# Raiffeisen Bank Albania

Annual Report 2019

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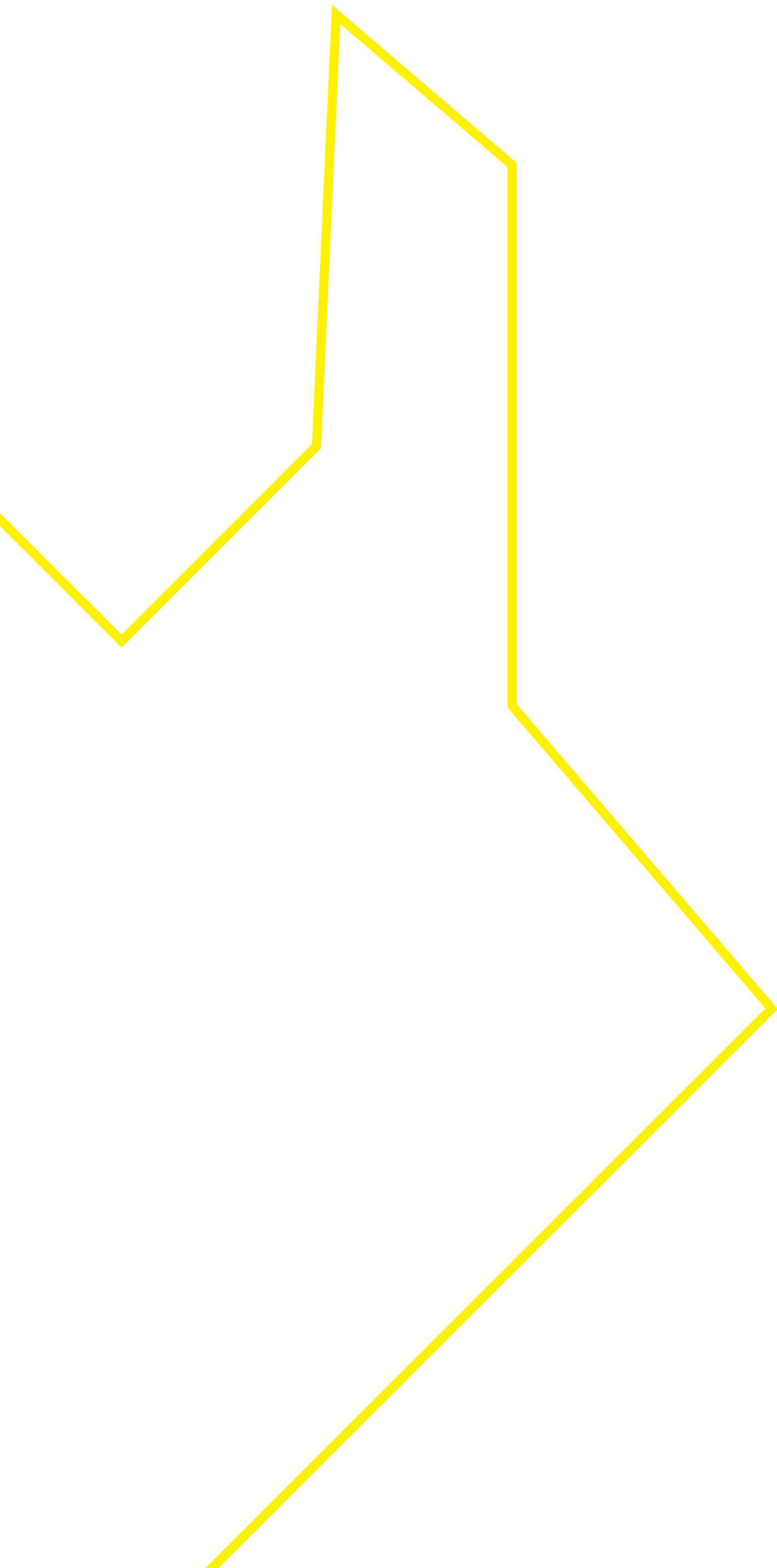


# Report of the Board of Directors

Ladies and Gentlemen,

The 2019 financial year was very successful for Raiffeisen Bank in Albania, and I would like to express our satisfaction with the results and the progress achieved.

In the 2019 financial year, the members of the Board of Directors held four meetings. The overall attendance rate was 85 per cent. In the period between meetings, the Board of Directors adopted decisions per-rollam when necessary.

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 activity 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 regular contacts with the Chairman and members of the Management Board. The Management Board was available whenever required for bilateral or multilateral discussions with members of the Board of Directors and, where applicable, with the involvement of experts on matters being addressed.

The work undertaken together with the Management Board was based on mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Board of Directors passed resolutions only upon 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, the Articles of Association and the Bylaws of the Board of Directors. It discussed important matters relating to the bank with special consideration in the form of Focus Topics during its quarterly meetings.

I would like to take this opportunity to thank our customers for their continued trust and all the employees of Raiffeisen Bank sh.a. for their hard work and unwavering efforts in 2019, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Board of Directors

**Peter Lennkh**
Chairman

# Message from the CEO

The 2019 financial year was indeed a satisfying one for Raiffeisen Bank, with very good outcomes in numerous performance indicators. Thanks to the contribution from all our business segments, profit before tax increased by 1.6 per cent. Retail loans grew to approximately € 280 million, further increasing our share in this market segment to 21 per cent, with an emphasis on unsecured loans, where we achieved a market share of one third in new business. Our digital banking channel 'Raiffeisen ON' achieved outstanding performance. The number of subscribed customers increased substantially, with over 127,000 private individuals and business companies making it the most downloaded and user-friendly banking digital platform with almost 50 per cent penetration in our active customer base. With the aim of strategic orientation toward digital transformation, 'Raiffeisen ON' has been enriched with new features and functionalities that have made real-time banking easier and much more convenient for our customers, with the clear vision of being the most recommended banking group. Furthermore, our online banking assistant Rona, the only chat bot in the Albanian market, was upgraded to answer more questions and meet more customers' requests in the most popular social networks (Viber, WA, Messenger).

Raiffeisen Bank is pleased to serve more than 437,000 local customers, providing them with a broad range of innovative solutions and banking products. Our infrastructure is modern with high-standard branches, where our customers are served by a well-trained staff, always eager to provide excellent services both in the branches and online.

We continued to maintain the widest branch and ATM network in the country and have further enhanced our services with the Self-Service Zones in the main branches, enabling cash and non-cash transactions 24/7.

The corporate segment recorded a very good performance during 2019 as well. The lending base was increased by 10 per cent. Asset portfolio marked an increase by 6.7 per cent compared with 2018, and gross income marked an outstanding performance at 22 per cent above budget. These results were achieved due to the commitment of the relationship managers who provide tailor-made services and further improved the response time with a view to creating sound business partnerships and sustainable values.

For Raiffeisen Leasing sh.a., the 2019 financial year was the most successful one from the beginning of the company's activity. It maintained its leading position with a share of 40 per cent of the local leasing market and continued to be the first choice for many companies and individuals wanting to finance machinery, equipment, productions lines, cars or vehicles.

Raiffeisen INVEST sh.a. remained the leading asset management company in the Albanian financial market, owning no less than 96 per cent of the market share. The year 2019 ended with more than € 522 million of assets in investments and voluntary pension funds. During 2019, Raiffeisen Invest sh.a. took its first steps towards digitalization. It successfully integrated the full database within the digital platform 'Raiffeisen ON' thus enabling every customer to easily access their own investment accounts through mobile banking.

Despite the dramatic situation the entire world is currently facing, we remain optimistic. We do not expect 2020 to be an effortless year, considering the uncertainty in many sectors of the economy in the world. We will continue contributing to Albania's economy and introduce the most innovative products and services to our customers through our continuous digital transformation to make banking services even more convenient for them.

Finally, on behalf of the Management Board, I would like to sincerely express my gratitude to all our customers and business partners for their cooperation and support during 2019. Likewise, I do thank our employees for their dedication, professionalism and customer focus. Thanks to their commitment, we will continue to provide excellent service to our corporate clients as well as SME and individual customers so that Raiffeisen Bank. remains the bank of first choice within the domestic banking sector.

**Christian CANACARIS**
Chief Executive Officer
Chairman of the Management Board

# Vision & Mission

## Our Vision:

To be most recommended financial services group for 2025.

## Our Mission:

To transform continuous innovation into superior customer experience.

# Values

### Collaboration

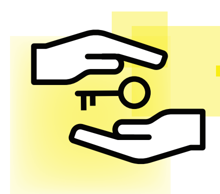
When we work with each other, talk to each other, listen to each other, and support each other, we can achieve so much more. We constantly create an environment of mutual understanding, respect, and trust.

### 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 2020

Towards 2020, Raiffeisen Bank Sh.a intends to continue its overall development and further contribute to the country's economy. Meeting the requirements of the changing economic and behavioural circumstances from the global pandemic of 2020 and to the evolving customers' expectations, the landscape will significantly change and adapt to this new way of living. We will continue to focus on all our customer segments: Retail, Corporate, SE and Micro, by investing in new technologies, products, and services, as well as providing the highest customer service standards.

