the financial instrument, its market and the complexity of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)
FAIR VALUE (CONTINUED)

For financial instruments valued at amortized cost (this comprises loans and advances, deposits, other short-term borrowings and long-term liabilities), the Group publishes the fair value. In principle, there is low or no trading activity for these instruments, therefore a significant degree of assessment by the Management is necessary for determining the fair value.

Financial guarantees

A financial guarantee is a contract under which the guarantor is obliged to make certain payments. These payments compensate the party to whom the guarantee is issued for losses arising in the event that a particular debtor does not fulfil payment obligations on time as stipulated in the original terms of a debt instrument.

Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Contingent liabilities and commitments

This item mainly includes contingent liabilities from undrawn loan commitments. Loan commitments must be reported when a credit risk may occur. These include commitments to provide loans, to purchase securities or to provide guarantees and acceptances.

Loan loss provisions for loan commitments are reported under provisions for liabilities and charges. Often, loan commitments are only partially drawn and thus comprise a drawn and an undrawn commitment. If it is not possible to separately identify the expected credit losses applicable to a drawn commitment and those to an undrawn commitment, these are shown together with the impairments of the financial asset, in accordance with IFRS 7. The total expected credit losses are shown as a provision if they exceed the gross carrying amount of the financial asset.

Impairment

This section provides an overview of those aspects of the rules on impairment that involve a higher degree of judgement or complexity and major sources of estimation uncertainty and that resulted in a material adjustment in the financial year. Quantitative information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the consolidated financial statements.

Impairment overview

If the credit risk for financial instruments has significantly increased since initial recognition, then on each reporting date, the impairment for a financial instrument must be measured in the amount of the expected credit losses over the (remaining) term. If the credit risk for financial instruments has not significantly increased since initial recognition, then on each reporting date, the impairment for a financial instrument must be measured in the amount of the present value of an expected twelve-month loss. The expected twelve-month loss is that portion of the credit losses expected over the lifetime which correspond to the expected credit losses from default events possible for a financial instrument within the twelve months following the reporting date.

The Group has introduced recognition and measurement methods in order to be able to assess at the end of every reporting period whether or not the credit risk for a financial instrument has significantly increased since initial recognition. Based on the method outlined above, the Group classifies its financial instruments into Stage 1, Stage 2, Stage 3 and POCI as follows:

- Stage1 essentially includes all financial instruments whose credit default risk has not significantly increased since their initial recognition. Stage 1 also includes all transactions which show a low credit risk on the reporting date, where the Bank has utilized the option available to waive the assessment of a significant increase in credit risk. A low credit risk exists for all financial instruments whose internal credit rating on the reporting date is within the investment grade range (corresponds to at least Standard & Poor's BBB-, Moody's Baa3 or Fitch BBB-). On initial recognition of loans, the bank records an impairment in the amount of the expected twelve-month loss. Stage 1 also includes loans where the credit risk has improved, and which have thus been reclassified from Stage 2.
- Stage 2 includes those financial instruments whose credit risk has significantly increased since their initial recognition and which, as at the reporting date, are not classified as transactions with limited credit risk. Impairments in Stage 2 are recognized in the amount of the financial instrument’s lifetime expected credit loss. Stage 2 also includes loans where the credit risk has improved, and which have thus been reclassified from Stage 3.
- Stage 3 includes financial instruments which are classified as impaired as at the reporting date. The Group criterion for this classification is the definition of a default in accordance with Article 178 CRR. The expected credit loss over the entire remaining lifetime of the financial instrument is also to be used as the basis for recognizing impairment of Stage 3 loans in default.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)
IMPAIRMENT OVERVIEW (CONTINUED)

POCI: Purchased or originated credit-impaired assets are financial assets which were already impaired at the time of initial recognition. On initial recognition, the asset is recorded at fair value without any impairment, using an effective interest rate that is adjusted for creditworthiness. The impairment recognized in subsequent periods equals the cumulative change in the lifetime expected credit loss of the financial instrument since the initial recognition in the statement of financial position. This remains the basis for measurement, even if the value of the financial instrument has risen.

The recognition and measurement principles for calculating expected credit losses are set out in the notes (31) Expected credit losses in the chapter Determination of expected credit losses. The recognition and measurement principles for determining a significant increase in the credit risk are set out in (31) Expected credit losses in the chapter significant increase in credit risk. The expected credit losses are measured on either a collective or individual basis. The requirements for collective measurement are set out in (31) Expected credit losses in the section shared credit risk characteristics.

Determination of expected credit losses

The Group calculates the expected credit loss as the probability-weighted, expected value of all payment defaults taking into account various scenarios over the expected lifetime of a financial instrument discounted with the effective interest rate that was originally determined. A payment default is the difference between the contractually agreed and actually expected payment flows.

The twelve-month loss used for the recognition of impairments in Stage 1 is the portion of the lifetime expected credit loss for the financial instrument that results from default events which are expected to occur within twelve months following the reporting date. The ECL for Stage 1 and Stage 2 as well as for insignificant financial instruments in Stage 3 is determined on an individual transaction basis taking into account statistical risk parameters. These parameters have been derived from the Basel IRB approach and modified to meet the requirements of IFRS. The most important input parameters used by the Bank for determining the expected credit losses are as follows:

- PD: In the Group, the probability of default is the probability of a borrower being unable to fulfil its payment obligations either within the next twelve months or in the entire remaining lifetime of the instrument.
- Exposure at default (EAD): The exposure at default is the amount which the Group expects to be owed at the time of default, over the next twelve months or over the entire lifetime.
- Loss given default (LGD): The loss given default represents the Group expectation of the extent of loss on a defaulted exposure.

All risk parameters used from the bank's internal models are adjusted to meet the specific requirements of IFRS, and the forecast horizon has been extended accordingly to cover the entire term of the financial instruments. For example, the forecast for the development of the exposure over the entire term of the financial instrument therefore also includes, in particular, contractual and statutory termination rights.

Further details on determining expected credit losses are provided in the notes (31) Expected credit losses.

Forward-looking information

As a rule, the risk parameters are estimated not only on historical default information but also, in particular, on the current economic environment (point-in-time perspective) and forward-looking information. This assessment primarily involves regularly reviewing the effects which the bank's macroeconomic forecasts will have regarding the amount of the ECL and including these effects in the determination of the ECL. A baseline scenario is used for this purpose which relies on the respective applicable consensus (forecasts of Raiffeisen Research on significant macroeconomic factors, such as real GDP, unemployment rate, reference interest rates and Information about the currently assumed state of the credit cycle). This baseline scenario is then supplemented with additional macroeconomic parameters that are relevant for the model. Other risks which cannot be depicted in the standard model and the related expected losses are also taken into account.

Further details on forward-looking information are provided in the notes (31) Expected credit losses in the chapter forward-looking information.

Significant increase in the credit risk

The Group rating systems combine into the PD all available quantitative and qualitative information relevant for forecasting the credit risk. This metric is based primarily on a statistical selection and weighting of all available indictors. In addition, the PD adjusted takes into account not only historical information and the current economic environment, but also, in particular, forward-looking information such as the forecast for the development of macroeconomic conditions. As a consequence, the Group uses the PD only as a frame of reference for assessing whether the credit risk of a financial instrument has risen significantly since the date of its initial recognition. By anchoring the review of the relative transfer criterion in the robust processes and procedures of the bank's Bank-wide credit-risk-management framework, the bank ensures that a significant increase in the credit risk is identified in a reliable and timely manner based on objective criteria. The review to determine whether the credit default risk as at

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(I) FINANCIAL INSTRUMENTS (CONTINUED)
SIGNIFICANT INCREASE IN THE CREDIT RISK (CONTINUED)

the financial reporting date has risen significantly since the initial recognition of the respective financial instrument is performed as at the reporting date. This review compares the observed probability of default over the residual maturity of the financial instrument (Lifetime-PD) against the lifetime PD over the same period as expected on the date of recognition. Further details on forward-looking information are provided in the notes (31) Expected credit losses in the chapter Significant increase in the credit risk.

Collateral

In order to mitigate credit risks for financial assets, the Bank endeavours to use collateral wherever possible. This collateral can take different forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets and credit improvements such as netting agreements. The accounting principles for collateral remain unchanged compared to IAS39. Collateral is not recorded in the Bank's statement of financial position unless it is repossessed. The fair value of collateral does, however, affect the calculation of ecls. Generally, it is valued at least at the outset, and subject to half-yearly reviews. Some collateral such as cash or securities are assessed daily in respect of margin requirements. Further details are provided in the notes (30) Collateral and maximum exposure to credit risk.

A special case is the classification of land and buildings from bail-out purchases within the framework of collateral realization as such real estate or other assets have been primarily acquired to avoid losses from the lending business and are generally intended to be re-sold. In a first step, the Group assesses whether or not an asset that has been taken back can be used for its own business operations. Assets that are considered useful for own business operations are transferred to the group's tangible fixed assets at the lower of the re-procurement value or the carrying amount of the originally collateralized asset. Assets which are planned to be sold are recognized in the group's inventories at fair value less selling costs for non-financial assets at the time of repossession, in accordance with the group's guidelines. When realizing collateral, however, the Group does not generally take physical possession of the assets but commissions external agents to obtain funds through auctions in order to settle outstanding debts of the customer. Any excess funds are returned to customers. Due to this practice, residential real estate is not reported in the Group's statement of financial position within the context of the realization of collateral.

Genuine sale and repurchase agreements

In a genuine sale and repurchase transaction, the Group sells assets to a third party and agrees at the same time to repurchase these assets at an agreed price and time. The assets remain on the Group's statement of financial position and are measured according to the standards applied to the item in the statement of financial position "Loans and advances to financial institutions". The securities are not derecognized since all the risks and rewards of the Bank associated with the ownership of the repurchased securities are retained. Cash inflows arising from a sale and repurchase transaction are recognized in the statement of financial position as financial liabilities – amortized cost. Under reverse repurchase agreements, assets are acquired by the Group with the obligation to sell them in the future. The purchased securities on which the financial transaction is based are not reported in the Group's statement of financial position and accordingly not measured. Cash outflows arising from reverse repurchase agreements are recorded in the statement of financial position under the item financial assets – amortized cost.

Interest expense from sale and repurchase agreements and interest income from reverse sale and repurchase agreements is accrued in a straight line over their term to maturity and shown under the Bank's net interest income.

Securities lending

The Group concludes securities lending transactions with banks or customers in order to meet delivery obligations or to conduct security sale and repurchase agreements. In the Group, securities lending transactions are shown in the same way as genuine sale and repurchase agreements. This means loaned securities continue to remain in the securities portfolio. Borrowed securities are not recognized and not valued in the Group. Cash collateral provided by the Group for securities lending transactions is shown as a claim under the item financial assets – amortized cost while collateral received is shown as financial liabilities – amortized cost in the statement of financial position.

j) Cash and cash equivalents

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

Mandatory cash balances with the Central bank. Mandatory cash balances with the Central Bank are carried at Amortized Cost and represent non-interest-bearing mandatory reserve deposits, which are not available to finance the Group's Day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Due from other banks

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

l) Debt securities

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC or FVOCI. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

m) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of the portfolio that is managed together for the short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the Consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of the trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

n) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

o) Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment allowances are determined based on the forward-looking ECL models. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

p) Right of use and lease liabilities

At inception of a contract, The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, The Group assesses whether:

- the contract involves the use of an identified asset - this is the case if either the asset is explicitly specified in the contract or the asset is implicitly specified at the time that it is made available for use by the customer that is capable of being used to meet the contract terms. If the supplier has a substantive substitution right, then the asset is not identified.
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct how and for what purpose the asset is used throughout the period of use or the relevant decisions about how and for what purpose the asset is used are predetermined.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group as lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date which is the date on which a lessor (a supplier) makes an underlying asset available for use by The Group. The right-of-use asset is measured at cost at the commencement date. The cost of the right-of-use asset comprises the amount equal to the lease liability at its initial recognition adjusted for any lease payments made at or before the commencement of the lease plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset or the site on which it is located, less any lease incentives. The right-of-use asset is subsequently depreciated using the straight-line method in accordance with IAS 16 from the commencement date to the earlier of the end of the useful life or the end of the lease term of the right-of-use asset. The right-of-use asset is reduced by impairments, if any, and adjusted for certain remeasurements of the lease liability. At the commencement date, The Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental borrowing rate. The bank has applied IFRS 16 using the simplified approach, beginning from January 1, 2019.

The lease payments included in the measurement of the lease liability comprise the following:

- fixed payments including in-substance fixed payments.
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if The Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

The lease liability is measured on an ongoing basis similarly to other financial liabilities, using an effective interest method, so that the carrying amount of the lease liability is measured on an amortized cost basis and the interest expense is allocated over the lease term. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if The Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of right-of-use asset has been reduced to zero. The Group has selected not to recognize right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of twelve months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The group has selected to presented right of use assets together with tangible assets (please refer to note 10) and Lease liability together with Financial liabilities (please refer to note 13).

The Group as lessor

As a lessor the Group classifies its leases as finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

At the commencement date, the Group recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. For finance leases initial direct costs are included in the initial measurement of the net investment.

The net investment in the lease is measured as the gross investment in the lease, discounted at the interest rate implicit in the lease.

The Group's practice is that lease payments forming the gross investment in the lease cover the whole fair value of the lease assets determined at the commencement of the lease.

Subsequent measurement

After lease commencement, the Group accounts for a finance lease, as follows:

- Interest income is recognized in profit or loss over the lease term in an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease.
- Net investment in the lease is reduced for the lease payments received;
- The Group applies the impairment requirements of IFRS 9, recognising an allowance for expected credit losses on the lease receivable

After lease commencement, the net investment in a lease is not remeasured by the company unless in either of the following situations:

- The lease is modified, and the modified lease is not accounted for as a separate contract.
- The lease term is revised when there is a change in the non-cancellable period of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL Measurement of leases

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- discount factor; and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The probability of default (PD) represents the likelihood of a lessee defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general, the lifetime probability of default is calculated using the regulatory 12-month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the leasing or leasing portfolio. The profile is based on historical observed data and parametric functions

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default.

Sometimes The Group is an intermediate lessor which means that The Group acts as both the lessee and lessor of the same underlying asset and accounts for its interest in the main lease and the sublease separately. When the main lease is a short-term lease, the sublease is classified as an operating lease. Otherwise, The Group assesses the classification of a sublease by reference to the right-of-use asset in the main lease and not by reference to the underlying asset of the main lease. The Group recognizes the lease payments associated with the operating lease as income on a straight-line basis over the lease term.

(q) Tangible fixed assets

i Recognition and measurement

Items of tangible and fixed assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of premises and equipment.

ii Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of premises and equipment are recognised in profit or loss as incurred.

iii Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of premises and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and work in progress are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	2022 (in Years)	**2021 (in years)**
Premises	20	20
Vehicles	7	5
Computers and IT equipment	4 to 7	4
Software and Licenses	8	8
Machineries and systems	7	5
Office Equipment's and Furniture	5 to 7	5
Leasehold improvements	1 to 10	1 to 10

Useful lives and residual values are reassessed each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Intangible fixed assets

Acquired intangible fixed assets.

In the Group, separately acquired intangible fixed assets, i.e. those with a definite useful life not acquired in a business combination, are capitalized at acquisition cost less accumulated amortization and impairment. Amortization is accrued in a straight line over the expected useful life and reported as an expense in the income statement. The expected useful life and the amortization method are reviewed at each reporting date and any possible changes in measurement taken into account prospectively. Separately acquired intangible fixed assets with an indefinite useful life are capitalized at acquisition cost less accumulated impairment. The normal useful life of software is between four and six years. The normal useful life for large software projects may extend over a longer period.

The straight-line method is used for depreciation and is based on the following useful life figures:

Useful life	Years
Software	8

Internally developed intangible fixed assets – research and development costs

Internally developed intangible assets comprise exclusively software and are capitalized if it is probable that the future economic benefits attributable to the asset will accrue to the Group and the cost of the asset can be measured reliably. Expenses for research are recognized as an expense when they are incurred.

An internally developed intangible fixed asset resulting from development activities or from the development stage of an internal project is capitalized when the following evidence is provided:

- The final completion of the intangible fixed asset is technically feasible so that it will be available for use or sale.
- It is intended to finally complete the intangible fixed asset and to use or to sell it.
- The ability exists to use or to sell the intangible fixed asset. The intangible fixed asset is likely to generate future economic benefit.
- The availability of adequate technical, financial and other resources required in order to complete development and to use or sell the intangible fixed asset is assured.
- The ability exists to reliably determine the expenditure incurred during the development of the intangible fixed asset.

The amount at which an internally developed intangible fixed asset is initially capitalized is the sum of all expenses incurred beginning from the day on which the aforementioned conditions are initially met. If an internally developed intangible fixed asset cannot be capitalized, or if there is as yet no intangible fixed asset, the development costs are reported in the income statement for the reporting period in which they are incurred.

Capitalized development costs are generally amortized in the Bank in a straight line over a useful life of five years. The normal useful life of software is between four and six years. The normal useful life for large software projects may extend over a longer period.

(s) Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of auction value and fair value less costs to sell, recognised in the Consolidated statement of financial position under "Other assets". Management intention on repossessed asset is to sale as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(t) Deposits and other financial liabilities

Deposits and other financial liabilities are the Bank's main sources of debt funding. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Deposits and other financial liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(u) Due to banks

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from [early] retirement of debt.

(v) Sale and repurchase agreements and lending of securities.

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the Consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the Consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

(w) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Banks. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing 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 asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(x) Provisions

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

Loan loss provisions for contingent liabilities and commitments

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

(y) Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the Consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Group are the basis for profit distribution and other appropriations. Albanian legislation identifies the basis of distribution as the current year net profit.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Credit related commitments

This item mainly includes contingent liabilities from undrawn loan commitments. Loan commitments must be reported when a credit risk may occur. These include commitments to provide loans, to purchase securities or to provide guarantees and acceptances. Loan loss provisions for loan commitments are reported under provisions for liabilities and charges. Often, loan commitments are only partially drawn and thus comprise a drawn and an undrawn commitment. If it is not possible to separately identify the expected credit losses applicable to a drawn commitment and those to an undrawn commitment, these are shown together with the impairments of the financial asset, in accordance with IFRS 7. The total expected credit losses are shown as a provision if they exceed the gross carrying amount of the financial asset.

(aa) Offsetting

Financial assets and liabilities are offset and the net amount reported in the Consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(bb) Presentation of statement of financial position in order of liquidity.

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 34.

(cc) Comparability

All amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

The Group considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Group determines that its capital resources are available.

The Group performs regularly, stress test exercises, to test the possible impact of macroeconomic indicators in Group's key financial position, performance and regulatory compliance. These stress tests are mainly focused on the impact that some outlined macro and microeconomic scenarios might have on the loan portfolio, being the Group's main source of income,

If estimates or assessments are necessary for accounting and measuring under International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) rules, they are made in accordance with the respective standards. They are based on past experiences and other factors, such as planning and expectations or forecasts of future events that appear likely, based on current judgement. The estimates and underlying assumptions are reviewed on an ongoing basis. Alterations to estimates that affect only one period will be considered only in that period. If the following reporting periods are also affected, the alterations will be taken into consideration in the current and following periods. The critical assumptions, estimates and accounting judgments are as follows:

Impairment in the lending business

The application of the Group's accounting policies requires accounting judgments of the management. The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortized cost and with the exposure arising from loan commitments and financial guarantee contracts. The calculation of expected credit losses (ECL) requires the use of accounting estimates that may not necessarily match actual results. In order to determine the amount of the impairment, significant credit risk parameters such as PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as well as future-oriented information (economic forecasts) are to be estimated by management. The allowance for credit risks is adjusted for this expected loss at each reporting date. The methods for determining the amount of the impairment are explained in section Impairment general under Recognition and measurement principles. For additional disclosures on impairment of financial assets refer to note (31) Expected Credit Losses and note 36 Credit risks.

Dynamic tests are performed to evaluate the effect that a similar increase/decrease in customer's shock would have on each of the balance sheet, liability and profit and loss line items, for a specific period of time. The Group's management has made an assessment of the Group's ability to continue as a going concern considering all the factors stated above and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis. For additional disclosures on capital management refer to note 37.

Fair value of financial instruments

Fair value is the price received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This applies regardless of whether the price can be directly observed or has been estimated on the basis of a measurement method. In determining the fair value of an asset or liability, the Bank considers certain features of the asset or liability (e.g. condition and location of the asset, or restrictions in the sale and use of an asset) if market participants would also consider such features in determining the price for the acquisition of the respective asset or for the transfer of the liability at the measurement date. Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. For valuation methods and models, estimates are generally used depending on the complexity of the instrument and the availability of market-based data. The inputs to these models are derived from observable market data where possible. Under certain circumstances, valuation adjustments are necessary to account for other factors such as model risk, liquidity risk or credit risk. The valuation models are described in the notes in the section on financial instruments –under recognition and measurement principles. In addition, the fair values of financial instruments are disclosed in note (27) Fair value of financial instruments.

Net realizable value of repossessed assets

Repossessed assets represent real estate assets acquired by the Group in settlement of overdue loans which are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired and are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss. The Group revalue these assets on annual basis using a team of external independent valuers and internal certified appraisers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Deferred tax assets and liabilities

Deferred tax assets are recognized only to the extent that it is probable that in the future sufficient taxable profit will be available against which those tax loss carry-forwards, tax credits or deductible temporary differences can be utilized. A planning period of five years is used to this end. This assessment requires significant judgments and assumptions to be made by management. In determining the amount of deferred tax assets, the management uses historical tax capacity and profitability information and, if relevant, forecasted operating results based upon approved business plans, including a review of the eligible carry-forward period.

Deferred taxes are not reported separately in the income statement and are disclosed under (26) Income taxes. By contrast, deferred taxes are shown separately in the statement of financial position and in the notes under (15) Deferred Tax liabilities.

5. APPLICATION OF NEW AND REVISED STANDARDS

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these separate financial statements.

New Standards adopted as at 1 January 2022

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets—Onerous Contracts—Cost of Fulfilling a Contract- Effective date is beginning on or after 1 January 2022, with early application permitted
- Annual Improvements to IFRS Standards 2018-2020—Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture- Effective date is beginning on or after 1 January 2022, with early application permitted
- Amendments to IFRS 3 Business Combinations—Reference to the Conceptual Framework-Effective beginning on or after 1 January 2022- with early application permitted
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use-Effective date is beginning on or after 1 January 2022, with early application permitted
- Annual Improvements to IFRS Standards 2018-2020—Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture- Effective date is beginning on or after 1 January 2022, with early application permitted
- Amendments to IFRS 9 “Financial Instruments”The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made.

Standards, amendments and interpretations of existing standards that are not yet effective

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made. Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group.

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- IFRS 17 Insurance Contracts - Effective for annual reporting periods beginning on or after 1 January 2023
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures-Effective date not been set yet
- Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current-Effective date is beginning on or after 1 January 2023
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies- The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates. The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.
- Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction- effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

5. APPLICATION OF NEW AND REVISED STANDARDS (CONTINUED)

Management provides that all relevant pronouncements will be approved for the first period beginning on or after the effective date of publication.

6. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

Cash and cash equivalents as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Cash on hand	18,559,589	8,189,459
Balances at central Banks	17,483,494	32,327,265
hereof restricted balance – Compulsory reserve	16,929,127	20,644,479
Other demand deposits at Banks	1,448,399	2,296,327
herof restricted balance as bank guarantees	174,829	179,978
Total	37,491,482	42,813,051

Cash, cash balances at central Banks and other demand deposits includes cash in hand, balances due on call and compulsory reserves at Central Bank of Albania, and demand deposits at Banks that are due on call.
Mandatory reserves with Central Bank are not for everyday use by the Group and represent a minimum reserve deposit, required by the Central Bank of Albania and is not considered as cash for the statement of cash flow purposes. This reserve is calculated as a certain percentage of customer deposits that varies by currency or maturity. The required reserve rate in Lek is 7.5% and 5% of Lek's customer deposits, respectively, with a maturity of no more than 12 months and from 12 months to 2 years. The required reserve ratio in foreign currency is 12.5% and 20% of foreign currency deposits, respectively, when they are below 50% and over 50% of total customer deposits.
Cash and cash equivalents include highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. A break-down of cash and cash equivalents as included in the statement of cash flows is presented below:

in LEK thousand	**31 December 2022**	**31 December 2021**
Cash on hand	18,559,589	8,189,459
Balances at central bank, excluding compulsory reserve	554,367	11,682,786
Other demand deposits at banks net of restricted balances	1,273,573	2,116,349
Loans and advances to central banks (Note 7 below)	1,850,857	6,035,130
Loans and advances to other banks (Note 7 below)	35,273,599	30,686,615
Total cash and cash equivalents as included in the statement of cash flows	**57,511,985**	**58,710,339**

7. FINANCIAL ASSETS – AMORTISED COST

Financial assets at amortized cost are comprised of Debt securities and Loans and advances, as follows:

in LEK thousand	As at 31 December 2022			As at 31 December 2021		
	Gross carrying amount	Accumulated impairment	Carrying amount	Gross carrying amount	Accumulated impairment	Carrying amount
Debt securities	**82,149,054**	**(86,694)**	**82,062,360**	**80,423,392**	**(28,415)**	**80,394,977**
General governments	82,149,054	(86,694)	82,062,360	76,797,811	(28,199)	76,769,612
Banks	-	-	-	3,625,581	(216)	3,625,365
Loans and advances	**164,550,727**	**(9,235,182)**	**155,315,545**	**153,356,186**	**(9,591,777)**	**143,764,409**
Central Banks	1,850,903	(45)	1,850,858	6,035,185	(55)	6,035,130
General governments	293	(3)	290	240	(2)	238
Banks	35,273,703	(104)	35,273,599	30,686,946	(330)	30,686,616
Other financial corporations	1,143,754	(3,198)	1,140,556	6,438	-	6,438
Non-financial corporations	73,886,779	(6,238,854)	67,647,925	69,178,321	(6,659,868)	62,518,453
Households	52,395,295	(2,992,978)	49,402,317	47,449,056	(2,931,522)	44,517,534
Total	**246,699,781**	**(9,321,876)**	**237,377,905**	**233,779,578**	**(9,620,192)**	**224,159,386**

8. FINANCIAL ASSETS- FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets Fair Value through profit and loss as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Debt securities	2,003	12,222
Total	**2,003**	**12,222**

9. GOODWILL

During the year 2009, Raiffeisen Bank acquired 100% of the shares of the Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST"), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2009, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2022 (2021: Lek 90 million).

The goodwill on acquisition date was calculated as the excess of the cost of the business combination over the identified net assets of the acquired entity, resulting in an amount of Lek 92,783 thousand. The identified net assets of the acquired entity at acquisition date approximated their fair value at an amount of Lek 16,865 thousand.

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2022, the carrying amount of the cash generating unit to which goodwill has been allocated, does not exceed its recoverable amount and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2022 (2021: nil).

10. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Tangible fixed assets	**3,450,717**	**3,163,777**
Land and buildings used by the Group for own purpose	657,789	627,560
Other land and buildings (investment property)	76,158	85,124
Office furniture, equipment, and other tangible fixed assets	1,066,447	984,882
Right of use assets (RoU)	1,650,323	1,466,211
Intangible fixed assets	**2,045,274**	**1,623,371**
Software	2,045,274	1,623,371
Total	**5,495,991**	**4,787,148**

The item software comprises internally developed software amounting to Lek 108,608 thousand (2021: 89,316). The fair value of investment properties carried at cost model as at 31 December 2022 is 64,684 thousand lek, 31 December 2021 is 51,994 thousand lek.
Rental income from investment property of Lek 4,956 thousand (2021: Lek 5,174 thousand) has been recognised in other net operating income (please refer to note 22).

	Cost of acquisition				
in LEK thousand	**As at January 1, 2022**	**Additions**	**Disposals**	**Transfers**	**As at December 31, 2022**
Tangible fixed assets	**6,859,633**	**842,268**	**(733,283)**	**-**	**6,968,618**
Land and buildings used by the Group for own purpose	1,153,672	68,536	-	-	1,222,208
Other land and buildings (investment property)	118,549	-	(9,304)	-	109,245
Office furniture, equipment, and other tangible fixed assets	3,646,553	354,699	(583,490)	-	3,417,762
Right of use assets (RoU)	1,940,859	419,033	(140,489)	-	2,219,403
Intangible fixed assets	**3,830,203**	**672,420**	**(305,889)**	**-**	**4,196,734**
Software and licences	3,830,203	672,420	(305,889)		4,196,734
Total	**10,689,836**	**1,514,688**	**(1,039,172)**	**-**	**11,165,352**

The Group recognized as at 31 December 2022 "internally generated intangible assets" in compliance to IAS 38 in the amount of Lek 108,608 thousand. They are staff cost & other relevant costs related to development of internally used software during calendar year 2022.

10. TANGIBLE AND INTANGIBLE FIXED ASSETS (CONTINUED)

Fixed assets developed as follows:

	Write-ups, amortization, depreciation, impairment			Carrying amount	
in LEK thousand	Cumulative	Accumulated deprecia-tion on sales	Depreciation	Reclassifi-cation	As at Decem-ber 31, 2022
Tangible fixed assets	**(3,695,855)**	**720,151**	**(542,197)**	**-**	**3,450,717**
Land and buildings used by the Group for own purpose	(526,112)	-	(38,307)	-	657,789
Other land and buildings (investment property)	(33,425)	2,774	(2,436)	-	76,158
Office furniture, equipment and other tangible fixed assets	(2,661,671)	573,976	(263,620)	-	1,066,447
Right of use assets (RoU)	(474,647)	143,401	(237,834)	-	1,650,323
Intangible fixed assets	**(2,206,832)**	**305,884**	**(250,512)**	**-**	**2,045,274**
Software	(2,206,832)	305,884	(250,512)	-	2,045,274
Total	**(5,902,687)**	**1,026,035**	**(792,709)**	**-**	**5,495,991**

	Cost of acquisition				
in LEK thousand	**As at January 1, 2021**	**Additions**	**Disposals**	**Transfers**	**As at Decem-ber 31, 2021**
Tangible fixed assets	**6,594,534**	**1,224,851**	**(955,800)**	**-**	**6,863,585**
Land and buildings used by the Group for own purpose	1,109,926	86,486	(42,740)	-	1,153,672
Other land and buildings (investment property)	126,269	-	(7,721)	-	118,548
Office furniture, equipment and other tangible fixed assets	3,551,755	317,711	(222,914)	-	3,646,552
Right of use assets (RoU)	1,806,584	820,654	(682,425)	-	1,806,584
Intangible fixed assets	**3,466,589**	**365,942**	**(2,327)**	**-**	**1,944,813**
Software and licences	3,466,589	365,942	(2,327)		3,830,204
Total	**10,061,123**	**1,590,793**	**(958,127)**	**-**	**10,693,789**

Fixed assets developed as follows::

	Write-ups, amortization, depreciation, impair-ment			Carrying amount	
in LEK thousand	Cumulative	Accumulated depreciation on sales	Depreciation	**Reclassifica-tion**	**As at Decem-ber 31, 2021**
Tangible fixed assets	**(3,714,407)**	**497,546**	**(482,947)**	**-**	**3,163,777**
Land and buildings used by the Group for own purpose	(527,166)	40,286	(39,232)	-	627.560
Other land and buildings (investment property)	(30,380)	2,277	(5,321)	-	85,124
Office furniture, equipment and other tangible fixed assets	(2,621,467)	204,435	(244,638)	-	984,882
Right of use assets (RoU)	(535,394)	250,548	(193,756)	-	1,466,211
Intangible fixed assets	**(1,996,330)**	**1,598**	**(212,101)**	**-**	**1,623,371**
Software	(1,996,330)	1,598	(212,101)	-	1,623,371
Total	**(5,710,737)**	**499,144**	**(695,048)**	**-**	**4,787,148**

10. TANGIBLE AND INTANGIBLE FIXED ASSETS (CONTINUED)

The Group leases various offices, IT Contracts and ATM Space. Rental contracts are typically made for fixed periods of 1 Year to 5 Years but have extension options. All leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

	Buildings	IT Contracts	ATM Space	Total
Carrying amount at December 31, 2021	**1,444,962**	**2,245**	**19,004**	**1,466,211**
Additions	402,484	3,578	12,972	**419,034**
Early termination	(140,489)	-	-	**(140,489)**
Depreciation charge	(83,278)	(1,717)	(9,438)	**(94,433)**
Carrying amount at December 31, 2022	**1,623,679**	**4,106**	**22,538**	**1,650,323**

Total cash outflow for leases in 2022 was LEK 242,933 thousand (2021: LEK 266,796 thousand). Please see note 3 and 13 for Lease Liabilities disclosures. Please see note 24.3 for disclosure of the expense relating to short-term leases accounted for applying IFRS 16.

11. REPOSSESSED ASSETS

Repossessed assets represent real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2 "Inventories". The as-sets were initially recognised at fair value when acquired.

Repossessed assets as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Repossessed assets	1,410,399	1,405,851
Write down of repossessed assets	(853,948)	(693,394)
Total	**556,451**	**712,457**

Movements in the write down of repossessed assets are as follows:

in LEK thousand	31 December 2022	31 December 2021
Balance at the beginning of the year	693,394	588,372
Additional write down	193,246	169,037
Reversal of write down	(32,692)	(64,015)
Balance at the end of the year	**853,948**	**693,394**

12. OTHER ASSETS

Other assets as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Prepayments and other deferrals	355,781	260,732
Other assets	586,764	562,100
Total	**942,545**	**822,832**

Prepayment and other deferrals are related to prepaid expenses for services that will be performed in future periods. Prepaid expenses in 2022 was LEK 314,725 thousand (2021: LEK 237,518 thousand). Other assets are related to Group's debtors.

13. FINANCIAL LIABILITIES – AMORTIZED COST

Financial liabilities as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Due to Banks	**1,937,649**	**13,808,180**
Current accounts/overnight deposits/redeemable at notice	1,776,557	9,825,558
Deposits with agreed maturity	161,092	3,982,622
Subordinated financial liabilities	-	-
Deposits from customers	**245,156,535**	**225,130,048**
Current accounts/overnight deposits/redeemable at notice	211,351,367	186,904,258
Deposits with agreed maturity	33,805,168	38,225,790
Other financial liabilities	**1,436,184**	**1,668,497**
Lease liabilities lessee	**1,552,083**	**1,427,970**
Total	**250,082,451**	**242,034,695**

The above table provides a breakdown of deposits from banks and customers by product.

in LEK thousand	31 December 2022	Inflows	New leases	Dividend declared	Outflows	Interest accrued	Other changes (e.g. FX changes)	31 December 2022
Lease liabilitities	**1,301,143**	**-**	**415,851**	**-**	**(242,933)**	**27638**	**(76,443)**	**1,552,083**
Dividend payable	-	-	-	3,623,474	(3,623,474)	-	-	-
Total	**1,301,143**	**-**	**415,851**	**3,623,474**	**(3,866,407)**	**27,638**	**(76,443)**	**1,552,083**

The following table shows the cash and non-cash effects for liabilities arising from financing activities acord-ing to IAS 7 as of December 31, 2021:

in LEK thousand	31 December 2021	Inflows	New leases	Dividend declared	Outflows	Interest accrued	Other changes (e.g. FX changes)	31 December 2021
Lease liabililities	**1,427,970**	**-**	**397,915**	**-**	**(266,796)**	**20,352**	**(24,644)**	**1,427,970**
Dividend payable	-	-	-	3,688,147	(3,688,147)	-	-	-
Total	**1,427,970**	**-**	**397,915**	**3,688,147**	**(3,954,943)**	**20,352**	**(24,644)**	**1,427,970**

The following table provides a breakdown of balances with from Groups and customers by business seg-ments:

in LEK thousand	31 December 2022	31 December 2021
General governments	7,695,315	6,806,812
Banks	(506,640)	3,201,236
Other financial corporations	2,444,288	10,606,944
Non-financial corporations	47,991,285	44,446,843
Households	189,469,936	173,876,393
Total	**247,094,184**	**238,938,228**

13. FINANCIAL LIABILITIES – AMORTIZED COST (CONTINUED)

The following table shows the maturity analysis of lease liabilities, showing the undiscounted lease pay-ments to be paid after the reporting date; the respective carrying amounts are presented under financial liabil-ities – amortized cost:

in LEK thousand	**31 December 2022**	**31 December 2021**
Up to 1 year	225,542	243,476
More than 1 year, up to 5 years	819,778	847,500
More than 5 years	603,393	410,994
Total	**1,648,713**	**1,501,970**

14. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	**31 December 2022**	**31 December 2021**
ECL for off-balance-sheet items	**215,726**	**199,048**
ECL for contingent liabilities and commitments	215,726	199,048
Accruals for staff	**127,273**	**113,799**
Bonus payments	127,273	113,799
Other provisions	**64,922**	**33,792**
Legal issues and tax litigation	64,822	33,692
Other provisions	100	100
Total	**407,921**	**346,639**

The following table shows the changes in provisions for liabilities and charges in the reporting year, although provisions for off-balance-sheet items pursuant to IFRS 9 of 215,726 LEK thousand are not included. These are shown under (31) Expected Credit losses.

in LEK thousand	**1 January 2022**	**Allocation**	**Release**	**Usage**	**Transfers,**	**31 December 2022**
Accruals for staff	113,799	exchange	-	(81,178)	-	127,273
Bonus payments	113,799	differences	31 December 2022	(81,178)	-	127,273
Other provisions	**33,792**	**35,150**	**(4,020)**	**-**	**-**	**64,922**
Legal issues and tax litigation	33,692	35,150	-	-	-	64,822
Other provisions	100	-	-	-	-	100
Total	**147,591**	**129,802**	**(4,020)**	**(81,178)**	**-**	**192,195**

15. DEFERRED TAX LIABILITIES

Deferred tax assets/liabilities derived from the following items:

in LEK thousand	**31 December 2021**	**Recognised in profit or loss**	**31 December 2022**
Tangible and Intangible Fixed Assets	(26,314)	(19.982)	**(46,296)**
Total	(26,314)	(19,982)	**(46,296)**

in LEK thousand	**31 December 2020**	**Recognised in profit or loss**	**31 December 2021**
Tangible and Intangible Fixed Assets	(23,666)	(2,648)	(26,314)
Total	**(23,666)**	**(2,648)**	**(26,314)**

16. CURRENT TAX LIABILITIES

in LEK thousand	31 December 2022	31 December 2021
Current tax liabilities	200,105	147,831
Total	**200,105**	**147,831**

Current tax liabilities is related with the tax to be paid to Tax authority regarding income tax (please refer to note 26 for more details).

17. OTHER LIABILITIES

Other liabilites as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Deferred income and accrued expenses	295,671	238,218
Due to employees	98,105	55,678
Other tax liabilities	315,535	95,829
Sundry liabilities	247,799	267,387
Overdue vacations	**26,882**	**36,808**
Total	**983,992**	**693,920**

Accrued expenses are related to wages of personnel, marketing campaigns, rent, building security, IT, legal and other operating expenses of the period for which an invoice has not been obtained yet, as such accruals have been booked. Accrued expenses amount in 2022 is thousand LEK 290,838 (2021: thousand LEK 151,256). The increase of liabilities compared to prior period is due to the increase in expenses for IT maintenance, legal ex-penses and building security.
Deferred income is related to prepaid administrative fees for stand by letter of credit and guarantees from cli-ents.

18. EQUITY

Equity as at 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Share capital	14,178,593	14,178,593
Other reserves	3,306,190	3,306,190
Retained earnings	12,744,270	12,665,697
hereof profit for the year	3,702,046	3,412,255
Total	**30,229,053**	**30,150,480**

The development of equity is shown under the statement of changes in equity section.

Share capital

The Group's capital is LEK 14,178,593 thousand comprised of 7,000 shares (2021: 7,000 shares). The Parent's capital is equal to LEK 14,178,593 thousand and the nominal value of each share is LEK 2,025,513 (2021: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each).

Other reserves

Legal reserve is established from the distribution of net profit after tax in accordance with the law No. 9901, dated 14 April 2008, "On Entrepreneurs and commercial companies".

The regulatory reserve is established in accordance wit the decision of the Supervisory Council of the Group of Albania No. 69, dated 18 December 2014.

in LEK thousand	31 December 2022	31 December 2021
Regulatory reserves	1,852,979	1,852,979
Legal reserves	1,453,211	1,453,211
Total	**3,306,190**	**3,306,190**

19. NET INTEREST INCOME

Net interest income for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Interest income		
Financial assets - amortized cost	8,746,412	7,015,387
Other assets	41,284	43,818
Interest income on financial liabilities	284	1,365
Interest income calculated using the effective interest method	8,787,980	7,060,570
Other interest income	1,783	556
Total interest income	**8,789,763**	**7,061,126**
Interest expenses		
Financial liabilities - amortized cost	(84,116)	(49,900)
Interest expenses on financial assets	(124,165)	(194,494)
Interest expense on lease liabilities	(24,720)	(20,399)
Total interest expenses	**(233,001)**	**(264,793)**
Total	**8,556,762**	**6,796,333**

Interest income using effective interest rate recognized for Loans and advances in 2022 is LEK 6,677 million (2021: LEK 5,149 million)
Interest expense from financial assets is the negative interest of placements. The increase of interest expense on financial assets relates to the increase of placements during 2022 (please refer to note 19 for more details).

20. NET FEE AND COMMISSION INCOME

Net fee and commission income for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Clearing, settlement and payment services	2,814,838	2,406,877
Loan business commissions	102,391	128,364
Custody services	41,198	12,848
Foreign exchange transactions	293,434	209,587
Other	939,329	1,065,743
Total fee and commission income from contracts with customers	**4,191,190**	**3,823,419**
Financial guarantee contracts and loan commitments	17,970	16,654
Total fee and commission income	**4,209,160**	**3,840,073**
Clearing, settlement and payment services	(1,155,762)	(940,441)
Loan and guarantee business	(187,544)	(143,092)
Other	(309,294)	(290,486)
Total Fee and commission expenses	**(1,652,600)**	**(1,374,019)**
Net fee and commission income	**2,556,560**	**2,466,054**

Fee and commissions do not include fees received for loans and advances to customers (transaction costs), which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method. Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to only a customer.

The Group provides banking services only to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency exchange transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers on a regular basis. In other income is inlcuded the Administration income, which represents asset management fees and is considered as revenue from servicesrendered to Pensions/

20. TË ARDHURAT NETO TË TARIFAVE DHE KOMISIONET (VAZHDIM)

Investment Funds under administration. This income is recognized over time. Almost all other part of other income is comprised of the broker fees collected from the insurance services provided to the clients. The group has been licensed by the financial supervisory authority in Albania to offer the insurance broker services to clients which request it. The group works with several insurance companies as their agent to offer such services and collects a fee from them monthly.