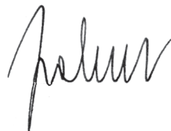
Digital transformation will be the mainstream of all our banking segments, as an opportunity to enhance our customers' value out of this disruptive environment. We will further invest in our digital platforms to maintain our leading position as the most innovative and advanced bank in the country. In this context, we plan to enrich our digital platform 'Raiffeisen ON' with new features and functionalities to ease banking services for our customers. In addition, considering the relations with premium customers, we will launch the 'Rai Connect' platform, whereby each premium customer can communicate and be advised via video calls directly by their relationship manager. New ways of payment shall be introduced for retail customers and our unique chatbot 'RONA' will be further populated to better answer to all our customers' inquiries in real time.

Further on, the quality of customer services in all our segments will continue to remain a priority. Retail Segment will keep on focusing in offering the best customers' products and services in the market, like digital banking services, innovative paying methods, consumer loans, etc.

Moreover, we will continue to serve to our Corporate and SE clients by adding to this segment the digital offerings and will cintinue to provide a wide range and tailor-made banking services to both business companies and to their employees. We will continue focusing on training and personal development of our employees, in order to obtain the highest customer service' standards. In the meantime, we will continue improving the branches network in line with our digital transformation, so as to maintain modern and customer friendly branches.

We remain fully committed to meeting the banking requirements and providing high quality services at every touchpoint with our customers, getting better at reading signals of change and becoming lean and agile in response to market conditions.

Management Board
Raiffeisen Bank Sh.a



| **Christian Canacaris** | **Alexander Zsolnai** | **Lyubomir PUNCHEV** | **Elona Mullahi (Koçi)** | **Egon Lerchster** |
|---|---|---|---|---|
| Chief Executive Officer | Vice-chairman of the MB | Board Member Retail | Board Member Corporate & SE | 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 |
| Slavoljub Dordevic | Member |
| Harald Kreuzmair | Member |
| Andreas Engels | 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 |
| Johannes Kellner | Vice-Chairman |
| Susanna Benoit | Member |

## 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**

| | |
|---|---|
| Andreas Engels | Chairman |
| Harald Kreuzmair | Vice-Chairman |
| Heinz Wiedner | Member |

# EXECUTIVE CREDIT COMMITTEE

The Executive Credit Committee is responsible for the approval of granting of loans including credit lines and contingent liabilities to a single borrower (or to one of more borrowers of an "economic entity") and country risk decisions which require the approval of the Board of Directors according to the Bylaws of the Credit Committee.

**Members of the Executive Credit Committee**

| | |
|---|---|
| Andreas Engels | Chairman |
| Heinz Wiedner | Vice-Chairman |
| Harald Kreuzmair | Member |

# MANAGEMENT BOARD

The Management Board organises and manages continuously the activity of the bank. 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 |
| Egon Lerchster | Member |
| Lyubomir Punchev | Member |

# Report of the Management Board

## Economic Developments

The economy decelerated in 2019, growing by an average of 2.95 per cent in the first three quarters compared to the 4.1 per cent growth in 2018. The slowdown in economic growth in 2019 was mainly caused from the decline in electricity production in the first half of the year due to deterioration in weather conditions. The third quarter illustrated an expansion of 3.84 per cent supported by the expansion of consumption and exports, especially from tourism revenue. The economy is expected to grow at low levels of 2-2.5 per cent during 2020, suffering the effects of the earthquake and coronavirus outbreak.

Annual average inflation dropped to 1.5 per cent in 2019 compared to 2.0 per cent in 2018, resulting far away from the Bank of Albania's inflation target of 3.0 per cent. The main contribution came from food and beverage prices. Meanwhile, the downturn reflected the effects of the domestic currency appreciation, low inflation of our trading partners and low domestic pressures generated by wage growth and production costs. Monetary policy schemes continued to be stimulating in 2019 with a key rate at a historic low of 1.0 per cent set since June 2017. Annual inflation rate is expected to average at 1.4 per cent in 2020 and therefore the relaxed monetary policy should remain while the intensity of monetary stimulus will depend on inflation and economic developments.

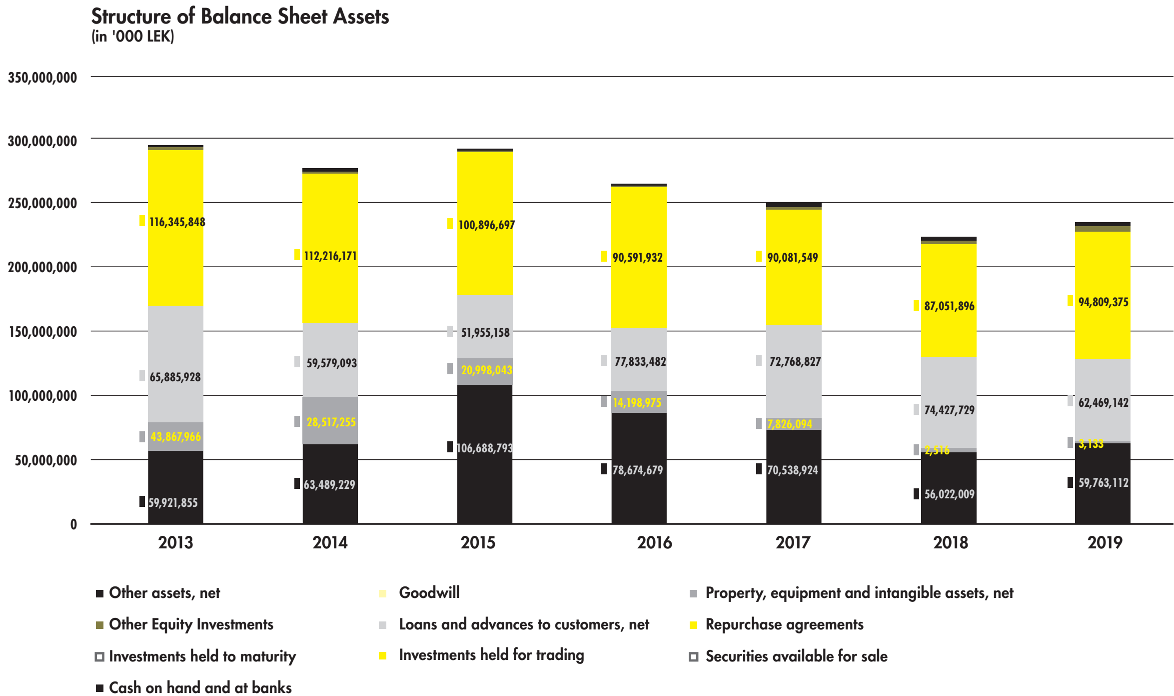
Labor market developments continued to mark improvements throughout 2019. The unemployment rate in the third quarter of 2019 dropped to its lowest historical level of 11.4 per cent. Employment in the same quarter increased by 3.3 per cent, mostly as a result of the services and industry sectors.

Fiscal consolidation continued in 2019, where the budget deficit resulted in the level of € 259 million, or at an estimated level of 1.9 per cent of GDP, within the requirements of Organic Budget Law. Budget revenues rose slightly by 2.3 per cent year-on-year but remained 5.4 per cent below plan in 2019. Budget expenditures also increased by 3.3 per cent compared to the previous year, however they remained under budget due to cuts in current and capital expenditures. The trend of the public debt to GDP ratio continued to decline in 2019 as well. At the end of 2019, public debt as of GDP was 65.84 per cent from 67.85 per cent in 2018.

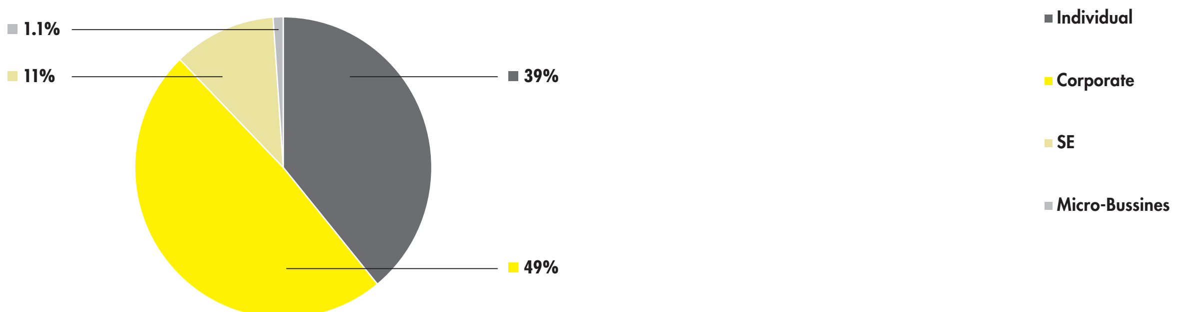
The country's external position deteriorated in the first nine months of 2019, as the current account deficit amounted to € 687 million, expanding by 39 per cent compared to the same period previous year. The deepening of the trade deficit by 12.8 per cent year-to-year is the main reason for the widening of the current account deficit. On the other hand, a positive impact is noted in net exports of services, which increased by 11.9 per cent year-to-year in January-September 2019 period, with tourism as the main contributor. By the end of September 2019, foreign direct investment reached € 810 million, marking an annual growth of 7.4 per cent, financing fully the current account deficit. Remittances marked € 520 million by the end of September 2019, with a moderate increase of 3.2 per cent compared to the previous year. The overall banking sector activity expanded slightly in 2019 with an annual growth of assets of 1.6 per cent (0.5 per cent in 2018). Lending recorded a negative annual growth of 0.9 per cent partially because of the domestic currency appreciation and clearing of bad loans from the banks' balance sheet. Looking towards 2020, the lending perspective remains positive given the improved levels of non-performing loans. At the end of 2019, the level of non-performing loans dropped to 8.4 per cent of total loans from 11.1 per cent in 2018. Implementation of measures to reduce non-performing loans, continuation of the process of clearing bank balance sheets from lost loans and improvements in the restructuring process had a positive impact on reducing the level of bad loans. The banking system achieved good financial performance in 2019, reaching a net profit of € 163.4 million. The banking system remained liquid and well-capitalized in 2019, with a capital adequacy ratio of 18.3 per cent compared to the required minimum of 12.0 per cent.