Transaction-based fees for interchange, foreign currency exchange transactions and overdrafts are charged to the customer's account when the transaction takes place. The Group has not disclosed information about the allocation of the transaction price to remaining performance obligations in contracts. This is due to the contract periods being typically less than one year in duration. Where contracts do have a longer duration, they are sub-ject to the variable consideration constraint, and, therefore, not included within the transaction price.
Servicing fees are charged on a monthly basis and are based on fixed rates reviewed regularly by the Group.
Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

21. NET TRADING INCOME

Net trading for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Net (loss)/gain on financial assets and liabilities - fair value through profit or loss	(28,655)	8,780
Debt securities	(28,655)	8,780
Exchange differences, net	32,883	216,925
Total	**4,228**	**225,705**

22. OTHER NET OPERATING LOSS

Other net operating for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	**31 December 2022**	**31 December 2021**
Sundry operating income	54,351	35,796
Rental income from investment property incl. Operating lease (real estate)	4,956	5,174
Other operating income	59,307	40,970
Write down of repossessed assets	(193,246)	(169,037)
Expense from allocation and release of other provisions	(23,847)	(8247)
Loss on derecognition of non-financial assets	(8,891)	(1,858)
Sundry operating expenses	(10,385)	(107,113)
Other operating expense	(236,369)	(286,255)
Total	**(177,062)**	**(245,285)**

Sundry operating expenses balance relates to the result from other operating activities of the bank. It is mostly related to expenses from the termination of the building lease contract, expenses losses from the written-off of debtors, fraud losses, losses from cash operations, losses in ATM-POS transactions. During 2022 there is an decrease in the sundry operating expenses since the losses from the sale of repossessed assets is LEK 13 million (2021: LEK 80 million).

23. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Staff expenses	(2,651,407)	(2,393,924)
Other administrative expenses	(2,064,480)	(2,066,118)
Depreciation of tangible and intangible fixed assets	(792,709)	(709,959)
Total	**(5,508,596)**	**(5,170,001)**

23.1 STAFF EXPENSES

Staff expenses for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Wages and salaries	(2,288,754)	(2,062,591)
Social security costs and staff-related taxes	(261,133)	(233,616)
Other voluntary social expenses	(45,310)	(42,080)
Staff expenses under deferred bonus program	(35,607)	(37,146)
Expenses for defined contribution pension plans	(16,971)	(16,871)
Termination benefits	(3,632)	(1,620)
Total	**(2,651,407)**	**(2,393,924)**

23.1.1 EXPENSES FOR DEFINED CONTRIBUTION PENSION PLANS

Expenses for defined contribution pension plans for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Members of the management board and senior staff	(7,536)	(8,656)
Other employees	(13,067)	(9,835)
Total	**(20,603)**	**(18,491)**

23.2 OTHER ADMINISTRATIVE EXPENSES

Other administrative expenses for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
IT expenses	(911,449)	(820,682)
Legal, advisory and consulting expenses	(214,121)	(248,196)
Office space expenses	(201,489)	(235,172)
Advertising, PR and promotional expenses	(277,519)	(247,948)
Security expenses	(124,999)	(109,631)
Car expenses	(47,250)	(38,630)
Other taxes	(45,961)	(44,296)
Expenses related to credit risk	(31,004)	(51,128)
Training expenses for staff	(25,208)	(20,063)
Traveling expenses	(21,640)	(6,120)
Expenses for leases	(13,943)	(10,255)
Communication expenses	(13,394)	(17,866)
Office supplies	(12,753)	(15,448)
Sundry administrative expenses	(123,750)	(200,683)
Total	**(2,064,480)**	**(2,066,118)**

23. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

23.3 DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

Depreciation of tangible and intangible assets for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Tangible fixed assets	(542,197)	(497,858)
Intangible fixed assets	(250,512)	(212,101)
Total	**(792,709)**	**(709,959)**

24. SPECIAL GOVERMENTAL MEASURES

Special governmental measures for the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Resolution fund	(110,702)	(102,538)
Deposit insurance fees	(624,397)	(590,603)
Total	**(735,099)**	**(693,141)**

The contribution for the resolution fund is in compliance with the Law on "On Recovery and Intervention in Groups in the Republic of Albania" and relevant bylaws, where each Group in Albania pays an annual contribu-tion calculated in a proportionate manner with the relevant market share, for the creation of a certain level of emergency intervention fund. This fund is calculated by Bank of Albania and is managed by Albanian Deposit Insurance Agency" (ADIA) in compliance with the investment policy of the financial instruments of the fund.
The calculation of the deposit insurance premium is based on regulation no. 53/2014 dated 22.05.2014 "On Deposit Insurance".

25. IMPAIRMENT EXPENSES / (RECOVERIES) ON FINANCIAL ASSETS

Impariment expenses/recoveries on financial assetsfor the year ended 31 December 2022 and 31 December 2021 are detailed as follows:

in LEK thousand	31 December 2022	31 December 2021
Loans and advances	(110,606)	714,462
Debt securities	(58,279)	116,648
Loan commitments, financial guarantees and other commitments given	(17,729)	(73,986)
Total	**(186,614)**	**757,124**

26. INCOME TAXES

Income tax in Albania is assessed at the rate of 15% (2021: 15%) of taxable income:

in LEK thousand	31 December 2022	31 December 2021
Current income taxes	(788,150)	(721,885)
Deferred taxes	(19,982)	(2,649)
Total	**(808,133)**	**(724,534)**

The following reconciliation shows the relationship between profit before tax and the effective tax burden:

in LEK thousand	31 December 2022	31 December 2021
Profit before tax	**4,510,179**	**4,136,789**
Theoretical income tax expense using the domestic tax rate of 15%	676,527	620,518
Tax effect of:		
Tax-exempt income/expense	(8,117)	(9,063)
Non-deductible expenses	143,785	124,824
Tax-exempt income	(4,063)	(11,745)
Effective tax burden	808,132	724,534
Effective tax rate in per cent	17.92%	14.92%

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the report-ing period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement in the Group is based on external data sources. Financial instruments measured on the basis of quoted market prices are mainly listed securities. These financial instruments are assigned to Level I of the fair value hierarchy.

If a market value is used and the market cannot be considered to be an active market in view of its restricted liquidity, the underlying financial instrument is assigned to Level II of the fair value hierarchy. If no market prices are available, valuation models based on observable market data are used to measure these financial instruments. These observable market data are mainly reproducible yield curves, credit spreads and volatilities.

If fair value cannot be measured using either sufficiently regularly quoted market prices (Level I) or using valu-ation models which are entirely based on observable market prices (Level II), then individual input parameters which are not observable on the market are estimated using appropriate assumptions. If parameters which are not observable on the market have a significant impact on the measurement of the underlying financial instru-ment, it is assigned to Level III of the fair value hierarchy. These measurement parameters, which are not regu-larly observable, are mainly credit spreads derived from internal estimates.

Assigning certain financial instruments to the level categories requires regular assessment, especially if meas-urement is based on both observable parameters and also parameters which are not observable on the market. The classification of an instrument can also change over time to take account of changes in market liquidity and thus price transparency.

Fair value of financial instruments reported at fair value

In the tables below, the financial instruments reported at fair value in the statement of financial position are grouped according to items in the statement of financial position and classified according to measurement cat-egory. A distinction is made as to whether the measurement is based on quoted market prices (Level I), or whether the valuation models are based on observable market data (Level II) or on parameters which are not observable on the market (Level III). Items are assigned to levels at the end of the reporting period.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets	31 December 2022			31 December 2021		
in LEK thousand	Level I	Level II	Level III	Level I	Level II	Level III
Financial assets - fair value through profit or loss			2,003			12,222
Debt securities			2,003			12,222

Qualitative information for the valuation of financial instruments in Level III

Assets 2022	Fair value in LEK thousand	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Financial assets - fair value through profit or loss	-			
Treasury bills, fixed coupon bonds	2,003	Discounted cash flow method (DCF)	ALL base rate -last auctions yields -T bills	2.94% - 4.58%
Total	**2,003**			

Fair value of financial instruments not reported at fair value

The financial instruments in the following table are not managed on a fair value basis and are therefore not measured at fair value in the statement of financial position. For these instruments the fair value is calculated only for the purposes of providing information in the notes and has no impact on the consolidated statement of financial position or on the consolidated income statement. The calculation of the fair value of receivables and liabilities not reported at fair value was reclassified and, among other things, input factors are also used in the models which are not observable on the market, but which have a significant influence on the calculated value. A simplified fair value calculation method for retail and non-retail portfolios is applied for all short term trans-actions (transactions with maturities up to 3 months). The fair value of these short term transactions will be equal to the carrying amount of the product. For the other transactions the methodology as described in the section entitled Fair value of financial instruments reported at fair value is applied.

2022 in LEK thousand	**Level I**	**Level II**	**Level III**	**Fair value**	**Carrying ammount**	**Difference**
Assets						
Cash, cash balances at central banks and other demand deposits	-	37,491,482	-	37,491,482	37,491,482	-
Debt securities	-	-	66,151,560	78,896,155	82,062,360	(3,166,205)
Loans and advances	-	-	155,315,545	155,315,545	155,315,545	-
Liabilities						
Deposits and subordinated	-	-	247,076,521	247,076,521	247,094,184	(17,663)
Other financial liabilities	-	-	2,988,267	2,988,267	2,988,267	-

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)
FAIR VALUE OF FINANCIAL INSTRUMENTS NOT REPORTED AT FAIR VALUE (CONTINUED)

2021 in LEK thousand	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Cash, cash balances at central banks and other demand deposits	-	42,813,051	-	42,813,051	42,813,051	-
Debt securities	-	-	80,744,137	80,744,137	80,394,977	349,160
Loans and advances	-	-	143,764,409	143,764,409	143,764,409	-
Liabilities						
Deposits and subordinated	-	-	238,926,355	238,926,355	238,938,228	(11,873)
Other financial liabilities	-	-	3,096,467	3,096,467	3,096,467	-

Level I Quoted market prices
Level II Valuation techniques based on market data
Level III Valuation techniques not based on market data

28. LOAN COMMITMENTS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS

The following table shows the loan commitments given, financial guarantees and other commitments given.

in LEK thousand	31 December 2022	31 December 2021
Loan commitments given	20,579,312	17,498,943
Financial guarantees given and other commitments given	9,876,434	7,948,185
Total	**30,455,746**	**25,447,128**
Expected credit losses for off-balance-sheet items	(215,726)	(199,048)

The following table shows the nominal amount and provisions for off-balance-sheet liabilities from commit-ments and financial guarantees.

2022 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Banks	3,262,567	-	-	20	-	-
Other financial corporations	366,000	-	-	53	-	-
Non-financial corporations	21,198,844	1,884,568	57,981	80,983	16,893	57,535
Households	3,643,856	20,011	21,919	40,064	1,200	18,978
Total	**28,471,267**	**1,904,579**	**79,900**	**121,120**	**18,093**	**76,513**

2021 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Banks	2,523,959	-	-	11	-	-
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	17,905,415	1,218,125	70,073	68,519	17,904	69,865
Households	3,679,702	25,364	24,490	20,059	2,063	20,627
Total	**24,109,076**	**1,243,489**	**94,563**	**88,589**	**19,967**	**90,492**

Legal
In the normal course of business, the Group may be presented with legal claims. As at December 31, 2022, the Group had outstanding legal cases considered normal through the course of business, having no material impact on the Group's activity.

29. CREDIT QUALITY ANALYSIS

The credit quality analysis of financial assets is a point in time assessment of the probability of default of the assets. It should be noted that for financial assets in stage 1 and 2, due to the relative nature of significant in-crease in credit risk it is not necessarily the case that stage 2 assets have a lower credit rating than stage 1 assets, although this is normally the case. The following list provides a description of the Banking of assets by proba-bility of default:

- Excellent are exposures which demonstrate a strong capacity to meet financial commitments, with neg-ligible or no probability of default (PD range 0.0000 - 0.0300 per cent).
- Strong are exposures which demonstrate a strong capacity to meet financial commitments, with negli-gible or low probability of default (PD range 0.0300 - 0.1878 per cent).
- Good are exposures which demonstrate a good capacity to meet financial commitments, with low de-fault risk (PD range 0.1878 - 1.1735 per cent).
- Satisfactory are exposures which require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk (PD range 1.1735 - 7.3344 per cent).
- Sub-standard are exposures which require varying degrees of special attention and default risk is of greater concern (PD range 7.3344 - 100.0 per cent).
- Credit impaired are exposures which have been assessed as impaired (PD range 100.0 per cent).

The following table shows the carrying amounts of the financial assets – amortized cost by rating category and stages:

2022	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	12 month ECL	Lifetime ECL	Lifetime ECL	
Excellent	18,014,896	-	-	18,014,896
Strong	30,121,342	225,628	-	30,346,970
Good	114,999,298	7,712,100	-	122,711,398
Satisfactory	42,738,908	5,956,970	-	48,695,878
Substandard	4,594,166	7,010,867	-	11,605,033
Credit impaired	-	-	8,379,245	8,379,245
Unrated	6,574,662	309,868	61,831	6,946,361
Gross carrying amount	**217,043,272**	**21,215,433**	**8,441,076**	**246,699,781**
Accumulated impairment	(1,263,661)	(1,479,772)	(6,578,443)	(9,321,876)
Carrying amount	**215,779,611**	**19,735,661**	**1,862,633**	**237,377,905**

2021	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	12 month ECL	Lifetime ECL	Lifetime ECL	
Excellent	2,316,362	-	-	2,316,362
Strong	35,086,519	17,332	-	35,103,851
Good	117,345,678	758,286	-	118,103,964
Satisfactory	50,374,949	2,580,164	-	52,955,113
Substandard	5,060,329	4,509,475	-	9,569,804
Credit impaired	-	-	9,861,541	9,861,541
Unrated	5,479,218	389,725	-	5,868,943
Gross carrying amount	**215,663,055**	**8,254,982**	**9,861,541**	**233,779,578**
Accumulated impairment	(856,481)	(1,097,688)	(7,666,023)	(9,620,192)
Carrying amount	**214,806,574**	**7,157,294**	**2,195,518**	**224,159,386**

29. CREDIT QUALITY ANALYSIS (CONTINUED)

The following table shows the nominal values of off-balance-sheet commitments by rating category and stages:

2022 **in LEK thousand**	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Totali
Excellent	49,529	45,692	-	95,221
Strong	3,529,419	120,177	-	3,649,596
Good	11,605,971	500,982	-	12,106,953
Satisfactory	9,409,994	736,568	-	10,146,562
Substandard	16,164	488,189	-	504,353
Credit impaired	-	-	79,900	79,900
Unrated	3,860,190	12,971	-	3,873,161
Total	**28,471,267**	**1,904,579**	**79,900**	**30,455,746**
Provisions for off-balance-sheet items	(121,120)	(18,093)	(76,513)	**(215,726)**

Kategoria e pa klasifikuar përfshin angazhime jashtë bilancit për disa klientë me pakicë për të cilët nuk ka asnjë ratings. Vlerësimi është i bazuar në faktorë cilësorë.

2021 **in LEK thousand**	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Totali
Excellent	127,226	-	-	127,226
Strong	2,514,980	2,139	-	2,517,119
Good	9,670,524	174,018	-	9,844,542
Satisfactory	7,463,025	391,261	-	7,854,286
Substandard	452,914	609,268	-	1,062,182
Credit impaired	-	-	94,563	94,563
Unrated	3,880,407	66,803	-	3,947,210
Total	**24,109,076**	**1,243,489**	**94,563**	**25,447,128**
Provisions for off-balance-sheet items under IFRS 9	(88,589)	(19,967)	(90,492)	**(199,048)**

The category unrated includes off-balance sheet commitments for several retail customers for whom no ratings are available. The rating is therefore based on qualitative factors.

30. COLLATERAL AND MAXIMUM EXPOSURE TO CREDIT RISK

It should be noted that the collateral values shown in the tables are capped at the maximum value of the gross carrying amount of the financial asset. The following table shows financial assets at amortized cost subject to impairment:

2022 **in LEK thousand**	Maximum exposure to credit risk	Fair value of collateral	Credit risk exposure net of collateral
Central Banks	1,850,857	-	1,850,857
General governments	82,040,423	-	82,040,423
Banks	35,273,599	-	35,273,599
Other financial corporations	4,861,828	-	4,861,828
Non-financial corporations	67,647,925	22,680,698	44,967,227
Households	49,402,317	20,192,185	29,210,132
Commitments/guarantees issued	31,062,183	5,291,485	25,770,698
Total	**272,139,132**	**48,164,368**	**223,974,764**

30. COLLATERAL AND MAXIMUM EXPOSURE TO CREDIT RISK (CONTINUED)

2021 **in LEK thousand**	Maximum exposure to credit risk	Fair value of collateral	Credit risk exposure net of collateral
Central Banks	6,035,130	-	6,035,130
General governments	76,747,623	-	76,747,623
Banks	34,311,980	-	34,311,980
Other financial corporations	3,683,965	-	3,683,965
Non-financial corporations	62,105,916	24,392,349	37,713,567
Households	45,198,894	18,694,551	26,504,343
Commitments/guarantees issued	25,735,675	5,581,419	20,154,256
Total	253,819,183	48,668,319	205,150,864

The following table contains details of the maximum exposure from financial assets in Stage 3 and the corresponding collateral:

2022 **in LEK thousand**	Maximum exposure credit risk (Stage 3)	Fair value of collateral (Stage 3)	Credit risk exposure net of collateral (Stage 3)	Impairment
Non-financial corporations	(Stage 3)	1,088,755	337,532	(4,786,450)
Households	639,702	220,492	419,211	(1,791,993)
Commitments/ guarantees issued	79,901	553	79,347	(76,513)
Total	**2,145,890**	**1,309,800**	**836,090**	**(6,654,956)**

2021 **in LEK thousand**	Maximum exposure credit risk (Stage 3)	Fair value of collateral (Stage 3)	Credit risk exposure net of collateral (Stage 3)	Impairment
Non-financial corporations	1,643,830	1,246,597	397,233	(5,666,220)
Households	750,132	256,264	493,867	(1,999,804)
Commitments/ guarantees issued	94,562	460	94,103	(90,492)
Total	**2,488,524**	**1,503,321**	**985,203**	**(7,756,516)**

31. EXPECTED CREDIT LOSSES

Impairment losses for all debt instruments which are not measured at fair value in profit or loss and for loan commitments and financial guarantees (hereinafter referred to in this section as financial instruments) are recorded in the amount of the expected credit loss. Equity instruments are not subject to the impairment rules of IFRS 9.

If the credit risk for financial instruments has significantly increased since initial recognition, the impairment for a financial instrument must be measured at the amount of the expected credit losses over the (remaining) term. If the credit risk for financial instruments has not significantly increased since initial recognition, the impairment for a financial instrument must be measured at the amount of the present value of an expected twelve-month loss. The expected twelve-month loss is that portion of the credit losses expected over the lifetime which correspond to the expected credit losses from expected default events for a financial instrument within the twelve months following the reporting date. RBI assesses at the end of every reporting period whether or not the credit risk for a financial instrument has significantly increased since initial recognition. Based on the method outlined above, RBI classifies its financial instruments into Stage 1, Stage 2, Stage 3 and POCI as follows:

Stage 1 essentially includes all financial instruments whose credit default risk has not significantly increased since their initial recognition. Stage 1 also includes all transactions which show a low credit risk on the reporting date and where RBI has utilized the option available under IFRS 9 to waive the assessment of a significant increase in credit risk. A low credit risk exists for all debt securities whose internal credit rating on the reporting date is within the investment grade range. RBI did not make use of the exemption for low credit risks in the lending business. On initial recognition of loans, the bank records an impairment in the amount of the expected twelve-month loss. Stage 1 also includes loans where the credit risk improved again, and which have thus been reclassified from Stage 2.

Stage 2 includes those financial instruments whose credit risk has significantly increased since their initial recognition and which, as at the reporting date, are not classified as transactions with limited credit risk. Impairments in Stage 2 are recognized in the amount of the financial instrument's lifetime expected credit loss. Stage 2 also includes loans where the credit risk improved, and which have thus been reclassified from Stage 3.

Stage 3 includes financial instruments which are classified as impaired as at the reporting date. RBI's criterion for this classification is the definition of a default. The expected credit loss over the entire remaining lifetime of the financial instrument is also to be used as the basis for recognizing impairment of Stage 3 loans in default.

- POCI: Purchased or originated credit-impaired assets are financial assets which were already impaired at the time of initial recognition. On initial recognition, the asset is recorded at fair value without any impairment, using an effective interest rate that is adjusted for creditworthiness. The impairment rec-ognized in subsequent periods equals the cumulative change in the lifetime expected credit loss of the financial instrument since the initial recognition in the statement of financial position. This remains the basis for measurement, even if the value of the financial instrument has risen.

Expected credit losses from financial instruments should reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. RBI calculates the expected credit loss as the probability-weighted, expected value of all payment defaults taking into account various scenarios over the expected lifetime of a financial instrument discounted with the effective interest rate that was originally deter-mined. The expected credit losses are the present value of the difference between the contractually agreed and actually expected cash flows.

General approach

The measurement of impairment for expected credit loss on financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and payment behavior. Significant judgements are required in applying the accounting requirements for measuring expected credit losses, inter alia:

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

Credit risk is the risk of suffering financial loss should customers, clients or market counterparties fail to fulfil their contractual obligations or fail to do so on time. Credit risk arises mainly from interbank, commercial and personal loans, and loan commitments, but can also arise from financial guarantees given, such as, credit guar-antees, letters of credit, and acceptances.

Other credit risks arise from investments in debt securities and from trading activities (trading credit risks), as well as from settlement balances with market counterparties and reverse repurchase agreements.

31. EXPECTED CREDIT LOSSES (CONTINUED)

Models are applied in order to estimate the likelihood of defaults occurring, the associated default ratios and the default correlations between counterparties. Group measures credit risks using the probability of default (PD), exposure at default (EAD) and loss given default (LGD).

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality from the point of initial recognition. ESG factors are not yet explicitly included in ECL modelling.

Significant increase in credit risk

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

Quantitative criteria

Rating systems incorporate all available quantitative and qualitative information relevant for forecasting the credit risk into the PD. This metric is based primarily on a statistical selection and weighting of all available indicators. In addition, the PD adjusted in accordance with IFRS 9 requirements takes into account not only historical information and the current economic environment, but also, in particular, forward-looking infor-mation such as the forecast for the development of macroeconomic conditions. As a consequence, the PD are used as a frame of reference for assessing whether the credit risk of a financial instrument has risen significantly since the date of its initial recognition. By embedding the review of the relative transfer criterion within the robust processes and procedures of the bank's Group-wide credit risk management framework, the bank ensures that a significant increase in the credit risk is identified in a reliable and timely manner based on objective criteria. The review to determine whether the credit default risk as at the financial reporting date has risen sig-nificantly since the initial recognition of the respective financial instrument is performed as at the reporting date. This review compares the observed probability of default over the residual maturity of the financial in-strument (Lifetime PD) against the lifetime PD over the same period as expected on the date of recognition.

The Group uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For quantitative staging the bank compares the lifetime PD curve at reporting date with the forward lifetime PD curve at the date of initial recognition. Given the different nature of products between non-retail and retail customers, the methods for assessing potential significant increases in credit risk also differ slightly.

In order to make the two curves for credit risk of non-retail customers comparable, the PDs are scaled down to annualized PDs. A significant increase in credit risk is considered to have occurred if the PD increase was 250 per cent or greater. For longer maturities the threshold of 250 per cent is reduced to account for a maturity ef-fect.

For retail exposures, the remaining cumulative PDs are compared as the logit difference between lifetime PD at reporting dateand lifetime PD at origination conditional to survival up to the reporting date. A significant in-crease in credit risk is considered to have occurred once this logit difference is above a certain threshold. The threshold levels are calculated separately for each portfolio which is covered by individual rating-based life-time PD models.

Group is developing an adjusted methodology for retail exposures following the implementation of the ECB/EBA IRB repair package on internal (Pillar 1) models and it is expected to be implement in within Q2 2022.

Qualitative criteria

Group uses qualitative criteria in addition to quantitative criteria to recognize a significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.

For the corporate customer, sovereign, bank and project finance portfolios, a transfer takes place if the borrower meets one or more of the following criteria:

- Detection of first signs of credit deterioration in the early warning system
- Changes in contract terms as a forbearance measure
- External risk factors with a potentially significant impact on the client's repayment ability

31. EXPECTED CREDIT LOSSES (CONTINUED)

The assessment of a significant increase in credit risk incorporates forward-looking information and is per-formed on a quarterly basis at an individual transaction level for all corporate customer, sovereign, bank and project finance portfolios.

For retail portfolios, a Stage 2 transfer takes place if the borrower meets one or more of the following qualitative criteria:

- Forbearance flag active
- Default of material exposure (> 20 per cent of total exposure) of the same customer on another product (PI segment)
- Holistic approach – applicable for cases where new forward-looking information becomes available for a segment or portion of the portfolio and this information is not yet captured in the rating system. If such cases are identified, management measures this portfolio with lifetime expected credit losses (as a collective as-sessment).

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days overdue on its contractual payments. In a few limited cases, financial assets which are more than 30 days overdue may not show a significantly higher credit risk.

Low credit risk exemption

In selected cases for mostly sovereign debt securities, bank makes use of the low credit risk exemption. All securities which are presented as low credit risk have a rating equivalent to investment grade or better i.e. minimum S&P BBB-, Moody's Baa3 or Fitch BBB-. Bank has not used the low credit risk exemption for any lending business.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

The "Credit-impaired" indicators according to IFRS 9 is assessed by referring to quantitative and qualitative triggers. Firstly, a borrower is considered to be defaulted, if they are assessed to be more than 90 days past due. Secondly, a borrower is considered to be in default if they are in significant financial difficulty and are unlikely to repay any credit obligation in full. The default definition has been applied consistently to model the Proba-bility of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout bank's expected loss calculations.

Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD) and exposure at default (EAD). Effective interest rate is used for the ECL discount.
The basis for all Retail ECL component parameter estimates are the relating Pillar I/II models developed within the Basel framework.

Probability of Default (PD)
The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next twelve months or over the remaining lifetime of the obligation. In general, the lifetime probability of default is calculated using the regulatory twelve-month probability of default, stripped of any conservative adjustments, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or port-folio of loans. The default profile is based on historical observed data and parametric functions.
Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:

- Corporate customers, project finance and financial institutions: The default profile is generated using a par-ametric survival regression (Weibull) approach. Forward-looking information is incorporated into the proba-bility of default using the Vasicek one factor model. The default rate calibration is based on Kaplan Maier methodology with withdrawal adjustment.
- Retail lending and mortgage loans: The default profile is generated using parametric survival regression in competing risk frameworks. Forward-looking information is incorporated into the probability of default us-ing satellite models.
- Sovereigns, local and regional governments, insurance companies and collective investment undertakings: The default profile is generated using a transition matrix approach. Forward-looking information is incorpo-rated into the probability of default using the Vasicek one factor model.

31. EXPECTED CREDIT LOSSES (CONTINUED)

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

Loss Given Default (LGD)

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a twelve-month or lifetime basis, where twelve-month loss given default is the percentage of loss expected to be made if the default occurs in the next twelve months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.
Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign: The loss given default is found by using market implied sources, as no sufficient loss data is available for the sovereign segment. The method is based on external sovereign default events between 1998 and 2015.Only the GDP turned out to have a significant impact.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies: The loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model.
- Retail mortgages and other retail lending: For portfolios with developed IRB models, the pool level Basel LGD values is used as a starting point for deriving IFRS 9 compliant LGD estimates.

The key difference between Basel LGD and IFRS 9 LGD is that for Basel the intention is to have a TTC average estimate of the discounted value of post-default recoveries enlarged with margins of conservatism to account for prudency, whereas for IFRS 9 the LGD estimate has to be an unbiased point in time estimate that should consider forward-looking information. Therefore, the Basel LGD estimates must be adjusted for IFRS 9 purpos-es.

- Retail lending and mortgage loans: The loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default. Forward-looking information is incorporated into the loss given default using various satellite models.

In the limited circumstances where some inputs are not fully available alternative recovery models, benchmark-ing of inputs and expert judgement is used for the calculation.

Exposure at Default (EAD)

Exposure at default is based on the amounts the Group expects to be owed at the time of default, over the next twelve months or over the remaining lifetime. The twelve-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a twelve-month or lifetime basis. Where relevant, early repayment/refinance assumptions are also considered in the calculation.
For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

Discount factor (D)

In general, financial assets and assets off the statement of financial position which are not leasing or POCI, the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

Calculation

For loans in Stage 1 and 2, the expected credit loss is the product of PD, LGD and EAD times the probability not to default prior to the considered time period. The latter is expressed by the survivorship function S. This calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by forward-looking scenario.

Different models have been used to estimate the provisions in Stage 3, and these can be grouped into the following categories:

Corporate customers, project finance, sovereigns, financial institutions, local and regional governments, insurance companies and collective investment undertakings: Estimation of future cash flow for Stage 3 provisions are done by workout managers and the provision calculation is done by our local system.
For retail loans Stage 3 impairments are determined for the majority of Group units by calculating the statistically derived best estimate of expected loss adjusted for indirect costs.

31. EXPECTED CREDIT LOSSES (CONTINUED)

Shared credit risk characteristics

Almost all of the provisions under IFRS 9 are measured collectively. Only for non-retail Stage 3 are most of the provisions individually assessed. For expected credit losses provisions modelled on a collective basis a group-ing of exposures is performed on the basis of shared credit risk characteristics so that the exposures within each group are similar. Retail exposure characteristics are grouped on country level, customer classification (house-holds and Micro), product level (e.g. mortgage, personal loans, overdraft facilities or credit cards), PD rating grades and LGD pools. Each combination of the above characteristics is considered as a group with a uniform expected loss profile. Non-retail exposure characteristics are assigned to a probability of default according to rating grades and customer segments. This groups customer types into individual assessment models. For the determination of LGD and EAD parameters, the portfolio is grouped by country and product.

Forward looking information

As a rule, the risk parameters specific to IFRS 9 are estimated not only on historical default information but also particularly on the current economic environment (point-in-time perspective) and forward-looking information. This assessment primarily involves regularly reviewing the effects which the bank's macroeconomic forecasts will have regarding the amount of the ECL and including these effects in the determination of the ECL.

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate fol card looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, loss given default and ex-posure at default vary by category type. Forecasts of these economic variables (the base economic scenario) are provided by RBI Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. Beyond three years, no macroeconomic adjustment is carried out.

That means after three years, to project the economic variables for the full remaining lifetime of each instru-ment, a mean reversion approach has been used, which means that economic variables tend to either a long-term average rate or a long-term average growth rate until maturity. The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, Raiffeisen Research, a department of the parent entity, also estimates an optimistic and a pessimistic scenario to ensure non-linearities are captured. The Group has concluded that three or fewer scenarios appropriately captured non-linearity. Expert judgment on idiosyncratic risks has also been applied in this process on the level of Raiffeisen Research in coordination with the Group risk manage-ment, resulting in selective adjustments to the optimistic and pessimistic scenarios.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
The Group considers these forecasts to represent its best estimate of the future outcomes and cover any potential non-linearities and asymmetries within the Group's different portfolios.

For the development of a macroeconomic model, a variety of relevant macroeconomic variables were consid-ered. The model employed is a linear regression model with the aim of explaining changes in or the level of the default rate. The following types of macro variables were considered as drivers of the credit cycle: real GDP growth, unemployment rate, 3-month money market rate, 10-year government bond yield, housing price index, FX rates, and the HICP inflation rate. For each country (or portfolio in case of retail exposure), a relevant set is determined based on the ability to explain historically observed default rates. Through the cycle, PDs are over-laid with the results of the macro-economic model to reflect the current and expected state of economy. For the LGD, the macro model is applied on the underlying cure rates. i.e. a positive macro-economic outlook drives up the cure rates and this reduces the LGD. For retail exposures, the workout LGD is modelled in a similar manner to the default rates either directly or as well via the components like cure rate, loss given cure as well as loss given non-cure. The long-run average LGDs are overlaid with the results of the macro models to reflect current and expected state of economy. The weightings assigned to each scenario at the end of the reporting year-end are as follows: 25 per cent optimistic, 50 per cent base and 25 per cent pessimistic scenarios.

For corporate customers, the following risks and complications resulting from current economic and political developments are included in the macroeconomic models: High inflation rates by historical standards are cur-rently triggering significant increases in key interest rates in many countries, leading to higher financing costs for companies. This development is incorporated into the models of major parts of the portfolio through a change in the 3-month money market rate and the yield on government bonds, resulting in an increase in ex-pected default risk. While high inflation rates may be associated with higher default risk in bivariant analyses, the underlying drivers of higher default risk are actually higher interest rates as a result of higher inflation and economic growth

31. EXPECTED CREDIT LOSSES (CONTINUED)
FORWARD LOOKING INFORMATION

trending downwards, which often occur simultaneously. These drivers are directly captured in the economic growth and interest rate models. In macroeconomic terms, the years 2020 and 2021 were charac-terized by extremely high volatility, starting with a strong decline in real GDP followed by a similar rate of positive economic growth. In contrast to comparable recessions after the great financial crisis, these develop-ments have not been met by a wave of insolvencies and defaults, which can be attributed to two factors.

For one, the COVID-driven recession primarily consisted of a temporary suspension of economic activity, which did not necessitate significant structural adjustments. Furthermore, massive political measures were taken to support the economy in order to avoid long-term consequences stemming from events such as unemployment and insolvencies. These developments underscore how the relationship between macroeconomic indicators and credit risk are influenced by circumstances that are difficult to capture by quantitative means. In order to avoid implicit distortions in the macroeconomic regression models caused by the correlation of events during the COVID pandemic, observations from the years 2020 and 2021 were not incorporated into the model. The de-velopment of real GDP during the COVID pandemic also showed how models need to take a sufficiently long history of economic developments into consideration in order to differentiate between strong economic growth immediately following a massive recession (which leads to no notable reduction in the average default risk) and generally strong economic growth (which does lead to a reduction in default risk). For segments with a longer period of historical data, current models are able to make such a differentiation, which leads to more accurate projections.

The core assumption underlying the application of macroeconomic credit risk models is that the empirical cor-relations between macroeconomic indicators and default risk can be extrapolated to future. In the case of the war in Ukraine, such an assumption should be critically examined.
The empirical correlation between these two factors can be characterized by a direct but transitory rise in de-fault risk. Due to the uncertainty surrounding the extent to which such a correlation can be applied to the cur-rent situation, the empirical regression model for corporate customers is averaged with the results of a second model, in which the rise in default risk resulting from a recession is strongly delayed.

Overlays and other risk factors

In situations where the existing input parameters, assumptions and modelling do not cover all relevant risk factors, post-model adjustments and additional risk factors are the most important types of overlays. This is generally the case if there are temporary circumstances, time restrictions to adequately incorporate relevant new information into the rating or re-segmentation of the portfolio and if individual loans within a loan portfolio develop differently than originally expected. Due to the current pandemic situation, it is necessary to reflect additional risks in the impairments.

For the central models in the corporate segment, the additional risk was considered using the risk factors, while in the local retail segment the risks were applied on top of the models. For retail exposures, post-model adjust-ments are the main types of overlays applied for the calculation of the expected credit losses. Generally, post-model adjustments are only a temporary solution to avoid potential distortions. The management has assessed to recognise and calulate the post model adjustments up to 2023.The overlays relevant for 2022 are shown in the table below and split according to the relevant categories.

31 December 2022	**Modelled ECL**	**Add on**						**Total**
000 LEK		Special Risk Factor		Other		Total		
Central banks	126	-	0%	-	0%	-	0%	126
General governments	86,572	1	0%	-	0%	1	0%	86,573
Banks	250	-	0%	-	0%	-	0%	250
Other financial corporations	4,364	-	0%	-	0%	-	0%	4,364
Non-financial corporations	1,009,400	449,798	45%	-	0%	449,798	45%	1,459,198
Households	1,224,575	104,986	9%	-	0%	104,986	9%	1,329,561
Total	**2,325,287**	**554,785**	**53%**	**-**	**0%**	**554,785**	**53%**	**2,880,072**

A special risk factor related to the potential impact of interest rate hike is applied during 2022, resulted in additional Stage 1 and 2 provisions of Lek 554,785 thousand.

31. EXPECTED CREDIT LOSSES (CONTINUED)

Post-model adjustments

The COVID-19 related post-model adjustments reflected the collective impact on the sectors that were espe-cially hard hit by the pandemic: tourism, hotels, further related industries as well as automobile, air travel, oil and gas, real estate and some consumer goods industries. The effects were due to demand shock, supply chain disruptions and crisis containment measures. The related post-model adjustments involve a qualitative as-sessment of exposures for the expected significant increase in credit risk and their subsequent transfer from Stage 1 to Stage 2. The criteria for the identification of such exposures were predominantly based on the above listed industries (for SMEs) and employment industries (for households) and further refined, where relevant, with information related to the application of the specific moratorium measures. The post-model adjustments are reversed either after the risks have materialized by transferring the affected receivables to Stage 3 or if the expected risks do not materialize.

Other risk factors

For corporate customers additional expected credit loss effects have been built into the modelled expected credit losses by means of an industry matrix, country specifics or, if necessary, by means of other special risk factors. On top of the existing country-specific view, we use an industry-based differentiation to further mod-ulate risk parameters. This industry matrix combines a short-term state of the industry within the economic cycle and the recovery path on a three-year horizon. For example, for hotels, GDP determines the macroeco-nomic outlook, while the industry matrix indicates a pessimistic scenario and, on top of that, the special risk factor occupancy drives the elevated level of Stage 2 impairments. Another component of the forward-looking information is the time delay of inflow to non-performing exposure and Stage 3 due to moratoria and support measures. The one-off effect of using the more differentiated methodology has fully compensated for the previous overlay.

Sensitivity analysis

The most significant assumptions affecting the sensitivity of the expected credit loss allowance are as follows:

- Gross domestic product (all portfolios)
- Unemployment rate (all portfolios)
- Long term government bond rate (non-retail portfolios especially)

The table below provides a comparison between the reported accumulated impairment for expected credit losses for financial assets in Stage 1 and 2 (weighted by 25 per cent optimistic, 50 per cent base and 25 per cent pessimistic scenarios) and then each scenario weighted by 100 per cent on their own. The optimistic and pessimistic scenarios do not reflect extreme cases, but the average of the scenarios which are distributed in these cases. This information is provided for illustrative purposes.

2022	31/12/2022	100%	100%	100%
in LEK thousand	(25/50/25%)	Optimistic	Base	Pessimistic
Accumulated impairment (Stage 1 & 2)	**2,774,880**	**2,371,553**	**2,672,410**	**3,383,147**

2021	31/12/2022	100%	100%	100%
in LEK thousand	(25/50/25%)	Optimistic	Base	Pessimistic
Accumulated impairment (Stage 1 & 2)	**2,003,782**	**1,937,589**	**1,991,959**	**2,093,622**

31. EXPECTED CREDIT LOSSES (CONTINUED)

Write-OffsLoans and debt securities are written off (either partially or fully) where there is no reasonable expectation of recovery. This happens when the borrower does not have income from operations anymore and collateral values cannot generate sufficient cash flows to repay amounts subject to the write-off. For the exposure of companies in bankruptcy, loans are written down on the value of the collateral if the company no longer generates cash flows from its operating business. The retail business takes into account qualitative factors. In cases where no payment has been made for one year, the outstanding amounts are derecognised whereby depreciated assets can continue to be subject to enforcement activities. For the exposure of companies in gone concern cases, loans are written down to the value of the collateral if the company no longer generates cash flows from its operating business. The retail business takes into account qualitative factors. In cases where no payment has been made for one year, the outstanding amounts are written off here. The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity were immaterial/amounts to LEK thousand.

32. GROSS EXPOSURE BY STAGES

The Group's credit portfolio is well diversified in terms of type of customer, geographical region and industry. Single name concentrations are also actively man-aged (based on the concept of Groups of connected customers) by limits and regular reporting. As a consequence, portfolio granularity is high. The following table shows the financial assets – amortized cost based on the respective counterparties and stages. This reveals the Group's focus on non-financial companies and house-holds:

2022 in LEK thousand	Gross carrying amount			Accumulated impairment			ECL Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	1,850,903	-	-	(45)	-	-	0.00%	0.00%	0.00%
General governments	79,365,847	2,783,500	-	(82,663)	(4,034)	-	0.10%	0.14%	0.00%
Banks	35,273,703	-	-	(104)	-	-	0.00%	0.00%	0.00%
Other financial corporations	1,143,754	-	-	(3,198)	-	-	0.28%	0.00%	0.00%
Non-financial corporations	56,553,895	11,303,079	6,029,806	(661,998)	(790,405)	(4,786,451)	1.17%	6.99%	79.38%
Households	46,576,491	3,407,533	2,411,270	(515,702)	(685,283)	(1,791,993)	1.11%	20.11%	74.32%
hereof mortgage	21,677,107	507,185	317,989	(112,853)	(70,051)	(208,809)	0.52%	13.81%	65.67%
Total	**220,764,593**	**17,494,112**	**8,441,076**	**(1,263,710)**	**(1,479,722)**	**(6,578,444)**	0.57%	8.46%	77.93%

The following table shows the contingent liabilities and other off-balance-sheet commitments by counterparties and stages. This reveals the Group's focus on non-financial company customers.