# Financial Results

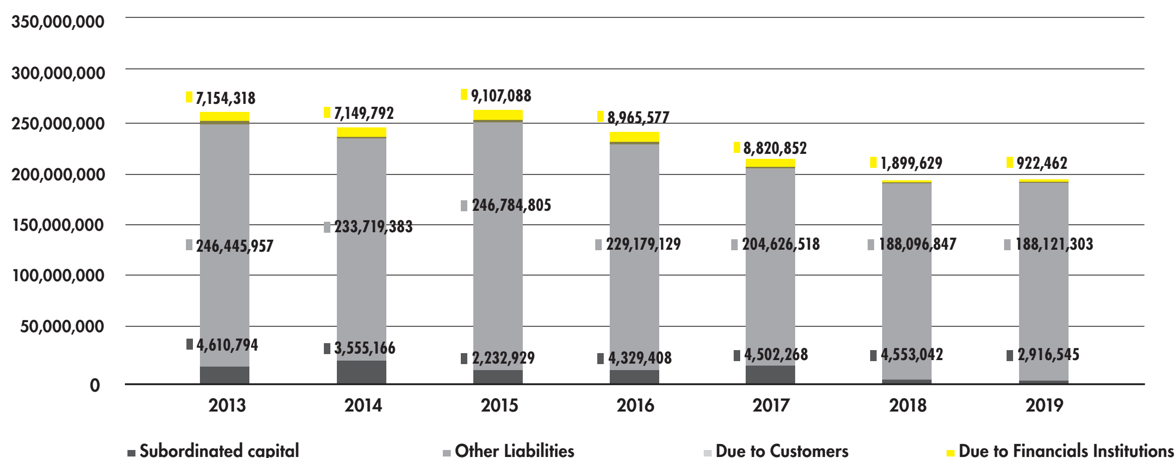
Total assets at the end of 2019 were ALL 223,828 million (2018: ALL 223,180 million). The loan book at the end of 2019 represented 42 per cent (2018: 39 per cent) of the Bank's total assets. The investments in securities represented nearly 28 per cent of it in 2019 (2018: 33 per cent).



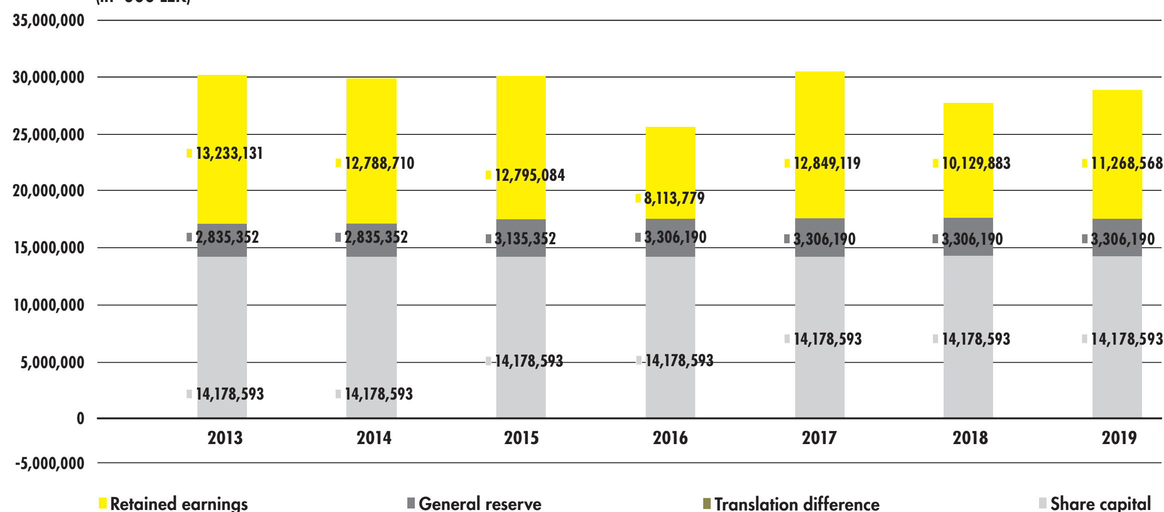

Total gross loans and advances to customers at year end 2019 totaled ALL 105,156 million (2018: ALL 98,829 million) representing a 6 per cent increase in lending over the year. Corporate Sector in percentage terms is 49 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 51,216 million (2018: ALL 50,105 million). The SE recorded a 11 per cent increase and Micro Business recorded a 28 per cent decrease in its outstanding loan book amounting to ALL 1,096 million (2018: ALL 1,527 million).



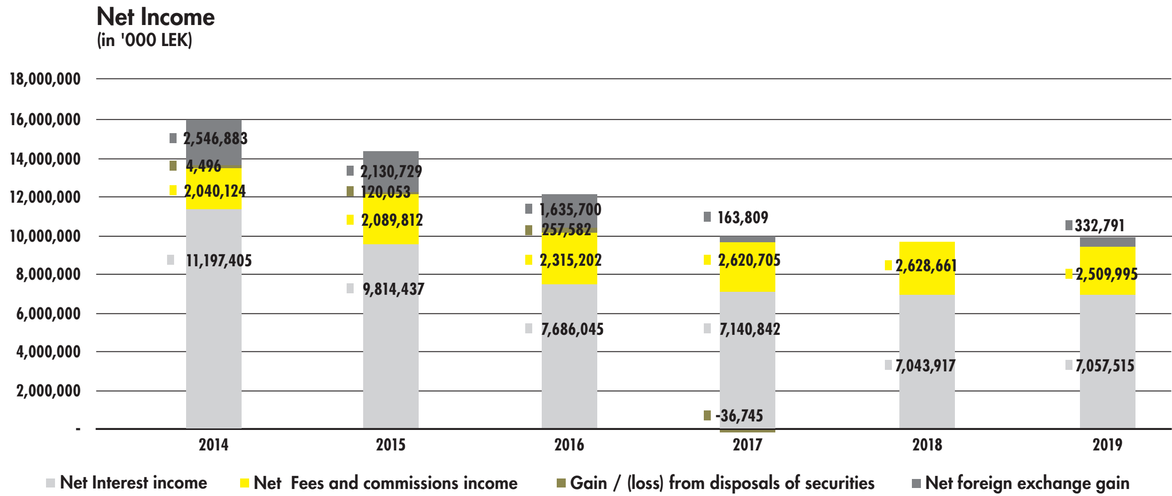
The total liabilities at the end of 2019 were ALL 195,074 million (2018: ALL195,565 million). In 2019, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 96 per cent (2018: 96 per cent) of the Bank's total liabilities.



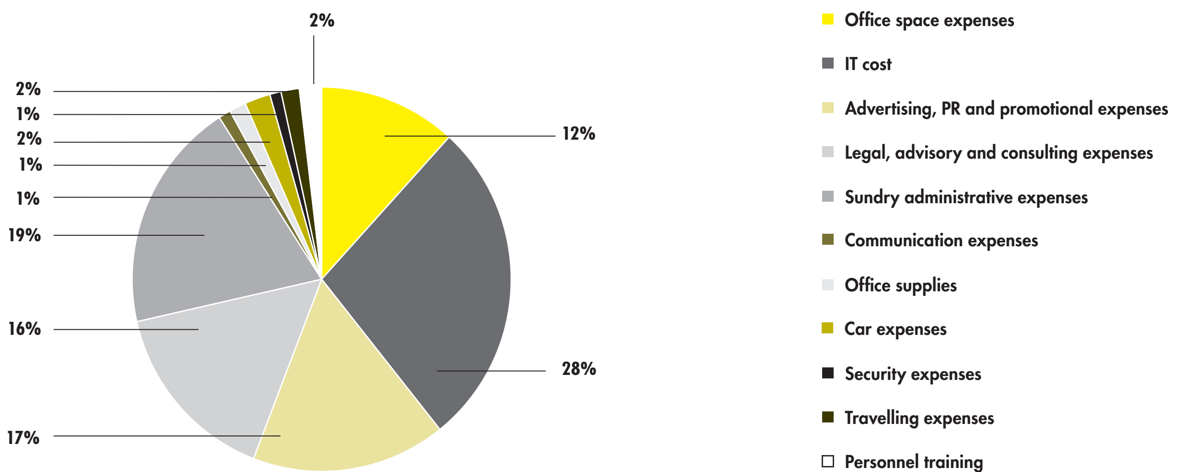

2019 showed a 6 per cent decrease in net profit after tax over 2018 to ALL 3,107 million (2018: ALL 3,298 million) changing the Bank's return on equity ratio from 13.34 per cent in 2018 to 10.55 per cent in 2019. Dividend declared and paid in 2019 is 1.964 million (2018: ALL 4.094 million).