2022 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9			ECL Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Bankat qendrore	-	-	-	-	-	-	0.00%	0.00%	0.00%
Bankat	3,262,567	-	-	20	-	-	0.00%	0.00%	0.00%
Institucionet qeveritare	-	-	-	-	-	-	0.00%	0.00%	0.00%
Korporata të tjera financiare	366,000	-	-	53	-	-	0.00%	0.00%	0.00%
Korporata jo-financiare	21,198,844	1,884,568	57,981	80,983	16,893	57,535	-0.38%	-0.90%	-99.23%
Individë	3,643,856	20,011	21,919	40,064	1,200	18,978	-1.10%	-6.00%	-86.58%
Totali	**28,471,267**	**1,904,579**	**79,900**	**121,120**	**18,093**	**76,513**	-0.43%	-0.95%	-95.76%

The following table shows the gross carrying amount and impairments of the financial assets – amortized cost that have moved from measurement on the basis of expected 12-month losses to measurement on the basis of expected lifetime losses or vice versa:

2022 in LEK thousand	Gross carrying amount		**Impairment**		**ECL Coverage Ratio**	
	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL
Movement from 12 month ECL to lifetime ECL						
Non-financial corporations	(6,367,603)	6,367,603	(116,948)	447,020	1.84%	7.02%
Households	(1,901,837)	1,901,837	(39,599)	555,836	2.08%	29.23%
Movement from lifetime ECL to 12 month ECL	-	-	-	-		
Non-financial corporations	553,404	(553,404)	12,066	(42,065)	2.18%	7.60%
Households	1,487,882	(1,487,882)	32,110	(303,983)	2.16%	20.43%

The following table shows the gross carrying amount of the financial assets – amortized cost that have been transferred between Stages:

	Gross carrying amount						
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		Transfer to POCI from Stage 3
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To POCI from Stage 3
Debt securities	1,940,489	-	-	-	-	-	-
General governments	1,940,489	-	-	-	-	-	-
Loans and advances	7,828,996	1,969,209	424,862	82,282	440,443	72,075	140,060
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	6,309,321	552,763	209,713	23,440	58,282	640	9,065
Households	1,519,675	1,416,446	215,149	58,842	382,161	71,435	130,995

32. GROSS EXPOSURE BY STAGES (CONTINUED)

The following table shows the the allowances and provisions for credit loss of the financial assets – amortized cost that have been transferred between Stages:

	Allowances and provisions for credit losses						
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		Transfer to POCI from Stage 3
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To POCI from Stage 3
Provision Amounts Transferred Out FROM Stage (Negative Sign)							
Debt securities	(1,213)	-	-	-	-	-	-
General governments	(1,213)	-	-	-	-	-	-
Loans and advances	**(142,612)**	**(289,270)**	**(76,087)**	**(46,410)**	**(13,934)**	**(56,778)**	**(111,332)**
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	(115,759)	(41,981)	(35,064)	-	(1,189)	(83)	(9,105)
Households	(26,853)	(247,289)	(41,023)	(46,410)	(12,745)	(56,695)	(102,227)
Provision Amounts Transferred INTO Stage (Positive Sign)							
Debt securities	**3,820**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	3,820						
Loans and advances	**692,902**	**40,763**	**256,946**	**9,097**	**309,952**	**3,413**	-
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	395,796	12,046	109,267	-	51,223	20	-
Households	297,106	28,717	147,679	9,097	258,729	3,393	-

33. DEVELOPMENT OF IMPAIRMENTS

The following table shows the development of impairments on loans and bonds in the measurement categories of financial assets – amortized cost and financial assets.

in LEK thousand	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
As at January 1, 2022	**856,479**	**1,097,686**	**6,096,301**	**1,569,725**	**9,620,191**
Increases due to origination and acquisition	141,912	67,523	128,792	-	338,227
Decreases due to derecognition	(15,085)	(4,538)	(604,246)	-	(623,869)
Changes due to change in credit risk (net)	280,591	460,319	452,615	(394,560)	798,965
Decrease in allowance account due to write-offs	-	-	-	-	-
As at December 31, 2022	**(208)**	**(141,199)**	**(649,930)**	**(20,252)**	**(811,589)**

in LEK thousand	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
As at January 1, 2021	**829,526**	**1,205,775**	**7,335,241**	**1,901,598**	**11,272,141**
Increases due to origination and acquisition	171,169	9,210	129,072	-	309,451
Decreases due to derecognition	(14,590)	(16,494)	(925,745)	(11,226)	(968,055)
Changes due to change in credit risk (net)	(129,057)	(85,521)	657,491	(320,071)	122,842
Decrease in allowance account due to write-offs	(569)	(15,284)	(1,099,758)	(576)	(1,116,187)
As at December 31, 2021	**856,479**	**1,097,686**	**6,096,301**	**1,569,725**	**9,620,191**

The following table shows the development of provisions for loan commitments given, financial guarantees and other commitments:

in LEK thousand	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at January 1, 2022	**88,589**	**19,967**	**90,492**	**199,048**
Increases due to origination and acquisition	134,405	11,961	25,007	171,373
Decreases due to derecognition	(39,184)	(3,442)	(15,779)	(58,405)
Changes due to change in credit risk (net)	(62,690)	(10,392)	(23,208)	(96,290)
As at December 31, 2022	**121,120**	**18,094**	**76,512**	**215,726**

in LEK thousand	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at January 1, 2021	**51,364**	**27,081**	**46,485**	**124,930**
Increases due to origination and acquisition	70,926	9,355	93,555	173,836
Decreases due to derecognition	(9,726)	(3,919)	(38,118)	(51,763)
Changes due to change in credit risk (net)	(23,975)	(12,550)	(11,430)	(47,955)
As at December 31, 2021	**88,589**	**19,967**	**90,492**	**199,048**

33. DEVELOPMENT OF IMPAIRMENTS (CONTINUED)

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The following table shows the overdue claims and bonds in the measurement categories amortized cost and fair value through other comprehensive income:

2022	Carrying amount								
	Past Due Assets without significant increase in credit risk since initial recognition (Stage 1)			Past Due Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Past Due Credit-impaired assets (Stage 3)		
in LEK thousand	≤ 30 days	> 30 days	> 90 days	≤ 30 days	> 30 days	> 90 days	≤ 30 days	>30 days	>90 days
Non-financial corporations	2,127,939	-	-	854,884	362,088	-	169,856	13,720	370,968
Households	639,425	-	-	389,443	234,211	-	44,690	25,293	354,025
Total	**2,767,364**	**-**	**-**	**1,244,327**	**596,299**	**-**	**214,546**	**39,013**	**724,993**

2021	Carrying amount								
	Past Due Assets without significant increase in credit risk since initial recognition (Stage 1)			Past Due Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Past Due Credit-impaired assets (Stage 3)		
in LEK thousand	≤ 30 days	> 30 days	> 90 days	≤ 30 days	> 30 days	> 90 days	≤ 30 days	>30 days	>90 days
Non-financial corporations	2,335,664	-	-	678,980	143,885	-	633,248	45,766	431,388
Households	592,504	-	-	158,051	217,616	-	59,015	28,757	413,860
Total	**2,928,168**	**-**	**-**	**837,031**	**361,501**	**-**	**692,263**	**74,523**	**845,248**

The amount of past-due exposures in stage 2 and stage 3 reflect the increase due to the effect of the COVID-19 pandemic and the application of moratoria and other governmental support measures (such as guaranteed loans) which tend to freeze the counting of days past due up until 31.12.2021 in accordance with decision no.33, dated 28.05.2020 of Bank of Albania.

34. BREAKDOWN OF REMAINING TERMS OF MATURITY

Assets	Current assets			Non-current assets	
2022 in LEK thousand	Due at call or without maturity	Up to 3 months	More than 3 months,	More than 1 year, up to 5 years	More than 5 years
Cash, cash balances at central Bank and other demand deposits	up to 1 year	1,375	-	-	-
Financial assets - amortized cost	22,227	66,189,203	45,791,739	94,272,759	40,423,853
Financial assets - fair value through profit or loss	-	299	1,704	-	-
Other assets	-	64,760	-	-	-
Total	**20,583,207**	**66,255,637**	**45,793,443**	**94,272,759**	**40,423,853**

Liabilities	Short-term liabilities			Long-term liabilities	
2022 in LEK thousand	Due at call or without maturity	Up to 3 months	More than 3 months,	More than 1 year, up to 5 years	More than 5 years
Financial liabilities - amortized cost	213,836,483	10,118,109	24,165,794	1,425,415	536,650
Other liabilities	56,411	192,458	-	-	-
Total	**213,892,894**	**10,310,567**	**24,165,794**	**1,425,415**	**536,650**

34. BREAKDOWN OF REMAINING TERMS OF MATURITY (CONTINUED)

Assets	Current assets			Non-current assets	
2021 in LEK thousand	Due at call or without maturity	Up to 3 months	More than 3 months,	More than 1 year, up to 5 years	More than 5 years
Cash, cash balances at central Bank and other demand deposits	up to 1 year	3,241	-	–	-
Financial assets - amortized cost	22,227	67,772,201	41,883,982	91,525,309	32,575,859
Financial assets - fair value through profit or loss	–	889	11,333	–	-
Other assets	–	22,505	–	–	–
Total	**22,187,557**	**67,798,836**	**41,895,315**	**91,525,309**	**32,575,859**

2021 in LEK thousand	Due at call or without maturity	Up to 3 months	More than 3 months,	More than 1 year, up to 5 years	More than 5 years
Financial liabilities - amortized cost	197,563,843	15,769,142	26,889,031	1,434,195	378,484
Other liabilities	61,726	213,125	0	0	0
Total	**197,625,569**	**15,982,267**	**26,889,031**	**1,434,195**	**378,484**

Compulsory reserve has not been included in the maturity analysis for 2021 and 2022 as it is not a contractual financial instrument.

35. FOREIGN CURRENCY VOLUMES

in LEK thousand	31 December 2022	31 December 2021
Assets	131,115,313	124,316,775
Liabilities	121,439,519	111,905,726

For further details on the foreign currency exposures and sensitivity analysis refer to Note "36 Market Risk" below.

36. RISK MANAGEMENT

a) Overview

Active risk management is a core competency of the the Group. In order to effectively identify, measure, and manage risks the Group continues to develop its comprehensive risk management system. Risk management is an integral part of overall Group management. In particular, in addition to legal and regulatory requirements, it takes into account the nature, scale, and complexity of the Group's business activities and the resulting risks. The risk report describes the principles and organization of risk management and describes current risk exposure in all material risk categories.

Risk management principles

The Group has a system of risk principles and procedures in place for measuring and monitoring risk, which is aimed at controlling and managing material risks in the Group. The risk policies and risk management principles are laid out by the Management Board. The principles include the following risk policies:

- Risk management: State-of-the-art risk management and risk controlling technologies are used which are com-mensurate with the materiality of the risks; risk data and risk report technologies are also effectively combined. Credit country, market, liquidity, and operational risks are managed as key risks on a Bank-wide basis. For this purpose, these risks are measured, limited, aggregated, and compared to available risk coverage capital.
- Regulatory requirements: All provisions and requirements of the supervisory authorities relating to risk management are taken into account and complied with.
- Continuous planning: Risk strategies and risk capital are reviewed and approved in the course of the annual budgeting and planning process; whereby special attention is also paid to preventing risk concentrations.
- Independent control: A clear personnel and organizational separation is maintained between business opera-tions and all risk management or risk control activities.
- Ex ante and ex post control: Risks are consistently measured within the scope of product selling and in risk-adjusted performance measurement. Thereby it is ensured that business in general is conducted only under risk-return considerations and that there are no incentives for taking high risks.

Individual risk management units of the Group develop detailed risk strategies, which set more concrete risk targets and specific standards in compliance with these general principles. The overall Group risk strategy is derived from the Group's business strategy and the risk appetite and adds risk relevant aspects to the planned business structure and stra-tegic development. These aspects include for example structural limits and capital ratio targets which have to be met in the budgeting process and in the scope of business decisions. More specific targets for individual risk categories are set in detailed risk strategies.

Organization of risk management

The Management Board of the Group ensures the proper organization and ongoing development of risk management. It decides which procedures are to be employed for identifying, measuring, and monitoring risks, and makes steering deci-sions according to the risk reports and analyses. The Management Board is supported in undertaking these tasks by independent risk management units and special committees.
Risk management functions are performed on different levels in the Group. The Group develops and implements the relevant concepts as the parent credit institution. Risk management units implement the risk policies for specific risk types and take active steering decisions within the approved risk budgets in order to achieve the targets set in the busi-ness policy. For this purpose, they monitor resulting risks using standardized measurement tools and report them to cen-tral risk management units via defined interfaces.

The Central Bank Risk Controlling division assumes the independent risk controlling function required by Banking law. Its responsibilities include developing the Group-wide framework for overall Group risk management (integrating all risk types) and preparing independent reports on the risk profile for the Supervisory Board's Risk Committee, the Group Management Board and the heads of individual business units. It also measures the required risk coverage capital for different Group units and calculates the utilization of the allocated risk capital budgets in the internal capital ade-quacy framework.

Risk committees
The Group Risk Committee is the most senior decision-making body for all of the Group's risk-related topic areas. It decides on the risk management methods and on the control concepts used for the overall Group and for key subdivi-sions, and is responsible for ongoing development and implementation of methods and parameters for risk quantifica-tion and for refining steering instruments.
This also includes setting the risk appetite and the various risk budgets and limits at overall Group level as well as

36. RISK MANAGEMENT (CONTINUED)

moni-toring the current risk situation with respect to internal capital adequacy and the corresponding risk limits. It approves risk management and control activities (such as the allocation of risk capital) and advises the Management Board in these matters.
The Group Asset/Liability Committee assesses and manages the statement of financial position structure and liquidity risk and defines the standards for internal funds transfer pricing. In this context it plays an important role in planning long-term funding and hedging structural interest rate and foreign exchange risks.
The Market Risk Committee controls market risks arising from trading and Banking book transactions and establishes corresponding limits and processes. In particular, it relies on profit and loss reports, the risks calculated and the limit utilization, as well as the results of scenario analyses and stress tests with respect to market risks.
The Credit Committees are staffed by front office and back office representatives, with the staff assignments depending on the type of customer (corporate customers, Groups, sovereigns and retail). The committees decide upon the specific lending criteria for the different customer segments and make all credit decisions concerning those segments in connec-tion with the credit approval process (depending on rating and exposure size).
The Problem Loan Committee is the most important committee in the evaluation and decision-making process concern-ing problem loans. It primarily comprises decision making authorities; its chairman is the Chief Risk Officer (CRO) of the Group. Further members with voting rights are those members of the Management Board responsible for the custom-er divisions, the Chief Financial Officer (CFO), and the relevant division and departmental managers from risk manage-ment and special exposures management (workout).
The Group Operational Risk Management & Control Committee comprises representatives of the business areas (retail, market and corporate customers) and representatives from Compliance (including financial crime), Internal Control System, Operations, Security and Risk Controlling, under chairmanship of the CRO. This committee is responsible for managing the Group's operational risk (including conduct risk). It derives and sets the operational risk strategy based on the risk profile and the business strategy and also makes decisions regarding actions, controls and risk acceptance.

Quality assurance and internal audit
Quality assurance with respect to risk management refers to ensuring the integrity, soundness, and accuracy of processes, models, calculations, and data sources. This is to ensure that the Group adheres to all legal requirements and that it can achieve the highest standards in risk management-related operations.
All these aspects are coordinated by the Group Compliance division, which analyzes the internal control system on an ongoing basis and – if actions are necessary to address any deficiencies – is also responsible for tracking their imple-mentation.
Two very important functions in assuring independent oversight are performed by the divisions Audit and Compliance: Independent internal auditing is a legal requirement and a central pillar of the internal control system. Internal Audit periodically assesses all business processes and contributes considerably to securing and improving them. It sends its reports directly to the Management Board of the Group, which discusses them on a regular basis in its board meetings.
The Compliance Office is responsible for all issues concerning compliance with legal requirements in addition to and as an integral part of the internal control system. Thus, compliance with existing regulations in daily operations is monitored.

Overall Group risk management

Maintaining an adequate level of capital is a core objective of the Group. Capital requirements are monitored regularly based on the risk level as measured by internal models, and in choosing appropriate models the materiality of risks an-nually assessed is taken into account. This concept of overall Group risk management provides for meeting capital re-quirements from both a regulatory perspective (sustainability and going-concern status) and from an economic perspec-tive (target rating). Thus it covers the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required. The full ICAAP process of the Group is audited by Internal Audit during the supervisory review process on an annual basis.

The Risk Appetite Framework (RAF) limits the Group's overall risk in accordance with the Group's strategic business objectives and allocates the risk capital calculated to the different risk categories and business areas. The primary aim of the RAF is to limit risk, particularly in adverse scenarios and for major singular risks in such a way as to ensure compli-ance with regulatory minimum ratios. The RAF is therefore based on the ICAAP's three pillars (target rating, going-concern, sustainability perspective) and sets the concentration risk limits for the risk types identified as significant in the risk assessment. In addition, the risk appetite decided by the Management Board and the Group's risk strategy and its implementation are reported regularly to the Supervisory Board's Risk Committee.

36. RISK MANAGEMENT (CONTINUED)

OVERALL GROUP RISK MANAGEMENT (CONTINUED)

Target	Risk	Measurement technique	Confidence level
Target rating perspective	Risk of not being able to satisfy claims from the Group's senior debt holders	The unexpected loss for the one-year risk horizon (economic capital) may not exceed the present level of equity and subordinated liabilities	99.92 per cent as derived from the target rating's probability of default
Going concern perspective	Risk of not meeting the regu-latory capital requirement pursuant to the CRR	Risk taking capacity (project-ed earnings plus capital in excess of the regulatory requirement) may not ex-ceed the Group's value at risk (one-year risk horizon)	95 per cent, reflecting the owners' willingness to in-ject additional own funds
Sustainability perspective	Risk of falling below a sustainable tier 1 ratio throughout an economic cycle	Capital and earnings projec-tion for a three-year plan-ning period based on as-sumptions of a significant downturn in the economy	85–90 per cent, based on potential management decisions to reduce risk temporarily or raise ad-ditional equity capital

Credit risk

Credit risk is the largest risk for the Group's business. Credit risk means the risk of suffering financial loss should any of the Group's customers or counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to Group, loans and advances, lending commitments and financial guarantees given. The Group is also exposed to other credit risks arising from investments in debt securities and other exposures associated with trading activities, settlement agreements and reverse repo transactions.

The total credit exposure used in portfolio management includes both exposures on and off the statement of financial position before the application of credit-conversion factors, and thus represents the total credit exposure. It is not re-duced by the effects of credit risk mitigation such as guarantees or physical collateral, ef-fects that are, however, consid-ered in the total assessment of credit risk. The total credit exposure is used – if not ex-plicitly stated otherwise – for refer-ring to exposures in all subsequent tables in the risk report.

The following table shows total credit exposure, by asset class:

in LEK thousand	31 December 2022	31 December 2021
Corporate customers	76,921,228	71,025,331
Project finance	6,367,604	4,839,225
Retail customers	69,815,866	63,685,989
Banks	63,779,889	47,328,709
Sovereigns	101,483,743	115,160,503
Total	**318,368,330**	**302,039,757**

Total credit exposure comprises cash balances at central banks and other demand deposits at banks (Note 6), financial assets at amortized cost (Note 7) and loan commitments, financial guarantees given and other commitments given (Note 28).

36. RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)

Credit portfolio – corporate customers

The internal rating models for corporate customers take into account qualitative parameters, various ratios from the statement of financial position, and profit ratios covering different aspects of customer creditworthiness for various in-dustries and countries. In addition, the model for smaller corporates also includes an account behavior component.

The following table shows the total credit exposure internal corporate rating (large corporates, mid-market and small corporates). For presentation purposes, the individual grades of the rating scale have been combined into nine main rating grades.

in LEK thousand		31December 2022	Share	31 December 2021	Share
1	Minimal risk	-	0.00%	5,479,055	7.71%
2	Excellent credit standing	-	0.00%	-	0.00%
3	Very good credit standing	-	0.00%	143,660	0.20%
4	Good credit standing	1,169,577	1.52%	1,288,178	1.81%
5	Sound credit standing	26,877,103	34.94%	27,396,761	38.57%
6	Acceptable credit standing	26,687,862	34.70%	23,807,222	33.52%
7	Marginal credit standing	10,093,880	13.12%	7,509,321	10.57%
8	Weak credit standing / sub-standard	6,176,324	8.03%	4,242,976	5.97%
9	Very weak credit standing / doubtful	1,204,629	1.57%	987,828	1.39%
10	Default	4,684,629	6.09%	157,463	0.22%
NR	Not rated	27,224	0.04%	12,867	0.02%
Total		**76,921,228**	**100.00%**	**71,025,331**	**100.00%**

The rating model for project finance has five grades and takes both individual probabilities of default and available collateral into account. The breakdown of the Group's project finance exposure is shown in the table below:

in LEK thousand		As at 31 December 2022	Share	As at 31 December 2021	Share
6.1	Excellent project risk profile – very low risk	1,088,630	17.10%	865,624	17.89%
6.2	Good project risk profile – low risk	4,977,659	78.17%	3,557,951	73.52%
6.3	Acceptable project risk profile – average risk	-	0.00%	1	0.00%
6.4	Poor project risk profile – high risk	-	0.00%	-	0.00%
6.5	Default	301,313	4.73%	415,649	8.59%
NR	Not rated	2	0.00%	-	0.00%
Total		**6,367,604**	**100.00%**	**4,839,225**	**100.00%**

The table below provides a breakdown of the total credit exposure to corporates and project finance by industry:

in LEK thousand	31 December 2022	Share	31 December 2021	Share
Manufacturing	16,254,483	19.52%	15,425,247	20.33%
Wholesale and retail trade	26,684,624	32.04%	22,913,969	30.20%
Financial intermediation	1,087,945	1.31%	18,508	0.02%
Real estate	1,977,061	2.37%	2,644,539	3.49%
Construction	10,958,214	13.16%	8,249,836	10.87%
Transport, storage and communication	38,120	0.05%	4,047,201	5.33%
Electricity, gas, steam and hot water supply	3,570,053	4.29%	16,726,339	22.05%
Freelance/technical services	16,711,134	20.06%	25,300	0.03%
Other industries	6,007,198	7.21%	5,813,617	7.66%
Total	**83,288,832**	**100.00%**	**75,864,556**	**100.00%**

36. RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)

Credit portfolio – Retail customers

Retail customers are subdivided into private individuals and small and medium-sized entities (SMEs). For retail customers a two-fold scoring system is used, consisting of the initial and ad-hoc scoring based on customer data and of the behavioral scoring based on account data. The table below shows the Group's credit exposure to retail customers:

in LEK thousand	31 December 2022	Share	31 December 2021	Share
Retail customers – private individuals	56,081,080	80%	51,180,180	80%
Retail customers – small and medium-sized entities	13,734,786	20%	12,505,809	20%
Total	**69,815,866**	**100%**	**63,685,989**	**100%**

The following table shows the total credit exposure to retail customers (private individuals and micro companies) by internal rating:

in LEK thousand		31 December 2022	Share	31 December 2021	Share
0.5	Minimal risk	3,746,268	6.39%	1,263,628	2.38%
1.0	Excellent credit standing	14,225,934	24.26%	1,085,955	2.04%
1.5	Very good credit standing	7,661,794	13.06%	4,937,617	9.29%
2.0	Good credit standing	9,100,534	15.52%	15,548,149	29.25%
2.5	Sound credit standing	7,734,383	13.19%	12,437,240	23.39%
3.0	Acceptable credit standing	4,028,304	6.87%	4,468,453	8.41%
3.5	Marginal credit standing	2,399,483	4.09%	2,141,344	4.03%
4.0	Weak credit standing / sub-standard	1,099,776	1.88%	1,220,303	2.30%
4.5	Very weak credit standing / doubtful	1,717,689	2.93%	818,644	1.54%
5.0	Default	2,427,317	4.14%	2,624,224	4.94%
NR	Not rated	4,505,611	7.68%	6,618,187	12.45%
Total		**58,647,093**	**100%**	**53,163,744**	**100%**

The following table shows the total credit exposure to retail customers (small enterprise companies) by internal rating:

in LEK thousand		31 December 2022	Share	31 December 2021	Share
1	Minimal risk	160,548	1.51%	191,240	1.82%
2	Excellent credit standing	546,095	4.67%	180,962	1.68%
3	Very good credit standing	991,271	8.51%	996,046	9.68%
4	Good credit standing	1,719,984	15.56%	1,439,251	13.32%
5	Sound credit standing	1,907,999	17.65%	1,570,949	15.51%
6	Acceptable credit standing	2,289,338	20.90%	2,078,156	20.59%
7	Marginal credit standing	1,693,143	14.99%	1,717,766	15.69%
8	Weak credit standing / sub-standard	693,163	5.87%	995,386	9.07%
9	Very weak credit standing / doubtful	238,560	2.01%	334,782	2.83%
10	Default	913,507	8.31%	1,013,303	9.76%
NR	Not rated	15,165	0.03%	4,404	0.04%
Total		**11,168,773**	**100.00%**	**10,522,245**	**100.00%**

36. RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)

The table below shows the total retail credit exposure by product:

in LEK thousand	31 December 2022	Share	31 December 2021	Share
Mortgage loans	25,896,612	37.09%	23,486,220	36.88%
Personal loans	23,151,899	33.16%	20,810,192	32.68%
SME financing	2,199,476	3.15%	9,967,274	15.65%
Overdraft	10,627,673	15.22%	5,326,092	8.36%
Credit cards	5,838,959	8.36%	2,228,649	3.50%
Car loans	2,101,247	3.01%	1,867,562	2.93%
Total	**69,815,866**	**100%**	**63,685,989**	**100%**

Credit portfolio – Banks

The following table shows the total credit exposure by internal rating for Banks (excluding central Banks). Due to the small number of customers (i.e. observable defaults), the default probabilities of individual rating grades in this asset class are calculated based on a combination of internal and external data.

in LEK thousand		31 December 2022	Share	31 December 2021	Share
1	Minimal risk	10,543,620	17%	365,380	1%
2	Excellent credit standing	13,391,471	21%	21,032,031	44%
3	Very good credit standing	14,630,915	23%	10,847,000	23%
4	Good credit standing	18,580,739	29%	4,201,001	9%
5	Sound credit standing	5,162,769	8%	1,139,081	2%
6	Acceptable credit standing	1,147,491	2%	873,941	2%
7	Marginal credit standing	0	0%	107,744	0%
8	Weak credit standing / sub-standard	321,617	1%	533,598	1%
9	Very weak credit standing / doubtful	0	0%	-	0%
10	Default	0	0%	-	0%
NR	Not rated	1,266	0%	8,228,933	17%
Total		**63,779,888**	**100.00%**	**47,328,709**	**100.00%**

The table below shows the total credit exposure to Banks (excluding central Banks) by product:

in LEK thousand	31 December 2022	Share	31 December 2021	Share
Money market	34,199,906	57%	29,504,072	62%
Bonds	-	0%	3,625,581	8%
Loans and advances	2,595,334	4%	2,299,523	5%
Repo	1,073,798	2%	1,182,874	2%
Other	22,189,530	37%	10,716,659	23%
Total	**60,058,568**	**100%**	**47,328,709**	**100%**

36. RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)

Credit portfolio – Sovereigns

Another asset class is formed by central governments, central Banks, and regional municipalities as well as other public sector entities. The table below provides a breakdown of the total credit exposure to sovereigns (including central Banks) by internal rating:

in LEK thousand		31 December 2022	Share	31 December 2021	Share
A1	Excellent credit standing	5,681,161	5.60%		
A2	Strong credit standing	3,645,431	3.59%	3,639,251	3.16%
A5	Good credit standing	2,297,783	2.26%	105,837,718	91.90%
B1	Excellent credit standing	-			
B5	Good credit standing	-			
C1	Excellent credit standing	87,236,154	85.96%	2,346,921	2.04%
C2	Strong credit standing	1,490,350	1.47%	1,404,256	1.22%
C3	Strong credit standing	13	0.00%	5	0.00%
C4	Good credit standing	1,132,757	1.12%	1,210,908	1.05%
NR	Not rated	94	0.00%	721,444	0.63%
Totali		**101,483,743**	**100.00%**	**115,160,503**	**100.00%**

The table below shows the total credit exposure to sovereigns (including central Banks) by product:

in LEK thousand	31 December 2022	Share	31 December 2021	Share
Loans and advances	20,267,287	19.97%	32,327,505	28.07%
Bonds	79,365,553	78.21%	76,797,813	66.69%
Money market	1,850,903	1.82%	6,035,185	5.24%
Total	**101,483,743**	**100.00%**	**115,160,503**	**100.00%**

Non-performing exposures (NPEs)

The following table shows non-performing exposures and includes both non-defaulted and defaulted exposures.

	NPE		NPE ratio		NPE coverage ratio	
in LEK thousand	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Non-financial corporations	7,726,045	7,159,055	8.41%	10.35%	80.43%	80.10%
Households	2,662,228	2,674,168	4.69%	0.10%	72.36%	75.39%
Loans and advances	**10,388,273**	**9,833,223**	**3.00%**	**6.25%**	**79.00%**	**78.93%**
Total	**10,388,273**	**9,833,223**	**3.00%**	**6.25%**	**79.00%**	**78.93%**

Non-performing loans (NPL)

According to Article 178 CRR, the definition of default and thus a non-performing loan (NPL) is triggered if it can be assumed that a customer is unlikely to fulfil all of its credit obligations to the Group, or if the debtor is overdue at least 90 days on any material credit obligation to the Group. For non-retail customers, twelve different indicators are used to identify a default event. For example, a default event applies if a customer is involved in insolvency or similar proceed-ings, if it has been necessary to recognize an impairment or a direct write-down on a customer loan, or if credit risk man-agement has judged a customer account receivable to be not wholly recoverable or the Workout Unit is considering a restructuring.

36. RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)

The following table shows the share of non-performing loans (NPL) in the defined asset classes (excluding items off the statement of financial position):

	NPL		NPL ratio		NPL coverage ratio	
in LEK thousand	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Non-financial corporations	7,702,461	7,158,993	8.37%	2.07%	80.66%	80.79%
Households	2,662,228	2,674,168	4.67%	0.10%	73.85%	75.97%
Total non-Banks	**10,364,689**	**9,833,161**	**4.40%**	**0.32%**	**79.23%**	**78.93%**
Total	**10,364,689**	**9,833,161**	**4.40%**	**0.32%**	**79.23%**	**78.93%**

The following tables show the changes in non-performing loans in the defined asset classes (excluding items off the statement of financial position):

in LEK thousand	As at January 1, 2022	Additions	Decrease	As at December 31, 2022
Non-financial corporations	8,853,711	1,140,997	(2,292,247)	7,702,461
Households	2,904,234	880,061	(1,122,067)	2,662,228
Total non-Banks	11,757,945	2,021,058	(3,414,314)	10,364,689
Total	**11,757,945**	**2,021,058**	**(3,414,314)**	**10,364,689**

In disposals are included repayments, write offs and reclassication out of NPL.

in LEK thousand	As at January 1, 2021	Additions	Decrease	As at December 31, 2021
Non-financial corporations	9,751,014	600,558	-3,192,579	7,158,993
Households	2,718,254	563,173	-607,259	2,674,168
Total non-Banks	12,469,268	1,163,731	-3,799,838	9,833,161
Total	**12,469,268**	**1,163,731**	**-3,799,838**	**9,833,161**

Concentration risk

The credit portfolio of the Group is well diversified in terms of geographical region and industry. Single name concen-trations are also actively managed (based on the concept of groups of connected customers) by way of limits and regular reporting. As a result, portfolio granularity is high. As part of the Group's strategic realignment, the limit structures for concentration risk were reviewed for each customer segment. The regional breakdown of the exposures reflects the broad diversification of credit business in the Group's markets. The following table shows the distribution of credit exposures across all asset classes by the borrower's home country, grouped by regions:

in LEK thousand	2022	Share	2021	Share
Albania	260,017,327	81.67%	249,563,530	82.63%
Austria	15,262,434	4.79%	23,918,002	7.92%
Germany	5,304,342	1.67%	4,212,816	1.39%
Netherlands	4,974,956	1.56%	1,151,617	0.38%
France	4,360,375	1.37%	4,358,068	1.44%
North America	3,646,151	1.15%	3,003,330	0.99%
Switzerland	1,424,746	0.45%	3,414,594	1.13%
Italy	104,660	0.03%	58,720	0.02%
Great Britain	84,467	0.03%	88,149	0.03%
Romania	642	0.00%	1,031	0.00%
Poland	85	0.00%	3,625,628	1.20%
Czech Republic	27	0.00%	53	0.00%
Bulgaria	2	0.00%	29	0.00%
Other	12,235,947	3.84%	5,392,237	1.79%
Other European Union	9,461,802	2.97%	1,831,856	0.61%
Rest of World	1,490,367	0.47%	1,420,097	0.47%
Total	**318,368,329**	**100.00%**	**302,039,757**	**100.00%**

36. RISK MANAGEMENT (CONTINUED)
CREDIT RISK (CONTINUED)

The following table shows credit exposure across all asset classes by currency:

in LEK thousand	31 December 2022	Share	31 December 2021	Share
Euro (EUR)	127,217,823	40.72%	112,170,074	37.53%
US-Dollar (USD)	20,135,758	6.45%	22,068,851	7.38%
Swiss franc (CHF)	545,933	0.17%	335,077	0.11%
Albanian lek (ALL)	160,603,541	51.41%	159,741,875	53.45%
Other foreign currencies	3,911,851	1.25%	4,531,130	1.52%
Total	**312,414,906**	**100.00%**	**298,847,007**	**100.00%**

The following table shows the Group's total credit exposure based on customer industry classification:

in LEK thousand	31 Dhjetor 2022	Pjesa në %	31 Dhjetor 2021	Pjesa në %
Banking and insurance	86,839,596	27.60%	85,871,710	28.43%
Public administration and defence and social insurance institutions	70,088,676	22.28%	69,192,857	22.91%
Private households	40,458,312	12.86%	51,203,183	16.95%
Retail trade except repair of motor vehicles	32,542,846	10.34%	25,863,370	8.56%
Electricity, gas, steam and hot water supply	19,004,997	6.04%	16,882,908	5.59%
Manufacture of basic metals	18,054,057	5.74%	15,429,987	5.11%
Construction	12,779,964	4.06%	10,511,203	3.48%
Extraction of crude petroleum and natural gas	8,578,060	2.73%	3,475,257	1.15%
Other transport	4,856,201	1.54%	5,234,655	1.73%
Other business activities	4,793,736	1.52%	6,590,531	2.18%
Real estate activities	3,784,390	1.20%	2,892,871	0.96%
Land transport, transport via pipelines	2,496,756	0.79%	422,322	0.14%
Wholesale trade and commission trade (except car trading)	-	0.00%	524,239	0.17%
Sale of motor vehicles	-	0.00%	52,898	0.02%
Manufacture of machinery and equipment	-	0.00%	171,910	0.06%
Manufacture of food products and beverages	142,277	0.05%		
Other industries	10,227,141	3.25%	7,719,856	2.56%
Total	**314,647,009**	**100%**	**302,039,757**	**100%**

Market risks

Market risk is defined as the risk of experiencing losses due to adverse changes in market prices. This includes changes in the value of traded assets, movements directly or indirectly in observable prices and effects of changes in the volatili-ty and liquidity of these factors. Market risk, therefore, arises from present value changes of on and off-balance sheet positions in the bank's trading and banking book.

Market risk estimations are based on changes in exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters (e.g., implied volatilities). The Capital Markets division is responsible for proprietary trading, market making, and customer business in money market and capital market products.

Organization of market risk management

All market risks are measured, monitored, and managed on Group level.

The Market Risk Committee is responsible for strategic market risk management issues. It is responsible for managing and controlling all market risks in the Group. The Group's overall limit is set by the Management Board on the basis of the risk-taking capacity and income budget. This limit is apportioned to sub-limits in coordination with business divi-sions according to the strategy, business model and risk appetite.

The Market Risk Management department ensures that the business volume and product range comply with the

36. RISK MANAGEMENT (CONTINUED)
MARKET RISKS (CONTINUED)

defined strategy of the Group. It is responsible for implementing and enhancing risk management processes, risk management infrastructure and systems, manuals, and measurement techniques for all market risk categories and credit risk arising from market price changes in derivative transactions. Furthermore, Market Risk Management independently measures and reports all market risks on a daily basis according to internal and regulatory requirements.

All products in which open positions can be held are listed in the product catalog. New products are added to this list only after successfully completing the product approval process. Product applications are investigated thoroughly for any risks. They are approved only if the new products can be implemented in the Group's front- and back-office risk management systems.

Limit system

The Group uses a comprehensive risk management approach for both the trading and the Banking book (total-return approach). Market risk is therefore managed consistently in all trading and Banking books. The following indicators are measured and limited on a daily basis in the market risk management system:

Value-at-Risk (VaR) – (confidence level: 99 per cent; risk horizon: one day)

- Value-at-risk is the main market risk steering instrument in liquid markets and normal market situations. VaR is measured based on a hybrid simulation approach in which 5,000 scenarios are calculated. The approach com-bines the advantages of a historical simulation and a Monte-Carlo simulation and derives market parameters from 500 days of historical data. Distribution assumptions include modern features such as volatility decluster-ing and random time changes, which helps in accurately reproducing fat-tailed and asymmetric distributions and base interest rate risk factors. Value-at-risk results are not only used for limiting risk but also in the allocation of economic capital.

Sensitivities (to changes in exchange rates and interest rates, gamma, vega, equity and commodity prices)

- Sensitivity limits are to ensure that concentrations are avoided in normal market situations and are the main steering instrument under extreme market situations and in illiquid markets or in markets that are structurally difficult to measure.
- Stoploss - Stop loss limits serve to strengthen the discipline of traders such that they do not allow losses to ac-cumulate on their own proprietary positions but strictly limit them instead.

A comprehensive stress testing concept complements this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio. The results on market risk concentrations shown by these stress tests are reported to the Market Risk Committee and taken into account when setting limits. Stress test reports for individual portfolios are included in daily market risk reporting.

Value-at-Risk (VaR)

The following tables show the VaR (99 per cent, one day) for the individual market risk categories in the trading book. The Group's VaR mainly results from currency risk for trading book and interest rate risk for Banking book.

Trading book VaR 99% 1d in LEK thousand	VaR as at December 31, 2022	VaR as at December 31, 2021
Currency risk	100%	100%
Interest rate risk	0%	0%
Credit spread risk	0%	0%
Share price risk	0%	0%
Vega risk	0%	0%
Basis risk	**0%**	**0%**
Total value	**(16,835)**	**(14,537)**

Banking book VaR 99% 1d in LEK thousand	VaR as at December 31, 2022	VaR as at December 31, 2021
Currency risk	0%	0%
Interest rate risk	46.50%	25.70%
Credit spread risk	52.70%	74.00%
Vega risk	0%	0%
Basis risk	0.8%	0.3%
Total	**(663,614)**	**(381,935)**

36. RISK MANAGEMENT (CONTINUED) MARKET RISKS (CONTINUED)

Total VaR 99% 1d in LEK thousand	VaR as at December 31, 2022	VaR as at December 31, 2021
Currency risk	1.4%	21.5%
Interest rate risk	46.5%	19.7%
Credit spread risk	51.4%	58.4%
Share price risk	0%	0%
Vega risk	0%	0%
Basis risk	0.7%	0.3%
Total	**(665,493)**	**(485,449)**

Vega risk is the measurement of an option's price sensitivity to changes in the volatility of the underlying asset. Vega represents the amount that an option contract's price changes in reaction to a 1% change in the implied volatility of the underlying asset. The bank is not exposed to Vega Risk.
Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the poten-tial for excess gains or losses in a hedging strategy, thus adding risk to the position. To quantify the amount of the basis risk, the bank take the current market price of the asset being hedged and subtract the futures price of the contract.

Exchange rate risk and capital ratio

Market risk in the Group results primarily from exchange rate risk, exchange rate fluctuations also influence current revenues and expenses. They also affect regulatory capital requirements for assets denominated in foreign currencies, even if they are financed in the same currency and thus do not create an open foreign exchange position.

The Group aims at stabilizing its capital ratio when managing exchange rate risks. This risk is managed on a monthly basis in the Group Asset/Liability Committee based on historical foreign exchange volatilities, exchange rate forecasts, and the sensitivity of the regulatory capital ratio to changes in individual foreign exchange rates.

The following table shows all material open foreign exchange rate positions as at 31 December 2022 and the corre-sponding values for the previous year.

in LEK thousand	**31 December 2022**	**December 31, 2021**
AUD	12,265	(15,073)
CAD	22,752	(3,209)
CHF	(3,908)	(82,155)
DKK	(39)	1,157
EUR	9,820,254	11,923,295
GBP	(22,449)	(22,716)
JPY	3,467	5,098
NOK	(10)	25
SEK	(44)	1,232
USD	(170,222)	844,289

The negative open foreign position show that financial liabilities are bigger than financial assets in the respective cur-rency, while if the open foreign position is positive shows that financial assets are bigger than financial liabilities.

Interest rate risk in the trading book

The following tables show the largest present value changes for the trading book of the Group given a one-basis-point interest rate increase for the whole yield curve in LEK thousand for the reporting dates 31 December 2022 and 31 De-cember 2021.

2022 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 J	>20y
ALL	-0.94	-0.02	-0.19	-0.72								

2021 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 J	>20y
ALL	-0.97			-0.97								

36. RISK MANAGEMENT (CONTINUED)
MARKET RISKS (CONTINUED)

Different maturities and repricing schedules of assets and the corresponding liabilities (i.e. deposits and financing from money markets and capital markets) cause interest rate risk in the Group. This risk arises in particular from different in-terest rate sensitivities, rate adjustments, and other optionality of expected cash flows. Interest rate risk in the Banking book is material for the EUR and US dollar as major currencies.

Management of the statement of financial position is a core task of the Treasury division, which is supported by the Group Asset/Liability Committee. They base their decisions on various interest income analyses and simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and the overall risk appetite.

Interest rate risk in the Banking book is not only measured within a value-at-risk framework but also managed by the traditional tools of nominal and interest rate gap analyses. Interest rate risk is subject to quarterly reporting in the con-text of the interest rate risk statistic submitted to the Banking supervisor.

The following table shows the change in the present value of the Group's Banking book given a one-basis-point interest rate increase for the whole yield curve in LEK thousand for reporting dates 31 December 2022 and 31 December 2021.

2022 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 J	>20y
ALL	**2,687**	(108)	(60)	(368)	421	2,958	(691)	(160)	255	574	38	(172)
CHF	**17**	-	-	(2)	(4)	(1)	(3)	(2)	(2)	(1)	-	-
EUR	**3,224**	232	19		1,296	536	1,219	(1,497)		(279)	(254)	(106)
GBP	**12**	13	2	(296)	1	-	-	-	(4,094)	-	-	-
USD	**12**	13	2	22	1	-	-	-	-	-	-	-

2021 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 J	>20y
ALL	**2,687**	(108)	(60)	(368)	421	2,958	(691)	(160)	255	574	38	(172)
CHF	**17**	-	-	(2)	(4)	(1)	(3)	(2)	(2)	(1)	-	-
EUR	**3,224**	232	19		1,296	536	1,219	(1,497)		(279)	(254)	(106)
GBP	**12**	13	2	(296)	1	-	-	-	(4,094)	-	-	-
USD	**12**	13	2	22	1	-	-	-	-	-	-	-

Liquidity management

Funding structure

The Group's funding structure is highly focused on retail deposit taking in the local market. Different funding sources are utilized in accordance with the principle of diversification. These include the use of third-party financing loans and risk sharing schemes with different supranational organizations. Partly due to tight country limits and partly due to ben-eficial pricing, the Group is also using interGroup borrowing and placements with local and international Groups.