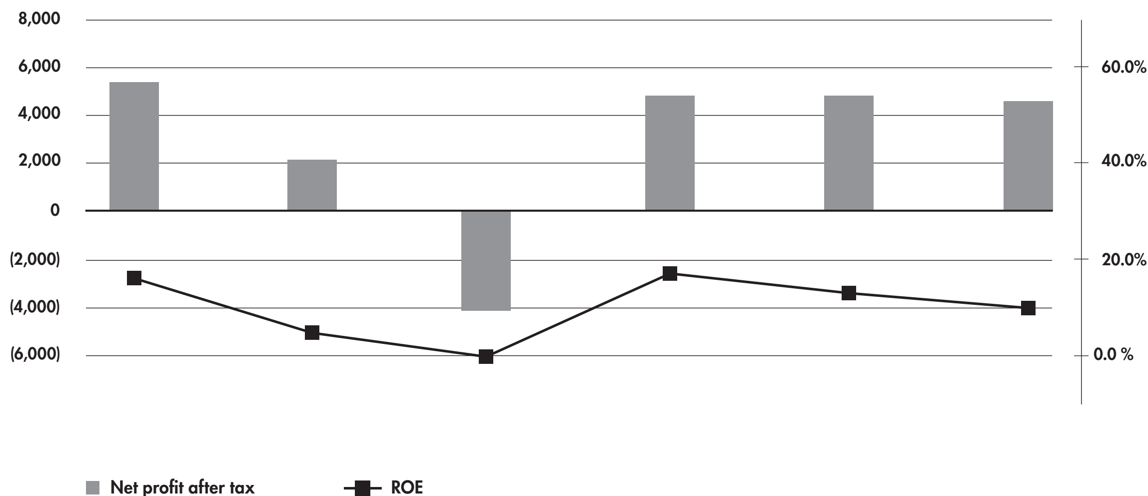
The Bank's Net interest income is stable, or ALL 7,044 million in 2018 to ALL 7,057 million in 2019. This together with the increase in the Bank's total balance sheet, which came to 0.3 per cent, result in increase in the net interest margin (calculated in relation to average balance sheet – total) which is 3.16 per cent in 2019 from 2.97 per cent in 2018.




Total general administrative expenses during 2019 were ALL 1,962 million (2018: ALL 2,202 million). The Bank's operating efficiency – the cost/income ratio changed – from 61.95 per cent to 58.41 per cent. The staff expenses increased by 2 per cent or ALL 2,451 million in 2018 to ALL 2,511 million in 2019.



**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 I 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 ths) | 2020 | 2021 | 2022 |
|---|---|---|---|
| Credit Risk | 813,648.35 | 878,475.77 | 951,295.61 |
| Market Risks | 8,305.73 | 8,304.74 | 8,304.04 |
| Operational Risk | 150,072.64 | 148,245.50 | 152,225.87 |

| | December 2019 |
|---|---|
| Regulatory Total Capital Adequacy Ratio | 19.34% |
| Capital Adequacy Ratio in line with local ICAAP methodology | 18.16% |

# Segment Reports

## Corporate Segment

During the year 2019, the corporate segment continued to strengthen its position in the local market. The asset portfolio recorded an increase of 7.4 per cent compared to the previous year. Due to the increase of the lending volumes and cash management products volumes, the profitability margins marked a significant increase of 15.7 per cent compared to 2018. Many initiatives and campaigns, introduced during 2019, boosted the lending activity by increasing the base of the borrowing customers with 10 per cent.

With the goal to improve customers' journey and increase their satisfaction, joint initiatives with other departments of the bank were undertaken during 2019, focusing on efficiency improvement, such as: introducing the agile lending culture, simplified lending process, faster and less administrative procedures, etc.

The quality of the portfolio continued to be on good track by improving the non-performing loans ratio. These results are achieved thanks to the proactive approach in managing such customers' portfolio through joint efforts and measures taken by all the stakeholders of the bank.

The future goal of the Corporate segment will continue to be the increase of the customer satisfaction by increasing the efficiency and by being a responsive Organization.

For many years, the corporate division continues to serve to the following customers categories:

- Domestic Corporate customers
- International Corporate customers
- Public Institutions, Central & Local Government entities and Non- profit organizations.

As part of long-term strategy, Raiffeisen Bank Sh.a is focused on the positive impact in the overall Albanian Economy through raising banking standards in the market. On this regard, Raiffeisen Bank Sh.a 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 important infrastructural projects through the introduction of innovative IT solutions and banking services. The completion of these projects positively contributed to the data and information exchange between various public institutions and banks, therefore improving the services provided for the overall public. This synergy has placed Raiffeisen Bank Sh.a as the main partner bank for the Albanian Government.

## Small Enterprises segment (SE)

SE Business Segment has recorded remarkable results during 2019.
Seizing the market opportunities and the general increase in demand reflected from SE companies during 2019 and strong Assets Growth Volumes of 11 per cent have been recorded. Customers Transactions have also recorded consecutive growth. Although operating in low and decreasing interest environment, we managed to record a Gross Income Growth Ratio of 17.5 per cent.

Our aim is to stay close to the SE companies and to understand their needs, and based on their profile, size of activity, complexity of the transactional and financial needs, to provide adequate solutions for our customers. Based on this, a range of products and services are permanently adapted to the specific requirements of various companies, while communication and strong relationship is the key feature of our success.

Besides our extensive branch network, SE companies also benefit from our Digital Banking Platform. This platform continuous to be our Banks' main competitive advantage as it provides our clients with a simple and convenient experience. Raiffeisen ON Platform aims at enhancing customer experience and ensure anytime and anywhere service availability, while offering the lowest transaction costs. It has helped us in increasing the volume of transactions and in acquiring new customers.

Our main objective, however, is to achieve business growth by preserving the quality of our portfolio. In this regard, we managed to improve our Non-Performing Loan ratios during 2019. This is achieved through a cautious and proactive approach in managing our customers' portfolio, via joint efforts of all department of the bank.

# Corporate and SE products Division

## Trade Finance and Short-Term Financing products

During 2019, Trade Finance and Short-Term Financing Unit, continued to support Corporate and SE customers in all matters related to the utilization of Trade Finance and Short-Term Financing Products.

This Unit provides consulting services to its customers through a specialized team, helping them to enhance their knowledge and to properly use Trade Finance transactions, involving Letters of Credit (import and export), Bank Guarantees (direct and indirect), Standby Letters of Credit and Documentary Collections (import and export).

The bank has continued to use its technical expertise towards educating customers regarding the advantages of using the Trade Finance Products and has consistently contributed to the increase of awareness and usage levels of such products from customers in the Corporate and SE segment. Trade Finance and Short-Term Financing Unit's work focused on helping customers to reduce the risk of their trading relations with international and domestic partners and to conclude complex transactions within respective timelines, with high quality. Furthermore, Raiffeisen Bank continued to collaborate with a worldwide range of correspondent banks, which acted as partners and supported in concluding successful Trade Finance transactions.

In cooperation with Sales staff, during the year 2019, this Unit contributed to maintain high levels in terms of volumes realized in the Trade Finance area. 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.

During 2019, Trade Finance and Short-Term Financing Unit, in collaboration with the Sales staff and through intensive communication with Corporate segment customers, has helped to increase usage of Factoring product compared to previous periods. The Unit continued to work towards increasing customer awareness and knowledge of the Factoring Product and advantages associated with its utilization. The Bank remains focused in furtherly encouraging Corporate segment to consider the product of Factoring as an alternative method to finance and effectively manage their short-term liquidity needs.

## Project Finance

In assessing the financing needs and facilitating the financial services for Long-Term Industrial, Real Estate and Agribusiness Projects, the Project Financing Unit has been and continues to be committed not only to their fully completion, but also in further development with seriousness and professional competence.

Raiffeisen Bank has been and continues to be focused on increasing cooperation with our customers, who find in it an oustanding partner, by offering tailor-made products and services, in complience with the best practices of the financial market, within and abroad. Raiffeisen Bank, thanks the experience and professional skills of staff, showed during our cooperation, is ranked as a execptional partner amoung other international financial institutions. Therefore we have been entrusted with an active role in national and international financing structure syndications.

Our focus always remains on the financial needs of customers, as a result our unit has been and remains committed to evaluating the technical, legal, financial structure of each project, as well as monitoring their performance step by step, from the preliminary phase to its completion.