Principles

Liquidity management in the Group ensures the continuous availability of funds required to cover day-to-day business operations. It is therefore one of the most crucial business processes in overall Group steering. Liquidity adequacy is ensured over the entire maturity spectrum from both an economic and also a regulatory perspective.

In economic perspective, RBI Group has established a governance framework comprising internal limits and control measures on liquidity positions, which is in accordance with the Principles for Sound Liquidity Risk Management and Supervision established by the Basel Committee on Banking Supervision. The Group has also implemented the same framework, as one of the network Groups of RBI Group.

The regulatory component is addressed by complying with reporting requirements under Basel III (Liquidity Coverage Ratio, Net Stable Funding Ratio and Additional Liquidity Monitoring Metrics) and by keeping the respective minimum requirements in the form of regulatory limits. Moreover, the Group has added to the group based liquidity framework, additional liquidity and reporting requirements established by Group of Albania (BoA), and Albanian Financial Super-visory Authority.

36. RISK MANAGEMENT (CONTINUED)
LIQUIDITY MANAGEMENT (CONTINUED)

Responsibility and Organization

The responsibility to ensure adequate levels of liquidity lies with the entire Board of Management. However, in terms of functions, the responsible Board members are the Chief Executive Officer (Treasury and IB) and the Chief Risk Officer/Chief Financial Officer. Consequently, the processes related to liquidity risk are mainly carried out by two areas within the Group. Firstly, Treasury/Dealing Room department manage the liquidity risk positions within the strategy, guidelines and parameters set by decisions taken in Asset/Liability Committee (ALCO) meetings which reflect all regu-latory constraints.

Secondly, these are monitored and supported by independent Integrated Risk division (Market Risk department). Mar-ket risk department measures and implements limits on different liquidity positions, as well as monitors their compli-ance. In addition to the aforementioned line functions, ALCO and Research department is responsible for implementing Group wide methodology on liquidity risk models.

Liquidity strategy

Our Group's Liquidity Strategic objectives include self-sustainability of Group's liquidity position, continuous stabilization of customer deposit base, and the ongoing compliance with regulatory requirements and with internal policies and limits. Another objective is the avoidance of costly excess liquidity and the efficient utilization of funds. Liquidity Risk Management units (Treasury/Dealing Room, Market Risk, ALCO and Research) in the Group have a variety of direct or indirect measures at hand for steering the balance sheets and liquidity positions of the Group. Treasury/Dealing Room is committed to achieve all key performance indicators (kpis) and to comply with risk-based principles.

Key performance indicators include general targets (i.e. return on risk adjusted capital (RORAC) or coverage ratios), as well as specific Treasury targets for liquidity (such as a minimum survival horizon in defined stress scenarios or the di-versification of the refinancing structure). Besides achieving a structural contribution by means of a maturity transfor-mation that reflects the liquidity and market risk assumed by the Group, Treasury/Dealing Room pursues a prudent and sustainable risk policy in its balance sheet management.

Liquidity risk framework

Liquidity refers to the Group's ability to retain and/or attract, at any time, available funds in required currencies and enough amounts at reasonable costs in order to meet its financial obligations when they become due. Liquidity risk represents the possibility of negative effects on the financial result and equity due to inability of the Group to meet its payment obligations due to:

Withdrawal of existing sources of funding and/or the inability to secure new sources of funding (funding liquidity risk)
Difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk)

Bank defines the framework for liquidity risk management, which will enable Group to respond the matured obligations in terms of the normal business conditions, but also in time of crisis. Group manages the risk in all currencies and separately in major currencies, provides stability and diversification of financing sources, timely and adequately treated in the case of the increased risk.

The liquidity risk framework comprises of definition of established risk appetite and limit structure, models applied for capturing customer and market behaviour (going concern and stress), system of Early Warning Indicators, contingency plans.

Risk Management process consists of measuring and modelling risks, setting and monitoring limits, maintaining exposures within these limits and handling limit excesses, and aligning the exposure management with business targets.

Risk appetite and liquidity limits

The Risk Appetite Framework (RAF) aims to provide the management, together with the formulation and approval of a top-down Risk Appetite statement, a tool to set and constrain the level of overall risk the group is willing and able to take on, to achieve its strategic and business goals. There is a close interconnection to the Internal Capital Adequacy Assessment Process (ICAAP) as the main objective of the RAF is to align strategic and business targets with the necessi-ty to fulfil minimum regulatory capital requirements in adverse scenarios as well as in the case of large singular risk events, and to ensure that senior creditors do not bear losses in an extreme risk scenario.

The risk appetite is defined as the level of risk that the group is willing to take and is expressed by a risk appetite that requires a minimum survival period (TTW) of 30 days in a period of severe stress (combined crisis) without the execution of any countermeasures, or 90 days with countermeasures, respectively. This is ensured either by a structurally posi-tive liquidity profile or by a sufficiently high liquidity buffer. In case of market disruptions, an ad hoc individual steer-ing with more conservative targets for the total position or selected currencies might be put into place.

In the business-as-usual case (GC Scenario) the maturity transformation must be covered completely by available liquid-ity buffer in the midterm. This means that the cumulative liquidity position over a period of up to one year must be posi-tive. In the long term (one year or more), maturity transformation is permitted up to a certain level.

Risk apetitte defined on internal models is supplemented by limits based to regulatory liquidity ratios.

In accordance with the defined risk appetite, the bank has a survival horizon of several months (TTW) in a severe, com-bined stress scenario (reputational and market stress). This is ensured by both a structurally positive liquidity profile and by a sufficiently high liquidity buffer. In a normal going concern environment, maturity transformation is fully covered by the available liquidity buffer in the medium term. This means that the cumulative liquidity position over a period of up to one year is positive. In the long term (one year or more), maturity transformation is permitted up to a certain level.

36. RISK MANAGEMENT (CONTINUED)
LIQUIDITY MANAGEMENT (CONTINUED)

Regulatory Liquidity Ratios

Regulatory Liquidity Ratios

Market Risk unit based on BoA Regulation no 71 "On Liquidity Risk Management" should calculate and report in case of any ecess the Liquidity ratios to the BoA. Market Risk calculates the ratio of liquid assets against the short-term lia-bilities:

1. Denominated in the national currency (ALL) at the minimum level 15% (fifteen per cent) and in the foreign cur-rency at the minimum level 20% (twenty per cent);
2. As a total at the minimum level 20 % (twenty percent).

Liquidity Coverage Ratio (LCR)

Based on the BoA regulation No 27/2019, RBAL shall ensure at any time a liquidity coverage ratio of at least:

a) 100% for total currencies

b) 80% for the total of significant foreign currencies

The liquidity position is monitored at the Bank level and is restricted by means of a comprehensive limit system. In accordance with defined risk appetite Bank defined limits which limit Liquidity Positions in a dual form: by a set of Going concern liquidity limits and a set of TTW liquidity limits.

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the proportion of Available Stable Funding ("ASF") via the liabilities and capital over Required Stable Funding ("RSF") for the assets. The Group monitors its structural liquidity and maturity transformation of assets also with the capital structural indicator – net stable funding ratio (NSFR), which is the long-term indicator of liquidity, which assesses whether the bank has the appropriate funding structure in relation to the structure of assets

Based on the BoA regulation No. 70/2022, RBAL shall ensure at any time a Net stable funding ratio of at least:

a) 100% for total currencies

Liquidity monitoring

The Group uses a series of customized measuring instruments and early warning indicators which provide the Manage-ment Board and senior management with timely and forward-looking information. The limit framework ensures that the Group can continue to operate in a period of severe stress.

Monitoring of limits and reporting limit compliance is performed regularly and effectively. Any breach by different Group business lines is reported to the Group ALCO and escalated. In such cases, appropriate steps are undertaken in consultation with the relevant unit or contentious matters are escalated to the next highest responsible body.

Liquidity stress testing

Stress tests are conducted for the individual Group units on a daily basis and on Group level on a weekly basis, in RBI HO. The tests cover three scenarios (market, reputational and com-bined crisis), consider the effects of the scenarios for a period of several months and demon-strate that stress events can simultaneously result in a time-critical liquidity re-quirement in sev-eral currencies. The stress scenarios include the principal funding and market liquidity risks, without considering beneficial diversification effects. This means that in the stress tests of the Group, all network units are simul-taneously subject to a pronounced combined crisis for all their major products.

The results of the stress tests are reported to the Chief Risk Officer and the Chief Financial Officer as well as other mem-bers of management on a weekly basis; they also form a key component of the monthly ALCO meetings and are includ-ed in the Group's strategic planning and contingency planning.

A conservative approach is adopted when establishing outflow ratios based on historical data and expert opinions. The simulation assumes a lack of access to the money or capital market and simultaneously significant outflows of customer deposits. In this respect, the de-posit concentration risk is considered by assigning higher outflow ratios to large cus-tomers. Furthermore, stress assumptions are formulated for the drawdown of guarantees and credit obligations. In addi-tion, the liquidity buffer positions are adapted by haircuts in order to cover the risk of disadvantageous market move-ments, and the potential outflows resulting from collateralized derivative transactions are estimated. The Group contin-uously monitors whether the stress assumptions are still appropriate or whether new risks need to be consid-ered. The time to wall concept has established itself as the main control instrument for day-to-day liquidity management and is therefore a central component of funding planning and budgeting. It is also fundamental to determining performance ratios relating to liquidity.

36. RISK MANAGEMENT (CONTINUED)
LIQUIDITY MANAGEMENT (CONTINUED)

Liquidity buffer

As shown by the daily liquidity risk reports, the Group actively maintains and manages liquidity buffers, including high quality liquid assets (HQLA) which are always sufficient to cover the net outflows ex-pected in crisis scenarios.

The Group has sizeable, unencumbered, and liquid securities portfolios eligible for Central Bank outright auction trans-actions in order to ensure sufficient liquidity in local currency.

The Group is responsible for ensuring the availability of liquidity buffers, testing its ability to utilize cen-tral Group funds, evaluating constantly its collateral positions as regards to their market value and encumbrance, as well examining the counterbalancing capacity, including the secured and unse-cured funding potential and the liquidity of the assets. Generally, a haircut is applied to all liquidity buffer positions. These haircuts include a market-risk specific haircut and a Central Bank haircut. While the market risk haircut represents the potential price volatility over the next 20 trading days of the securities held as assets as part of the liquidity buffer, the Central Bank haircut represents an addi-tional haircut by the Central Bank that may be offered as collateral. The eligibility criteria on group level further considers intra-group lending restrictions such as the legal lending limit.

Intraday Liquidity Management

In compliance with regulatory requirements for intraday liquidity management, Dealing Room Department is fulfilling the following tasks:

- Fulfilling Group legal liquidity requirements (minimum reserve requirements);
- Optimize the liquidity flows, financing costs and the return on investments;
- Provides available funds for outgoing payments on our NOSTRO accounts with correspond-ent Groups.
- Follow up and continuous reporting on market liquidity situation

Money Market Desk within Dealing Room Department is in charge to manage daily liquidity needs and manage the short-term liquidity risk in local and foreign currency. Treasury takes information for all local and international pay-ments from other departments and pro-vides available funds on our NOSTRO account normally with value date T+2. There are special re-quests for value date T+1, T+0. For all the payments in local and international market should be re-spect the Group's cut off time until then the transaction can be performed. For payments in Local currency the cut off time fixed by Group of Albania (BoA) is 3.30 p.m. For payments in foreign currency the cut off time is 4.30 p.m.

The Group is using AIPS (Albanian InterGroup Payment System) as platform for monitoring online our Nostro Account with Group of Albania for all the payments / incomings in local currency LEK. The monitoring of our Nostro accounts in foreign currency is done using online platforms on this purpose, which facilitate the daily liquidity management. Daily queries produced by core Banking sys-tem MIDAS are used for the daily liquidity management.

Reuters dealing platform is used to performing trading deals in interGroup market. Money Market Desk is responsible to provide enough funds for payments executed on each value date. The basic information on the payments executed is received via e-mail by the Payment Pro-cessing & SWIFT unit (Central Operations & Facility Management Department) with value date T+2 and with specific request with value date T+0.

The whole Group liquidity position is monitored and updated during the day after each transaction done. We keep our liquidity position by using excel and update it manually using the information re-ceived from different sources as Pay-ment Processing & SWIFT unit (Central Operations & Facility Management Department, Trade Finance & Short-Term Financing (Corporate and SE Products De-partment), Treasury Back Office (Central Operations & Facility Management Department), Foreign Exchange & Cash Desk, Corporate Department.

The excess of liquidity in FCY is invested as short term in the internal and international market.

Dealing Room Department is responsible for the liquidity management in local and foreign currency for whole Group, not for each branch consolidatedly. Money Market desk receives the funds request for the client payments on daily basis and provide necessary liquidity needs. We are using online platform monitoring for most of our NOSTRO accounts to check all the transac-tion done though these accounts.

The closed balance position of each NOSTRO account is received by mail from swift dep (in the morning) by MT 950 message. The closed balance position of each LORO account is prepared by the Securities, Investigation, Reconciliation & Support on different frequency basis as agreed with each of them and is sent by Swift, by MT 950.

Contingency funding plan

The Group is analysing the potential impact from the Pandemic Covid -19 on the liquidity of the Group in 2021. Under difficult liquidity conditions, the Group will switch to a contingency process in which it will follow a predefined liquid-ity contingency plan. These contingency plans also constitute an element of the liquidity management framework and are mandatory for all RBI Group members. The emergency management process is designed so that the Group can retain a strong liquidity position even in serious crisis situations.

The LCP defines three stages of a liquidity crisis which are described by events as listed below:

Stage A: early stage of liquidity contingency

Stage B: more severe stage of liquidity contingency

Stage C: liquidity recovery stage

36. RISK MANAGEMENT (CONTINUED)
LIQUIDITY MANAGEMENT (CONTINUED)

Liquidity position

Liquidity position of the Group is founded on a strong customer deposit base supplemented by whole-sale funding. Funding instruments are appropriately diversified and are used in case of need. The ability to procure funds is precisely monitored and evaluated by the Treasury/Dealing Room, Treasury Sales as well as ALCO and Research Department.

In the past year and to date, our Group's liquidity was significantly above all regulatory and internal limits. The result of the internal time to wall stress test demonstrates that the Group would survive throughout the modelled stress phase of several months even without applying contingency measures. The Going Concern report shows the structural liquidity position. It covers all material risk drivers which might affect the Group in a business-as-usual scenario. The results of the going concern scenario are shown in the following table. It illustrates excess liquidity and the ratio of expected cash inflows plus counterbalancing capacity to cash outflows (liquidity ratio) for selected maturities on a cumulative basis. Based on assumptions employing expert opinions, statistical analyses and country specifics, this calculation also incor-porates estimates of the stability of the customer deposit base, outflows from items off the statement of financial position and downward market movements in relation to positions which influence the liquidity counterbalancing capacity.

in LEK thousand	As at 31 December 2022		As at 31 December 2021	
Maturity	1 month	1 year	1 month	1 year
Liquidity surplus	72,878,740	59,628,060	75,485,877	68,217,612

Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets (HQLAs) held by the Group, to meet po-tential liability run offs (short-term obligations). HQLAs can be converted into cash to meet liquidity needs for a mini-mum of 30 calendar days in a liquidity stress scenario.

The calculation of expected inflows and outflows of funds and the high liquidity assets is based on regulatory specifica-tions. In 2021 and 2022, the regulatory limit for the LCR stood at 100 per cent.

in LEK thousand	31 December 2022	31 December 2021
Average liquid assets	65,450,575	90,236,519
Net outflows	11,084,329	10,070,846
Inflows	45,402,260	43,339,834
Outflows	44,337,316	40,283,385
Liquidity Coverage Ratio	590%	896%

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the proportion of Available Stable Funding ("ASF") via the liabilities over Required Stable Funding ("RSF") for the assets. Sources of Available Stable funding includes: customer deposits, long-term wholesale funding (from the interGroup lending market), and equity.

in LEK thousand	31 December 2022	31 December 2021
Required stable funding	137,122,003	93,352,028
Available stable funding	214,950,939	218,056,194
Net Stable Funding Ratio	156%	234 %

Liquidity Coverage Ratio and Net Stable Funding Ratio are presented in Local ALCO meetings on a monthly basis. The Group aims to assure liquidity consistency with Basel III requirements.

Funding liquidity risk

Funding liquidity risk is mainly driven by changes in the risk strategy of lenders or by a deterioration in the creditwor-thiness of a Group that needs external funding. Funding rates and supply rise and fall with credit spreads, which change due to the market- or Group-specific situation.

As a consequence, long-term funding depends on restoring confidence in Groups and increased ef-forts in collecting customer deposits. The Group Banking activities are financed by combining retail de-posit-taking and wholesale fund-ing. In the Group's funding plans, special attention is paid to a diversi-fied structure of funding to mitigate funding liquidity risk. Wholesale funding measures in the Group are responsibility of Treasury Sales and IB Department, where Funding Manager is Mr. Christian Canacaris, the CEO of the Group. During this process we check the gap between as-sets and liabilities and check if we do have any funding needs. However, due to the fact that our Group has been always over-liquid, the Group has shown minimal needs for intra-network funding.

36. RISK MANAGEMENT (CONTINUED) LIQUIDITY MANAGEMENT (CONTINUED)

The following table shows a breakdown of cash flows according to the contractual maturity of financial assets:

2022 in LEK thousand	Carrying amoun	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial assets	**274,871,390**	**319,733,384**	**98,004,853**	**33,693,942**	**76,805,952**	**106,363,747**
Cash, cash balances at central Banks and other demand deposits	37,491,482	37,491,482	37,491,482	-	-	-
Loans and advances	**155,315,545**	**197,769,426**	**45,649,553**	**20,084,268**	**27,004,435**	**100,166,281**
Central Banks	1,850,857	1,850,857	1,850,857	-	-	-
General governments	290	290	290	-	-	-
Banks	35,273,599	35,273,599	35,273,599	-	-	-
Other financial corporations	1,145,096	1,148,343	(3,721,086)	-	4,540	-
Non-financial corporations	67,643,385	80,446,316	11,512,302	19,858,367	18,416,600	30,659,047
Households	49,402,318	79,050,021	733,591	225,901	8,583,295	69,507,234
Debt securities	**82,064,363**	**84,472,476**	**14,863,818**	**13,609,674**	**49,801,517**	**6,197,466**
General governments	82,064,363	84,472,476	14,863,818	13,609,674	49,801,517	6,197,466
Banks	-	-	-	-	-	-

2021 in LEK thousand	Carrying amoun	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial assets	**266,984,659**	**292,614,649**	**112,490,899**	**39,260,741**	**104,524,771**	**36,338,240**
Cash, cash balances at central Banks and other demand deposits	42,813,051	42,813,051	42,813,051	-	-	-
Loans and advances	**143,764,409**	**165,500,616**	**53,377,531**	**31,579,900**	**52,071,875**	**28,471,311**
Central Banks	6,035,130	6,035,130	6,035,130	-	-	-
General governments	238	238	238	-	-	-
Banks	30,686,615	30,686,615	30,686,615	-	-	-
Other financial corporations	6,437	6,437	269	-	6,168	-
Non-financial corporations	62,518,456	72,615,037	12,550,716	26,320,368	27,581,847	6,162,107
Households	44,517,533	56,157,159	4,104,563	5,259,532	24,483,860	22,309,204
Debt securities	**80,407,199**	**84,300,982**	**16,300,317**	**7,680,841**	**52,452,896**	**7,866,929**
General governments	76,781,834	80,661,264	16,300,317	4,041,123	52,452,896	7,866,929
Banks	3,625,365	3,639,718	-	3,639,718	-	-

36. RISK MANAGEMENT (CONTINUED)
LIQUIDITY MANAGEMENT (CONTINUED)

The following table shows a maturity analysis of undiscounted cash flows according to the contractual maturity of financial liabilities:

2022 in LEK thousand	Carrying amoun	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial liabilities	**280,518,910**	**280,548,713**	**223,963,755**	**38,111,550**	**15,545,349**	**2,928,059**
Deposits	**248,646,267**	**248,656,783**	**218,782,555**	**24,173,302**	**5,164,276**	**536,650**
General governments	7,695,315	7,695,315	7,695,315	-	-	-
Banks	(506,640)	(506,640)	(4,227,961)	-	3,721,321	-
Other financial corporations	2,459,135	2,462,229	2,271,349	88,952	101,928	-
Non-financial corporations	48,336,168	48,336,228	47,976,470	59,401	170,646	129,711
Households	190,662,289	190,669,651	165,067,382	24,024,949	1,170,381	406,939
Other financial liabilies	1,436,184	1,436,184	1,436,184	-	-	-
Financial guarantees given and other commitments given	9,876,434	9,876,434	2,602,710	4,496,296	2,627,992	149,436
Loan commitments given	20,560,025	20,579,312	1,142,306	9,441,952	7,753,081	2,241,973

2021 in LEK thousand	Carrying amoun	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial liabilities	**267,481,823**	**267,485,401**	**217,699,230**	**35,925,766**	**11,197,319**	**2,663,087**
Deposits	**240,366,198**	**240,369,776**	**211,544,003**	**26,991,884**	**1,455,405**	**378,484**
General governments	6,806,812	6,806,812	6,806,812	-	-	-
Banks	3,201,236	3,201,236	3,201,236	-	-	-
Other financial corporations	10,627,083	10,628,371	10,370,329	166,262	91,780	-
Non-financial corporations	44,684,199	44,684,350	44,436,458	40,587	192,293	15,011
Households	175,046,868	175,049,007	146,729,168	26,785,035	1,171,332	363,473
Other financial liabilies	1,668,497	1,668,497	1,668,497	-	-	-
Financial guarantees given and other commitments given	7,948,185	7,948,185	1,478,493	3,933,904	2,535,788	-
Loan commitments given	17,498,943	17,498,943	3,008,237	4,999,978	7,206,126	2,284,603

36. RISK MANAGEMENT (CONTINUED)
LIQUIDITY MANAGEMENT (CONTINUED)

Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In this risk category internal risk drivers such as unauthorized activities, fraud or theft, conduct-related losses, modelling errors, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or fraud are managed and controlled as well.

This risk category is analyzed and managed based on own historical loss data and the results of risk assessments.

As with other risk types the principle of firewalling of risk management and risk controlling is also applied to operation-al risk in the Group. To this end, individuals are designated and trained as Operational Risk Managers for each business area. Operational Risk Managers provide central Operational Risk Controlling with reports on risk assessments, loss events, indicators and measures. They are supported in their work by Dedicated Operational Risk Specialists (DORS).

Operational risk controlling units are responsible for reporting, implementing the framework, developing control measures and monitoring compliance with requirements. Within the framework of the annual risk management cycle, they also coordinate the participation of the relevant second line of defense departments (Financial Crime Management, Compliance, Vendor Management, Outsourcing Management, Insurance Management, Information Security, Physical Security, BCM, Internal Control System) and all first line of defense partners (Operational Risk Managers).

Risk identification

Identifying and evaluating risks that might endanger the Group's existence (but the occurrence of which is highly im-probable) and areas where losses are more likely to arise more frequently (but have only limited impact) are important aspects of operational risk management.

Operational risk assessment is executed in a structured and Group-wide uniform manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well.

All Group units grade the impact of high probability/low impact events and low probability/high impact incidents ac-cording to their estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quantified by a Group-wide analytical tool (scenarios). The internal risk profile, losses arising and external changes determine which cases are dealt with in detail.

Monitoring

In order to monitor operational risks, early warning indicators are used that allow prompt identification and minimiza-tion of losses.

Loss data is collected in a central database called ORCA (Operational Risk Controlling Application) in a structured manner and on a Group-wide basis according to the event type and the business line. In addition to the requirements for internal and external reporting, information on loss events is exchanged with international data pools to further develop operational risk management tools as well as to track measures and control effectiveness. Since 2010, The Group has been a participant in the ORX data pool (Operational Risk Data Exchange Association), whose data are currently used for internal benchmark purposes and analyses and as part of the operational risk model. The ORX data consortium is an association of Groups and insurance Groups for statistical purposes. The results of the analyses as well as events result-ing from operational risks are reported in a comprehensive manner to the relevant Operational Risk Management & Control Committee and RBI Group Operational Risk Controller Committee on a regular basis.

Quantification and mitigation

Since October 2016, the operational risk activities is taken on by Financial Crime Management. Financial Crime Management provides support for the prevention and identification of fraud. The Group also conducts an extensive staff training program and has different contingency plans and back-up systems in place.

37. CAPITAL MANAGEMENT

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of Albania and (ii) to safeguard the Group's ability to continue as a going concern.

Regulatory capital

The Group monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Group of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23 December.1997 "On the Group of Albania", and "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and off balance-sheet items, expressed as a percentage. The minimum required Capital Adequacy Ratio is 12%.
The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and off balance-sheet items, expressed as a percentage. The minimum modified capital adequacy ratio is 6%.

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 100%, 150%) are applied; for example, cash and money market instruments have a zero-risk weighting which means that no capital is required to support the holding of these assets. Premises and equipment carry a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.
Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

in LEK thousand	**31 December 2022**	**31 December 2021**
Total risk weighted assets	143,866,541	134,521,667
Regulatory capital	26,903,223	27,301,468
Capital adequacy ratio	18.70%	20.30%

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.
The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

38. RELATED PARTIES

Transactions with related parties (companies and individuals) are limited to Banking business transactions that are car-ried out at fair market conditions. Disclosures on related parties (individuals) are reported under note (39) Relations to key management.

in LEK thousand	31 December 2022	31 December 2021
Selected financial assets		
Debt securities	-	-
Raiffeisenbank a.s.	-	-
Loans and advances	5,943,798	13,771,068
Raiffeisen Bank International AG (parent company)	4,800,863	13,754,823
Raiffeisen Bank Kosovo J.S.C.	1,142,935	16,245
Other assets	90,730	77,755
Raiffeisen Bank International AG (parent company)	82,898	77,755
Regional Card Processing Center s.r.o.	-	-
Raiffeisen Bank Kosovo J.S.C.	7,832	-
Selected financial liabilities		
Deposits	**17,795**	**21,611**
Raiffeisen Bank International AG (parent company)	17,795	17,882
Raiffeisen Bank Kosovo J.S.C.	-	3,729
Provisions & Other liabilities	**81,132**	**77,467**
Raiffeisen Bank International AG (parent company)	81,132	77,467
Loan commitments, financial guarantees and other commitments given	**1,861,537**	**1,586,886**
Raiffeisen Bank International AG (parent company)	1,861,014	1,586,333
Raiffeisenbank Austria d.d.	523	553

in LEK thousand	31 December 2022	31 December 2021
Interest income	**70,308**	**5,828**
Raiffeisenbank a.s.	-	4,986
Raiffeisen Bank International AG (parent company)	37,768	842
RLB KI-Gruppe Salzburg	17,704	
Raiffeisen Leasing Kosovo LLC	14,836	
Interest expenses	**(46,158)**	**(54,437)**
Raiffeisen Bank International AG (parent company)	(31,006)	(54,437)
RLB KI-Gruppe Salzburg	(15,152)	
Fee and commission income	**8,990**	**472**
Raiffeisen Bank International AG (parent company)	395	472
Raiffeisen Bank Kosovo J.S.C.	8,571	-
Raiffeisenbank Austria d.d.	24	
Fee and commission expenses	**(252,760)**	**(226,395)**
Ukrainian Processing Center PJSC	(71,304)	(57,764)
Regional Card Processing Center s.r.o.	(97,707)	(82,641)
Centralised Raiffeisen International Services & Payments S.R.L.	(9,727)	(12,119)
Raiffeisen Bank International AG (parent company)	(74,022)	(73,871)

AVERAGE NUMBER OF STAFF

Full-time equivalents	31 December 2022	31 December 2021
Salaried employees	1,222	1,214
Wage earners	40	40
Total	**1,262**	**1,254**

Relations to key management

Group relationship with key management

in LEK thousand	**31 December 2022**	**31 December 2021**
Assets	433,017	238,221
Liabilities	128,090	177,207

Remuneration of members of the Management Board

The following table shows total remuneration of the members of the Management Board according to IAS 24.17. The expenses according to IAS 24 were recognized on an accrual basis and according to the rules of the underlying stand-ards:

in LEK thousand	**31 December 2022**	**31 December 2021**
Short-term employee benefits	194,814	215,042
Other long-term benefits	74,059	39,809
Total	**268,873**	**254,851**

Remuneration of members of the Supervisory Board

in LEK thousand	**31 December 2022**	**31 December 2021**
Remuneration Supervisory Board	14,356	14,648

Regulatory capital of Supplementary Pension Funds and Investment Funds Management Company (subsidiary of the Bank)

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Management Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capi-tal, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased be-yond a limit of Lek 1,250,000 thousand. As at 31 December 2022 and 2022, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

38. RELATED PARTIES (CONTINUED)

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2022 and 2021, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

Unconsolidated structured entities

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration com-pany (subsidiary of the Group). According to the Albanian legislation on pension fund and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2022 consolidated financial statements. Information about unconsolidated structured entities is as follows:

	Year ended 31 December 2022		**At 31 December 2022**	
In thousands of LEK	Income from the structured entity for the year	Carrying amount of assets of the struc-tured entity	Carrying amount of liabilities of struc-tured entity	Net assets of the structured entity
Prestige Fund	1,481,387	47,077,915	116,128	46,961,787
Pension Fund	56,566	1,043,816	5,558	1,038,258
Vizion Fund	594,375	17,452,512	33,233	17,419,279
Euro Fund	175,797	8,118,005	12,225	8,105,780
Mix Fund	20,146	535,102	958	534,144
Total	**2,328,271**	**74,227,350**	**168,102**	**74,059,248**

39. EVENTS AFTER THE END OF THE REPORTING DATE

The management of the Group is not aware of any subsequent events that would require either adjustments or additional disclosures in the financial statements.

STATEMENT OF LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

The Management Board

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

Erion Serti
Member of the Management Board responsible for CIO/COO

Vilma Bace
Member of the Management Board responsi-ble for Retail Customers

Elona Mullahi
Member of the Management Board responsible for Corporate& SE Customers

Raiffeisen Leasing

Raiffeisen Leasing Sh.a. (the "Company") is an Albanian joint stock Company, registered in the Albanian Commercial Register by Tirana District Court, decision No. 35733, dated 15 May 2006. The Company started the activity in May 2006.

The Company's principal activity is providing finance leasing to companies and individuals.

The share capital is registered in Albanian Lek. From October 10, 2016, Raiffeisen Bank Sh.a. is the sole immediate parent of Raiffeisen Leasing Sh.a. The registered office of the Company is at Rruga "Tish Daija", Kompleksi "Haxhiu", Godina nr.1, Kati7, Tirana

The Company's main shareholder is registered in Tirana. The ultimate controlling party is Raiffeisen Bank International AG.

The financial statements for the year ended 31 December 2022 were authorized for issue by the Board of Directors on 13 March 2023. The financial statements are subject to final approval by the Shareholders in the Annual General Meeting. The Shareholders have the power to amend the financial statements after issue.

Composition of Board of Directors and Managing Board as of as 31 December 2022 is as follows:

Board of Directors (Supervisory Board)

Dieter Schiedl	Chairman Supervisory Board
Erion Balli	Supervisory Board Member
Migena Arkaxhiu	Supervisory Board Member

Managing Board

Ankleida Shehu	Front Office Managing Director
Estela Themeli	Back Office Managing Director

Even during year 2022, Raiffeisen Leasing Albania continued to be leader in the Albanian leasing market.
The value of new business in 2022 amounted to € 18,5 million, of which € 16,5 million or 89% used for vehicle financing, and € 2 million or 11% of new business for equipment.

The basic products of Raiffeisen Leasing are vehicle and equipment leasing. All leasing products were offered to business segments, both corporate and medium sized businesses, while individuals used these leasing products mainly for personal cars.

Main new business during Year 2022 was conducted with corporate customers by 39 per cent, with SE customers 16 per cent, and with Micro customers respectively 25 per cent of the business, and the rest by 20 per cent is performed with Individual customers.

One of the goals of RLAL is to further increase the ESG related business by providing the ESG product financing to foster this business and to contribute to a green and social environment. Only during Y 2022 there are ESG leasing assets financed in the amount of approx. EUR 1.6 million or 9% of RLAL new business.

Company continues to maintain a satisfactory level of liquidity while the total active covers the total liabilities by about 112% on December 31, 2022, compared to 115 of a year earlier, for which the recevaibles from financial rents cover about 98% long-term debt versus 101% of the year before. Payments of short-term liabilities against suppliers have not been influenced and company has not reduced operational activity with suppliers. Raiffeisen Leasing does not anticipate sale of financial rent portfolio.

Our goal was mainly focusing on strengthening long-term partnership with clients of Raiffeisen Banking Group, providing them with efficient support they needed in their business. Furthermore, aiming at improving its offer, Raiffeisen Leasing dedicated special attention to further strengthening of partnerships and establishing strategic cooperation with the network of the most important dealers operating in Albania.

By fostering the high professional standards set by its founders, Raiffeisen Leasing provides its clients with superior quality products and services, as well as complete information regarding the structure and simplicity of all transactions involved.

Part of our activity is also vehicles remarketing and resale. We are also positioned in the ranks of experts concerning establishment of standards in the re-sale market due to procedures we have implemented. However, the company used the know-how and experience of International Leasing Steering and Product Management and other leasing companies operating in the region, concerning its products, financial leasing services and marketing. Moreover, the company has full access to the large network of international suppliers of heavy tonnage vehicles, machinery and equipment, with which the Raiffeisen Group keeps stable relations, in order that the existing and prospective customers of the company benefit and realize their plans for investment.

At the end of 2022, Raiffeisen Leasing had 20 employees, providing their clients with prompt and highly competent services.

Raiffeisen Leasing has launched its social media platforms Instagram, Facebook, LinkedIn and been very active in increasing its present by promoting Leasing products and services.

Also, it has launched a new and improved website: www.raiffeisen-leasing.al. During 2022, Raiffeisen Leasing continues to be play an active role in social media and has launched different marketing campaigns, mainly based on policies and marketing activities of local concessionaires as our key business partners.

We would like to use this opportunity to thank our clients and business partners for the excellent cooperation in 2022 and especially for the trust they placed in us. We are also especially grateful to our employees for their commitment and efforts expressing our deep conviction that Raiffeisen Leasing team will be able to keep its strong market position in 2023 as well.

Prospect 2023

Raiffeisen Leasing sh.a shall continue to actively support the business and investment plans of its clients in 2023 as well, by offering financing for vehicles and equipment with a high focus on ESG products.

Furthermore, based on the company strategy during Y 2023 for individual customers will be launched a new product residential real estate. Our company will be a pioneer in leasing market to offer this long-term product based on the market requirement.

We shall stay fully committed to further developing our long-lasting cooperation with our clients and dealers and shall continue to proactively respond to their needs by improving our range of products and services.

Our major objectives shall be increasing of new business, improving cross-sales with Raiffeisen bank in all segments, constant improvement of existing products and innovation of new ones, adequate risk management, cost reduction and efficiency improvement. We are fully dedicated to keeping the stability of our portfolio by applying the principle of quality, instead of quantity and strict risk policy.

Our experience and support of Raiffeisen Group, strong capital base and quality portfolio represent a guarantee that we will remain a secure and reliable partner to our clients and dealers in the forthcoming period as well.

Raiffeisen INVEST

The Year 2022 demonstrated to be a challenging year for the asset management company and our clients. We operated in a financial environment that was characterized by increased uncertainty due to the war and very high inflation reaching historic levels. The central banks all over the world were forced to tighten the monetary policy by aggressively raising the interest rates at the expense of economic growth.
In Albania, government securities yields jumped by up to 400 bp and primary auctions were regularly undersubscribed with B/C less than 1, especially during Q3 2022.

In these new financial circumstances, the performance of all funds declined and went negative even for LCY funds. As a result of a combination of different risk factors that materialized, the redemptions from all the funds increased significantly and the assets under management dropped by almost 42%. In overall the whole investment fund market in Albania shrank by 43.8%, loosing 27.7% of its investors.

In a new global reality, where Albania couldn't be an exception, all our focus was shifted on liquidity management and intensified communication with the sales agents and our customers. The latter are the center of our activity and providing best service, in a fully transparent process will always be our goal. Raiffeisen Invest provided to both customers and sales agents all the necessary information to understand the reasons of the rise in interest rates, the effect of higher yields on the performance of the funds and to help the investors during their decision-making process regarding the progress of their investment.

Despite a difficult and challenging year we managed to provide decent financial results with PBT + Distribution expenditures at 5.5 mil EUR.
Our liquidity indicators remained solid for all funds under management.

During 2022, Raiffeisen Invest maintained the position of the leading company in the Albanian market for investment funds, with 95 percent of the market share in terms of assets. The investment funds' assets under the management of Raiffeisen Invest were at 345 mill EUR as of 31.12.2022.

On the other hand, Raiffeisen Voluntary Pension fund recorded a solid growth of 17%, expanding its customer base by 10% (mostly proffessional plans) to whom were provided the best net performance in the market. As of 31.12.2022 the asset under management jumped to 10.6 mill EUR.

With regard to our strategic initiatives, we increased further the digital channel share on gross sales compared to 2021 and remained the only asset management company in the market that provides digital services to its clients.
5,836 new Investment plans were sold during 2022 or +1.51% compared to last year.

Last, but not least, as an asset manager of the RBI Group, Raiffeisen Invest has aligned its strategy with Group vision, including sustainability in its short term development goals. Concerned by global challenges such as climate change and environmental pollution, Raiffeisen Invest aims to contribute to the development of a sustainable world through the design of ESG products in a near future.

Funds performance and financial markets development

During 2022, the funds under management provided the following net returns to the investors:

√ Raiffeisen Voluntary Pension Fund: +4.09 per cent on annual basis
√ Raiffeisen Prestige Fund: -4.07 per cent on annual basis
√ Raiffeisen Vision Fund: -8.82 per cent on annual basis
√ Raiffeisen Invest Euro Fund: -9.28 per cent on annual basis
√ Raiffeisen Mix Fund: -12.65 per cent on annual basis

During 2022, the annual performance of both bonds and equities has been negative, with many major stock and bond indices recording double digit negative annual returns. The exception was only the commodity asset class with energy, oil and gas having one of the best performances in many years.

In the beginning of 2022, while the threat from the pandemic was likely subdued, another crucial threat emerged for the financial markets with Russia's shocking invasion of Ukraine in February 2022. The war and the geopolitical risk immediately increased the uncertainty and generated per consequence higher inflation all over the world, considering the dependence on energy imports, especially the natural gas from Russia for many countries worldwide.

The increase in the price of energy, but also in the price of other basket products, resulted in record levels of inflation throughout the year. The Central Banks responded to the high inflation with tightened monetary policies and hefty interest rate hikes, with the focus to bring it as soon as possible to their targets. The year ended with values of inflation at 6.5 percent and 9.2 percent, respectively for the US and the Eurozone.

Albania was not an exception, and the inflation reached its highest level in October with 8.3%, mainly influenced by the increase in the prices of food products, oil, or transport costs. Bank of Albania reacted with several interest rate hikes, increasing the base rate from 0.5 percent to 2.75 percent. The yields of the Albanian government bonds in the domestic market rose by 3 to 4 percent during 2022, and that was the main driver for the negative yearly performance of Prestigj and Vizion fund.

In Raiffeisen Invest, the fund managers tried to reduce the risk level of the funds, by decreasing the exposure to financial instruments with higher risk and shifting to instruments that could benefit from the new developments in the financial markets. One of the top priorities has been fund's liquidity management and ensuring solid liquidity indicators for all funds.

Raiffeisen Voluntary Pension Fund was the only fund that did not suffer volatility and has recorded the highest annual return during 2022 compared to other voluntary pension funds operating in the domestic market.

Social Responsibility

During 2022, Raiffeisen Invest sh. a remained committed to being an active and engaged citizen that contributes to building a sustainable society.
In this context, our engagement focused on projects covering education, social well-being and development, health, environment, and last but not least art & culture, to improve the life of the community we live in.

We believe we put our best efforts at combining our business strength with the desire to do good deeds for the community.
Therefore, last year we proudly supported 52 projects in the country, taking into consideration the alignment of the selected project with UN Sustainable Development Goals as we want to leave a positive mark in long term.

Corporate Social Responsibility focused on art & culture related projects. Among the most important projects were "ZA Fest", "Check-In", "Pianodrom" festivals and the 5th edition of the "South outdoor festival" focused on the promotion of domestic tourism and sustainable development.
Education & learning remains one of the main pillars of a sustainable society, therefore we supported the equipment of three schools in Tirana with computer labs as well as three projects related to financial literacy to help young people expand their knowledge in this sector.
In addition, special attention was paid to projects of significant importance to the community, such as the reconstruction of kindergartens in Roskovec and Lushnje municipalities, as well as the reconstruction of the paediatric ward in the hospital of Saranda.

Raiffeisen Invest sh.a. keeps the corporate social responsibility actions at high consideration. Following our vision to be the most trusted asset management company in the country and as part of Raiffeisen Group, we will continue to be an active community supporter aiming to help the society towards a better future.

2023 Outlook

Central banks are likely to keep an eye on the core inflation during 2023 and they will continue to increase the interest rates until they are sure that the inflation will drop down to their targets. Nevertheless, it is expected that interest rate hikes pace will be slower compared to 2022. Higher rates and inverted yield curves present the fears of a mild potential recession during 2023.

Russia's war in Ukraine will most probably continue but has stalled more than ever. Oil, gas, and electricity remain expensive by long-term standards, but compared with their price peaks in the summer of 2022, their wholesale prices have already come back to an extent that was hardly hoped for.

Inflation is expected to fall during the second half of 2023 because of the tightened monetary policies. The softer inflation will drive the interest rate of bonds lower over the year.

Even for Albania, the year 2023 will impose high economic challenges with high inflation imported mainly from abroad and a softening of the hawkish monetary policy by Bank of Albania.

Considering the high level of liquidity in the domestic market and the fact that the yields of Albanian government bills and bonds closed 2022 at very attractive levels, it is most probable that market participants start investing in primary auctions and put a downward pressure on yields during the 1-st quarter of 2023. As a combination of attractive yields of the investment portfolio by end of 2022 and a potential decrease in yields during 2023, we expect to see a significant improve in funds' performance and come back to growth by H2 2023.

Raiffeisen Bank International at a glance

Raiffeisen Bank International (RBI) regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 12 markets across the region. In addition, the Group comprises numerous other financial service providers that are active in areas such as leasing, asset management and M&A.

In total, around 44,000 RBI employees serve 17.6 million customers from around 1,700 business outlets, the vast majority of which are in CEE. At year-end 2022 RBI's total assets was approximately € 207 billion.

RBI AG shares are listed on the Vienna Stock Exchange since 2005. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares with the remaining 41.2 per cent in free float.

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