The goal of our bank is focused not only as a partner, but also in being involved in self-liquideted projects, and with a positive impact on the environment. Financing Hydropower Plants and Agribusinesses remains a priority, based on detailed and qualitative analysis, on which the scientific risk assessment is performed, aiming that all projects ensure strong/high quality portfolio in these sectors, which positively affects the performance of our institution.

Project Financing and  Agrobusiness Unit, during 2019 in cooperation with several actors such as EBRD, IPARD-II, and sales force have given priority to increasing the level of knowledge of new agro products that Raiffeisen Bank is offering, the advantages and disadvantages of these financing, as well as to encourage businesses to successfully develop agribusiness activity, financial performance, environmental protection and to ensure  good liquidity position.

Strictly monitoring the completion with successful of any project and providing flexibility in financing, in accordance with market dynamics, have been and are the main qualities that distinguish Raiffeisen Bank, such as: creativity, competencies and good knowledge of market.

## Cash Management Products

Cash Management Team focus during the year has been digitalization of the Cash Managements products and improving customer experience toward our Digital Platform (Raiffeisen ON).

## Digital Platform - Raiffeisen ON

Raiffeisen Bank Sh. a continued to invest in the technology to be the most recommended Bank for Mobile and Internet banking.

During 2019 the platform was upgraded and enriched with new innovative features and improvements of existing process. Through the dedicated and continuous efforts of our Product managers, Business customers that are using the platform are increased significantly.

Additionally, a very productive collaboration with Sales Force and with Corporate and Small Businesses Development unit has resulted in a very successful outcome, satisfying the customer's needs with high speed and quality of the banking services.

## Corporate and Small Business Development

The main objective of the Corporate and Small Business Development Unit during this year was coordination and follow up of the new process of customer onboarding and monitoring, for all Corporate and Small business customers, as per AML-4th EU Directive. Being a new process, dedicated staff in the Unit, following respective business segment, committed to smoothly and professionally deliver such process to the customers, as well as to support the Sales Force for any issue related to such process, with follow-up to its completion.

Improvement of service quality and process efficiency for all Corporate and Small business clients, has been guaranteed through process digitalization and dedicated business staff allocated in Raiffeisen Bank main branches. In addition, we learned our internal procedures so that processing time and quality of service is kept at the highest levels.

Moreover "the voice of the customer" is continuously in our focus, keen in hearing and managing every single complain addressed to us. We consider this process to have a double value, as on one side gives us the chance to serve a proper solution to the specific customer while on the other, gives a direct contribution in improving our services and processes in the future.

# Retail Banking

## Customer Segment Development

### Mass Private Individuals Customers

Private Individual segment focus continues to be growth of customer activity, boost of primary relationships and customer acquisition, especially among youth population.

During 2019 our active customer base quality continued at approximately 83 per cent, while primary customers increased by 2.4 per cent year-to-year. We had very good performance in customer acquisition, acquiring 12 per cent more customers compared to 2018.

Despite the challenging and competitive environment, we managed to keep at same levels the payroll customer base in both public and private sector, maintaining our leading position in the market for public employees (48 per cent market share).

During 2019 we launched a new packages model for Private Individuals Customers. Merging the Life Cycle Packages into a single package, as well as launching the new "Raiffeisen Digi package" brings a simple, practical, innovative concept in line with the Bank's mission and digitalization strategy. It is a package customized for customers who are passionate about technology, innovation and prefer mostly to use digital channels.

The Bank participated in Tirana Municipality Student Card Project as the first exclusive bank providing preferential terms for student package during the first phase, which took place during June-July 2019. Through this initiative we aim to increase acquisition of customers in early stages of banking and convert them into active/primary customers.

We will continue to improve customer activity, increase product utilization, acquire & exploit new customer groups such as millennials & digitized customers profile, improve packages model etc.

As a safe and reliable bank, we will support our customers with simple and excellent service in every interaction with superior digital solutions and offer them stress free experience.

### Premium Segment

Raiffeisen Bank has led the market in servicing affluent customers since the launch of Premium Banking in early 2010. Currently, there are around 11,100 customers in the Premium Banking segment, with varying banking needs from basic accounts to complex ones, who require full banking service.

There are two levels of customers in Premium Banking:

- Premium Classic, where clients receive special service from senior branch positions and
- Premium Club, the most exclusive and upscale service channel provided to affluent clients in Albania.

Club Premium customers are served in more private areas of the branch by Premium Relationship Managers. Premium Relationship Managers are located in the bigger cities at 15 main branches and they not only provide highly customized services, but are trained to provide financial advisory services as well.

The Premium Segment's strategy is the increase of lending and transactional business to continue increasing contribution into Retail revenues. Last year, the Premium Banking Asset Portfolio increased by 11 per cent.
We will continue to deliver the highest level of customer service and relationship management through Premium Banking.

## Micro Segment

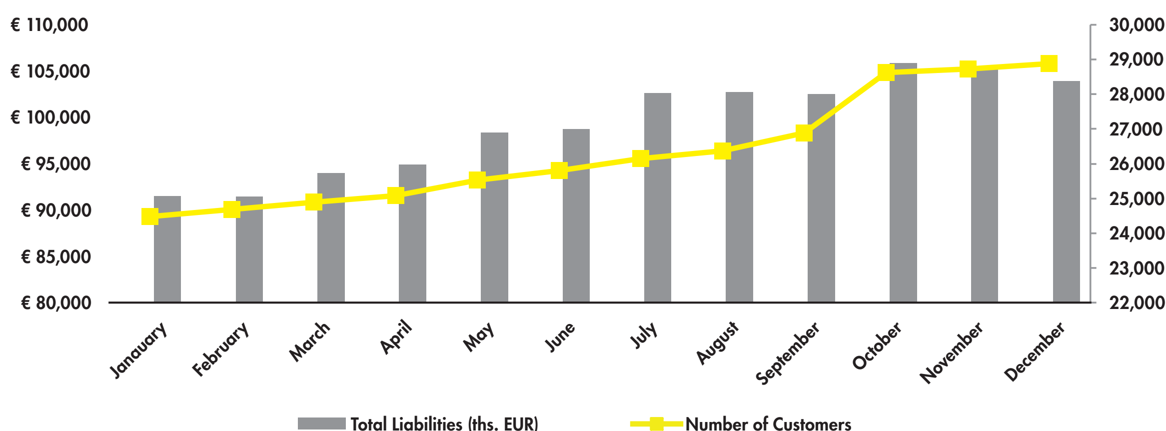
Raiffeisen Bank Sh.a now marks ten years of experience in Micro businesses, delivering a full line of professional services for this segment. We focused on customer acquisition through special programs and providing Micro customers a line of three value-added packages to choose from.

Our value proposition is a combination of competitive products and dedicated support, offering a strong partnership and counseling to Micro businesses in immediate or future needs, always by keeping our highest standards. Through the dedicated sales force, banking services will be provided to customers in main branches allocated in the biggest cities across Albania. Since the launch of the digital banking platform Raiffeisen ON, the bank has been strongly focused on digitalization strategy to shift customers from branch transactions to digital channels.

If we go back to the previous years, the lending activity in new disbursements dropped and the segments was focused on portfolio quality, collection, and customer acquisition. For 2020 we aim to restart lending and growing healthy portfolio.

2019 marked approximately 6,500 new customers which helped to increase our Micro customer base up to 28,800. Micro Liability portfolio reached € 104 million.

**Volumet e pasiveve dhe numri i klienteve (January - December 2019)**




In 2019, the revitalization project has started and the main workstreams consist of:

- Reviewing Sales & Service Model also reflecting the increase of sales force
- Review packages and value proposition based on customers' needs
- Review lending products and facilitate/improve the lending process
- Promote digital Behavior

# Product Management Division

## Term Deposits and Savings Products

During 2019 retail deposits remained the largest funder of the bank balance sheet.

Market Interest Rates continued record low levels during 2019 due to excess liquidity in the banking system. Consequently, Term Deposits Rates continued to be on the lowest possible levels. Raiffeisen Bank was able to offer clients alternative wealth management options through our subsidiary asset management company, Raiffeisen Invest – the biggest company in market to offer investment funds to the public. The majority of our clients continued to place their trust in our bank by keeping their deposits with us despite low interest rates. But a significant portion of our customer base opted for Raiffeisen Invest Funds, where good annualized returns, well above the Term Deposits market rates, were achieved. Raiffeisen Invest Funds, offered throughout our branch network, also attracted new clients and funds from other sources. The combination of traditional banking savings products and Raiffeisen Invest Funds gave individuals more choice and possibilities to grow their savings.

## Individual Loans

Moreover, the Bank's focus during 2019 has been offering more affordable and flexible loan products to the customers, as for their demands. Raiffeisen Bank has continued to give a special focus to Individual Loans by increasing the loan portfolio, exploiting new target groups, and promoting competitive advantages, while operating in a low interest rates market. As a result, loan portfolio grew to € 286 million, the highest score achieved in 13 years of lending. This way, Raiffeisen Bank presence has increased by reaching 20 per cent of the loan market for individuals.

Consumer Loans were the main driver of growth in the Private Individuals loan portfolio in 2019, as the demand for such loans in Albania remained quite high. Such demand sustained by several marketing and promotional campaigns in place all over the year, promoting wide variety of fixed interest rates increased sales by 10 per cent year-on-year. We had a very good year during 2019 in Personal Loans, thus impacted mainly from the highest maximum loan amount in the market, a wide variety of fixed interest rates, and the releases done in order for our customers to have tailored products and exploit new customer segments.

Furthermore, Raiffeisen Bank continued to pay a special focus to Secured Loans by promoting competitive fix interest rate offers during the year. Housing Loans for "New families", part of Tirana Municipality program (second waive) successfully finished, by widening Secured Loans target group and by continuing the good collaboration with Tirana Municipality. Similar programs for Secured Loans are expanded in other main cities in the country, to better fulfill our customer needs. These programs increased our new volumes disbursed during 2019 with approximately € 18 million and representing around 55 per cent of new Secured Loans disbursements during the year.

In 2019 we were also selected as one of the three main banks, that in collaboration with the Ministry of Finance will start in 2020 a new program for offering all over the country Housing Loans for "New Families" with preferential pricing.

2020 is expected to be another important and successful year for Raiffeisen Bank. The focus will remain on providing best experience for our customers, increasing the loan portfolio based on customer needs or demands, expanding Secured Loan programs and different competitive campaigns. As an important part of the growth strategy, Raiffeisen Bank will also explore the opportunities to significantly increase the presence of our customers and their digital experience through lending.

# Cards Business and E-Banking Division

## Cards

In line with its overall digitization strategy, Raiffeisen Bank Sh.a has focused on digitizing the credit and debit card usage experience for our customers.

Raiffeisen was the 1st bank in the Albanian market to develop SmartPay, a very trendy contactless wearable payment tool, which went live in the second quarter of 2019, allowing our customers to conveniently use a sticker or bracelet equipped with the card microchip to make payments at any merchant equipped with a POS without having to carry their wallet. For this initiative Raiffeisen Bank won the Mastercard award as the 2019 Market Shaker for Innovation.

2019 results of Card business confirm the growth trend of the recent years. The number of new credit card customers grew by over 11 per cent comparted to 2018. It is more than evident now the growth on transactions for payments performed from the cardholders through POSs (plus 16 per cent) reflecting a steady trend of growing electronic payments and decreasing cash transactions. This trend is mainly the result of the bank's focus on customer education and awareness about the card usage benefits and increasing efforts in different programs such as the cash-back campaigns performed during 2019, Disney Land Experience promotional campaign etc.

Significant results are quite noticeable in the Debit Card portfolio as well. The number of transactions performed with debit cards in ATMs and POS terminals increased by 9 per cent with a high increase on sales transactions by 57 per cent compared to 2018. The new Contactless debit card launched in mid-2018 contributed materially to the growth of the total POS transactions, confirming once again the strong preference of the market for innovative technology and digital payment methods.

## POS Network

Raiffeisen Bank has successfully finalized the POS optimization strategy on acquiring business being focused continuously on quality service and keep the brand leadership in the market. Additionally, Raiffeisen Bank is focused on expanding the POS footprint especially with a strong presence in the large merchant category such as shopping malls, hypermarkets, hotels, restaurant petrol stations, hospitals etc.

The results on 2019 confirm the success of the implemented measures to improve the profitability of its POS network and this is easily confirmed by plus 32 per cent growth on the number of transactions performed through our POS network. Furthermore, the POS footprint was expanded with plus 29 per cent versus 2018.

## E-Commerce

We continue to offer the most advanced standard of payment security for the internet selling process through 3-D Secure Technology. Raiffeisen Bank remains the market leader for E-Commerce service in the Albanian market. Such leadership is easily confirmed through the growth of the number of transactions by 84 per cent year-to-year and the significant decrease of number of chargebacks.

## ATM Network

Raiffeisen Bank remains the market leader with the largest ATM network. The ATM network is continuously being optimized to better serve the customer needs, taking in to account customer demand especially in higher traffic locations. ATM service is offered for all the cards issued globally under VISA, VISA Electron, PLUS, MasterCard, Maestro and Cirrus brands.

The Cash-In functionality introduced in mid-2018, has been a greatly successful service during 2019 registering strong growth of 138 per cent transactions year-to-year. There are now 43 ATMs throughout the country that enable the customers to deposit 24/7 in their accounts without needing to visit a branch.

Enhancement of ATM digital functionalities is part of Raiffeisen's multi-channel banking ecosystem aiming at increasing the availability and use of digital banking channels 24/7 in our ATMs and Self-Service Zone.

## Digital Banking

Raiffeisen Bank Sh.a has made digitalization its top priority and has designed an ambitious strategy to transform customer's banking experience by giving it 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 immediate urgency 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 2019, special focus was given to digital payments. Raiffeisen Bank was 1st in market with two innovative digital payment solutions, KUIK (P2P: peer-to-peer) and Scan & Pay (QR based) (P2B: peer-to-business). KUIK enables the customer to transfer money instantly to their peers for free, by using a mobile number which relates to a current account. Scan & Pay on the other hand enables the customer to make instant and secure account-to-account payments at all the merchants that adopt Scan & Pay. Raiffeisen Bank is the first bank in the market to introduce the P2B payment solution, providing significant benefits for consumers and merchants increasing the ease of instant cashless payment without any cost, fraud, and chargeback hassles.

A very important achievement was the Upgrade of the Digital Banking platform for Retail in V4. This new upgraded version of Digital Banking brought a completely new design on mobile applications for Retail and Corporate users and new functionalities, such as login with fingerprint or face ID, KUIK – transfer money instantly to their peers - from Raiffeisen ON.

During 2019 the number of customers that subscribed to Raiffeisen ON increased by 34 per cent for individuals and 48 per cent for micro businesses.

## Payments

Our digital banking platform Raiffeisen ON saw an increase of 19 per cent in the number of Payments and Transfers made by Individual, Affluent and Micro customers compared to 2018. Payments initiated via electronic channels reached 67 per cent of total retail payments, (86 per cent for Individuals and 43 per cent for Micro). Payments of commission income increased 14 per cent. Further improvements were also made in payments processing in branch and head office.

# Customer experience

Given that customer expectations are on the rise and being part of a changing marketplace where the focus on digitalization is high, 2019 has been a challenging year for Raiffeisen Bank Sh.a to respond positively to our customers' demands in creating and maintaining positive experiences.

Raiffeisen Bank Sh.a is constantly working to elevate the concept of customer service into customer experience at every touch point of the customer with the bank. We regularly collected feedback from over 20,000 customers during the year through post satisfaction surveys, mainly focused on loan products, ATM and Raiffeisen ON platform interactions, complaint handling and resolution and other daily services identified as moments of truth to our customers. Our focus is to identify customers pain points with the aim of identifying areas for improvement and providing them with a fast, simple, and easy experience through innovations at all touchpoints.

The empowering of the Customer Experience culture within the organization, creating a shared sense of its activities and improvements that are already visible is an on-going goal within our organization. The most noteworthy ones to mention are the continuousness of Customer Centricity refreshment trainings and in Branch Experience days for Head Office employees, using Customer Journeys as a tool to tailor products and services according to customers' experience are active throughout the year.

Different Customer Appreciation Days are done throughout the year; Our goal is to bring the bank closer to the customers, to the community they interact daily and show that we care and go beyond banking with them.

## Customer Relationship Management – CRM

CRM is an important part of the Retail activity and a great profitability contributor. We use data to understand our customers and act based on their needs and preferences to help them develop into more beneficial relationship.
We are investing more in solutions to make this process more fluent and natural for our customers and our employees. We launched CRM in Branches where now, the front–office employees can see customized offers to customers and communicate these to them accordingly. This results in more engagement from our employees and more results for the Bank.

The Multi-channel CRM is going on with several initiatives to improve the customer engagement through usage of data to be more personalized and relevant to our customers. These initiatives will increase customer's experience and will make us be most recommended bank.

## Contact Center

Raiffeisen Bank Contact Center conducts its activity focused in two main directions:

- handling customer requests through incoming calls and other alternative channels such as email, social media and electronic channels
- performing telemarketing / information / questionnaire campaigns for bank products and services

Agents in the 'Incoming' unit provide 24/7 service, providing information on bank products and services, according to customer needs identified through phone calls and other alternative communication channels. This unit provides assistance on card services, POS & Ecommerce operations, and electronic channels such as Digital Banking and Self-Service Kiosks.

Also, based on the CRM strategy, telemarketing agents contact selected customers through phone, SMS and email for dedicated offers that are part of the bank's customer relationship management. During 2019 around 160 campaigns were conducted with a total of 530,000 targeted customers or about 30 per cent more compared to 2018.
Also in January 2019 Raiffeisen Bank introduced the latest innovation in the banking system, Chatbot service which is an automated service offered on the social channels Viber, Messenger, Telegram and more recently in WhatsApp, for which Contact Center has a key role in managing the service and offer quick assistance of customer requests.
Our focus is to resolve in a short time our customer requirements, improving service quality!

# Distribution Channels

Raiffeisen Bank Sh.a is the market leader with the largest branch network in Albania, 76 Branches distributed in the majority of cities in the country, specifically in 44 cities. The branch network is supported by 19 Self Service Zones attached to the key branches equipped with 20 Financial Terminals.

During 2019, the bank continued to invest on the branch network, to maintain the high standards in all banking outlets. Considerable Investments were allocated to key and potentials outlets, providing comfortable service space and privacy to customers. Some of the branch development projects completed during 2019:

- 1 full reconstruction and conversion to new standards
- 1 branch relocation in Tirana
- 2 branch full refurbishments
- 2 new Self Service Centers (SSC), attached to existing branches, equipped with ATM’s Cash IN / Out and Financial Terminals.

These development projects were part of the Retail strategy to digitalize our Retail banking model, while still investing in branches to provide superior face-to-face service where customers can obtain expert advice or discuss more complex banking needs.

The November earthquake that hit Albania, impacted the temporary closure of 4 branches, concentrated in Tirana and Durres areas. These branches are in relocation process, to open for business in the shortest timeframe possible.

During 2019, Raiffeisen Bank customers were able to make cash deposits at the Albanian Post Offices, when the beneficiary will be one of the bank’s customers: individuals and micro businesses. This process started in nine post offices in areas where Raiffeisen is not present. It will also address the ongoing demands of communities that request the presence of a bank in their area. The number of post offices may increase soon, starting from the first quarter of 2020.

Sales Force Effectiveness (SFE) team managed Transformation Strategy in Network Branches. Network refinements consist of structure flattening; simplification of roles in the branch; front office roles new responsibilities in non-cash activity and sales of non-lending products; micro sales force under branch direct responsibility.
The main scope of transformation was to increase the network’s ability to be flexible and ready to adapt to any changes the bank will go through in the years ahead. This transformation will provide customers a “one stop shop service” for daily basic transactions; optimize and improve sales time in the branch; ensure that all staff contribute to the profitability of the branch; ensure better management of results, communication and focus on bank priorities.

Also, during 2019, 30 per cent of our sales force was trained in Sales Academy. The training modules introduce topics such as: Emotional Intelligence, Personality, Presentation Skills, Sales and Service Standards in Raiffeisen Bank, Behavioral Economics, etc. We aim to help our people develop individually and as part of the group.

Raiffeisen Bank, is the biggest bank that provides fast financing onsite in Retail Shops, counting 24 locations as end of 2019. For the first time we are offering to our customers products and services on the spot, accomplish immediately their needs and a superior customer experience.

In 2020 new retailers and products will be introduced to our customers, enhancing the benefits they receive, combined with very high service standards.

Micro Business continues to increase the active customers base, actively approaching new and existing customers. Our main goal was and will continue to be the shifting of basic banking transactions to digital channels, freeing up capacities of our dedicated Relationship Managers to focus on customer quality relationship and to ultimately serve

our customers even better while being more cost effective. Raiffeisen Bank Sh.a started a strategic activity for Micro businesses regarding on-boarding practices and increasing the financing opportunities through dedicated Relationship Managers and improving the value proposition both in lending and daily banking.

Premium Banking continued to provide superior banking services to high value customers ensuring all needs, from the most basic to the complex ones, are addressed with unparalleled personal attention.

No other bank offers Premium Banking, which continues to give Raiffeisen a key competitive advantage in attracting, retaining, and increasing services used by affluent customers.

# Treasury and Investment Banking

## Fixed Income

The year 2019 continued to be a challenging one impacted from different local and European regulators where the most feasible are the regulations and specific standards toward our investment portfolio that impacted our investment strategy. Our investments in Albanian government securities are also in line with the overall group strategy in way 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 being always in line with every local and European regulator.

The portfolio structure followed to change slightly even during 2019 compared to previous years, shifting or matured positions of one-year investments and focusing on midterm investments such as the two- or three-year bond or even longer as the five-year Bond. The three and five years are benchmark bonds and only the market makers can participate, although we're not still part of the panel we own part of all the benchmark issues in our portfolio in way to enrich and diversify but also to contribute in the development of a well consolidated secondary market.

On the other side, we have decreased our investments in euro denominated bonds issued from international financial institutions by diversifying the Money Market portfolio on the other side and creating enough short-term liquidity for euro, therefore being in line with the new regulations of liquidity cover ratios.

This last year has its ups and downs regarding interest rates, they hit the floor once again in the first quarter by then increasing during mid-summer 2019, still there have been lots of fluctuations and a downward trend of 3-5 years impacted even for the liquidity in the local market and the overall lack of investment alternatives of local currency excess. Throughout the whole year 2019 we continued to be very active in the secondary and retail market, especially in outright auctions, with local and international banks and financial institutions by generating high profit from trading in that market. Raiffeisen Bank continued during this year to offer the custody activity for its clients.

## Money Market

Money Market unit as an important part of the Dealing Room in Treasury department has taken an active role on the bank Risk Weighted Assets target for 2019 by using different instruments on maintaining the minimum reserve requirement at the Central Bank. The unit has continuously contributed to keep the liquidity ratio at the required level as per Bank of Albania's regulation.

The money market portfolio throughout the whole year 2019 has been well managed and expanded in different maturities, in compliance with all limits constrains in place by assuring and fulfilling in any moment bank's and bank clients` liquidity needs in every currency.

It 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 using different instruments.

Regardless of market conditions during 2019, in an ongoing low-interest-rate environment, the Money Market Unit has put its maximum efforts to successfully manage the short-term liquidity and achieving a good performance.

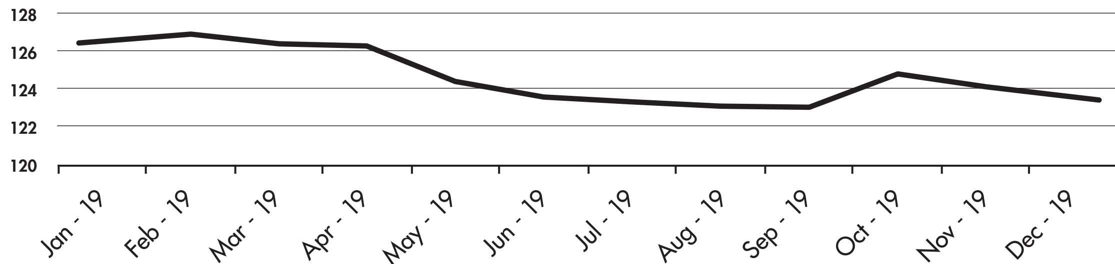
As an active and necessary part of a still developing local market, the Money Market unit continued to contribute daily for the TRIBID/TRIBOR publications. These quotations are a very important aspect of the local market development, reflecting its activity and TRIBID/TRIBOR are also a relevant issue in forecasting and interpreting market situations.

The Money Market unit will continue to give its contribution, in way to further impacts in development of the market, instruments and investment possibilities in short term.

# Foreign Exchange

2019 was a good year for the Canadian dollar and sterling and a challenging one for the euro. All other major currencies changed little in value versus the greenback. The first nine months of the year were actually kind to the dollar. There was a lot of choppiness in the greenback, but the overall trajectory of the dollar index was higher. The biggest driving forces were trade war, global easing, Brexit, and record-breaking moves in US stocks and by the different Monetary Policies followed by the Fed and the ECB.

While in the domestic market the first half of the year was overall stable but in in the second half of the year fluctuations were observed where the European currency lost around big figures versus Local currency.




Euro/Lek depreciation has been affected by a euro excess liquidity in Albanian Market from FDI (Foreign Direct Investments) and supply-demand effects.

For this reason and to increase the Foreign Reserve, the Bank of Albania has periodically organized auctions for the purchase of the European currency and Raiffeisen Bank has participated in each organized auction.

Despite all fluctuations in local market, Forex Exchange Unit has been managed very carefully the bank Forex Open Position and all the risks associated with it. This has been achieved based on a very professional analysis on financial markets and closed the year with the outstanding result.

During 2019 the number of exchange transactions carried out through digital platforms increased as new channel for forex transaction into the domestic market.

US dollar followed the same trend as in international market but has been 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 very competitive prices in the interbank market and with customers.

Volumes of foreign exchange transactions continued to be significant especially EUR/USD transactions, by running at € 200 million per month.

# Treasury Sales

2019 has been a very successful year in terms of increasing the number of forex transactions as a whole and the number of transactions through our digital platform that are about 60 per cent of total forex transactions. Treasury sales unit continues to provide our customers with highly competitive Treasury products rates coming to close the year with a high score.

A key role in achieving this performance has been its dedicated, professional, and cooperative staff with all the business channels 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.

# Corporate Social Responsibility Report

During 2019, Corporate Social Responsibility continued to be in particular focus of Raiffeisen Bank's activity, proving once again that we represent a company that operates on a sustainable and ethical basis. We particularly pay special attention to the sustainable development and social and environmental well-being of the community where we operate, as well as the obligation to respect the human rights by supporting projects and practices aimed at improving the livelihood and promoting a sustainable society.

For several years, Raiffeisen Bank represents one of the companies with the greatest commitment to corporate social responsibility, providing an outstanding impact on society in several areas, with the support provided in 98 projects during 2019.

Our support in social responsibility is evidenced by the contribution provided to social issues, such as the initiative of Raiffeisen Bank staff, under the project "Raiffeisen for Albania", bringing relief for families affected by the deadly earthquake of November 26th, where we donated food and other humanitarian assistance for these families to get through the difficult situation.

"Student Card" was another project where we engaged together with the Municipality of Tirana, proving a package of free banking services for all young students aiming at facilitating their integration into society.

Furthermore, Foundations of children with special needs and the Orphanage "Zyber Hallulli" in Tirana, were financially supported with school materials and therapeutic activities, showing the attention we have towards the development of the new generation, especially to the most vulnerable groups.

We have dedicated a special focus to the health sector, as one of the sectors where our contribution is of crucial importance and the impact is measurable. It is worth mentioning the complete reconstruction of the pathology pavilion in Berat Regional Hospital, the equipment donated to Kruja Regional Hospital i.e. an "Echo" apparatus and donation of all the essential laboratory equipment to Lezha Regional Hospital. We also enabled the complete reconstruction of the connecting bridge at Korça Regional Hospital as well as the complete rehabilitation of the facade of the Kolonja Hospital.

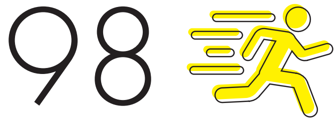
Raiffeisen Bank's contribution to education has been substantial and sustainable throughout the year, supporting educational projects for the country's high schools and universities. These projects not only aim at developing and improving students' literacy but also contribute to developing a qualitative learning process. One of the most important projects in this field was the equipment of the Faculty of Economics at the University of Tirana with a new computer lab and the complete reconstruction of the "Mediateka" hall at the "Eqerem Çabej" University in the city of Gjirokastra. Also, there were two other initiatives under this framework for donating books in two libraries in two schools in the city of Kruja and equipping a school in the city of Lushnja with a computer lab. The project "City of Readers", was another initiative supported by Raiffeisen Bank, which aims at creating new reading corners for the education of young generations that this year was finalized in the city of Berat, following a successful cooperation with the municipalities of Tirana, Lushnjë, Fier, Krujë and Divjakë, therefore enabling the enrichment of public libraries in these cities with many new book headlines.

Environmental protection is also one of the UN Sustainable Development Goals (SGD) to which Raiffeisen Bank has made a valuable contribution since their drafting. For more than 11 years, Raiffeisen Bank promotes and supports the cleaning up of coastal areas, awareness-raising campaigns towards a green environment, where the voluntary contribution of the bank's staff is estimated as a priceless initiative. Furthermore, thanks to the continuous cooperation with the Municipality of Tirana, we have supported the initiative for the afforestation of Tirana city, by planting 500 trees along the secondary road of the Tirana-Durrës highway. Raiffeisen Bank further supported the Agricultural University of Tirana by enabling the complete rehabilitation of the botanical garden in this University.

"Art and Culture" represents another important area of interest for the society. During 2019, we have supported the artistic calendar of the National Opera and Ballet Theatre, the National Theatre and the Puppet Theatre. Many other cultural projects have also been supported not only in the capital city, but throughout the entire territory of Albania. It is worth highlighting the "Concert of the Three Tenors", the "International Festival of Chamber Music" in Durrës, the Old Baroque Music Festival "Vox Baroque Albania" and the 17th edition of the International Theatre Festival "Butrinti Summer Festival".

Other important projects that support tourism and raise local awareness were the "South Outdoor Festival" and the Multicultural Festival in Berat, which promote the beautiful city of Berat and the heritage of the surrounding areas.

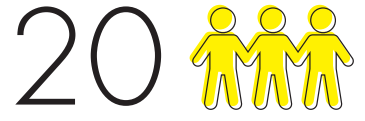
Raiffeisen Bank in Albania considers the Corporate Social Responsibility as a priority and this remains a long-term focus to us. We are committed to the contribution of the sustainable development and improvement of the social, health and environmental conditions of the community in Albania.

98 

Supported Projects

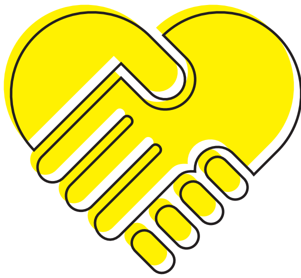
39

Projects with NGOs

20 

Social Projects

450 Help for people in need



28 Art & Culture Projects

65%

Projects according to Sustainable Development Goals from UN for a better world

800 Planed Trees

# Human Resources

With a staff of 1'300 employees, Raiffeisen Bank is one of the biggest and best employers in Albania, offering a competitive environment in terms of staff compensation, development, and motivation.

## Recruitment and Selection

During 2019, 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, in order to support the business needs in all the areas where it operates, with a total of 167 new hires.

To evaluate and select the best and the most qualified candidates in the market, a structured recruitment process is applied, which consists of several stages: logical tests, technical tests and/or psychometric tests, gaming, and personality tests. The selected candidates are interviewed by an 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 2019, 40 per cent of the candidates selected as winners for the vacant positions were internal staff. This gives them the opportunity to build a successful career within the Bank and increases internal staff motivation.

To meet the needs for staff in entry level positions, in Head Office and the Branch Network, priority was given to the outsourced staff, 43 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 excellent 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 2019, DSA Student Program consolidated the cooperation with many universities in the country, counting 160 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.

### Employees with leased contract

Even during 2019, continued its cooperation with an outsourced company, hiring 143 contract employees, according to the needs for staff in Head Office and Network Branches.

The leased staff are offered classroom trainings 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

In addition to the approach to attract and select the best candidates in the market, Raiffeisen Bank is also committed to staff development and enhancement of their knowledge and professional skills. Training and development programs are a strategic investment for the achievement of the business objectives.

Raiffeisen Bank offers an Orientation Training Package to facilitate the onboarding of new hired staff, to share experience with them, and help them to understand company values. This training is highly important as it introduces them to the new tasks that they will perform, and it facilitates a smooth integration in the workplace.

For some groups of new hires (IT staff), was developed a tailored approach to employee onboarding (through Key Academy), to welcome them into their specific positions and to increase the chances they remain with the Bank.

Meanwhile, after the Orientation Training Package or in cases of job transfers, on-the-job training sessions are organized with experienced staff, which serve also as mentors for them.

During their employment, many opportunities for development and qualifications are opened to them. The Bank provided a wide range of training programs and initiatives of professional development, which were organized through the internal sources of expertise or outsourced experts. During 2019, the annual training plan reflected each Department's needs for training sessions that aimed at updating or enhancing their technical knowledge or competencies/skills needed to cope with the challenges and meet the set targets and results. In this context, **4,085.5 days of classroom training** were held and **100 per cent** of the staff attended at least one training session.

In addition to the classroom training, the bank staff was provided with the opportunity to attend online training on an e-learning platform (Online Development Assistant - ODA), which serves as a tool for knowledge and information management. The usage of this online platform shows the broad interest in this learning method, which offers a lot of flexibility. An employee can attend the training module in the workplace and when he/she chooses to. There were held in total 1,328 online training days.

Human Resources Division supports long-term business goals by focusing on implementation of **Talent Management and Succession Planning policies.** The bank is focused on the identification of employees who demonstrate high potential for achievement and constant performance and implements plans for their development, retention, and engagement.

**Leadership and management education** consist of another focus of Raiffeisen Bank. The training programs about Agile, provided during 2019, aimed to educate the bank managers about this new way of working.

**The rotation programs** were another tool provided for the development of key staff. These programs were provided locally and with group wide participance. The aim of these initiatives focuses on experience, knowledge, and best practices exchange, realized through visits to colleagues in respective departments in and outside the Bank.

# 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 Raiffeisen Bank Sh.a (Raiffeisen Leasing Sh.a 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 and balance sheet. The number of staff who falls under this category is 35 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 44 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 per cent and 75 per cent).
- Motivation of employees through differentiated remuneration (salary) for differentiated responsibility, job positions and professional skills.
- The extra benefits shall be competitive, but not market leading.
- The salary expenses in the total cost of personnel and the budget in general, shall be kept in compliance with the 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 per cent 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 3,5 score),
- is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance,
- shall be up to 16 per cent 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 € 30,000.

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 per cent of target achievement),
- is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance,
- shall be up to 39 per cent of quarterly base salary for all job positions which are included in Incentive schemes (Sales & Support).

### Table19**: Forms and elements of remuneration for Executive *(every year end)*
(in 000/ ALL)

| **Total value of remuneration awards for the current fiscal year** | **Immediate/for the actual period** Year 2019 | **Deferred** Year 2018 |
|---|---|---|
| Fixed remuneration | 11,205 | 10,000 |
| Cash/bonus | 11,205 | 10,000 |
| Shares | | |
| Others | | |
| | | |
| Variable remuneration | | |
| Cash/bonus | | |
| Shares | | |
| Other | | |

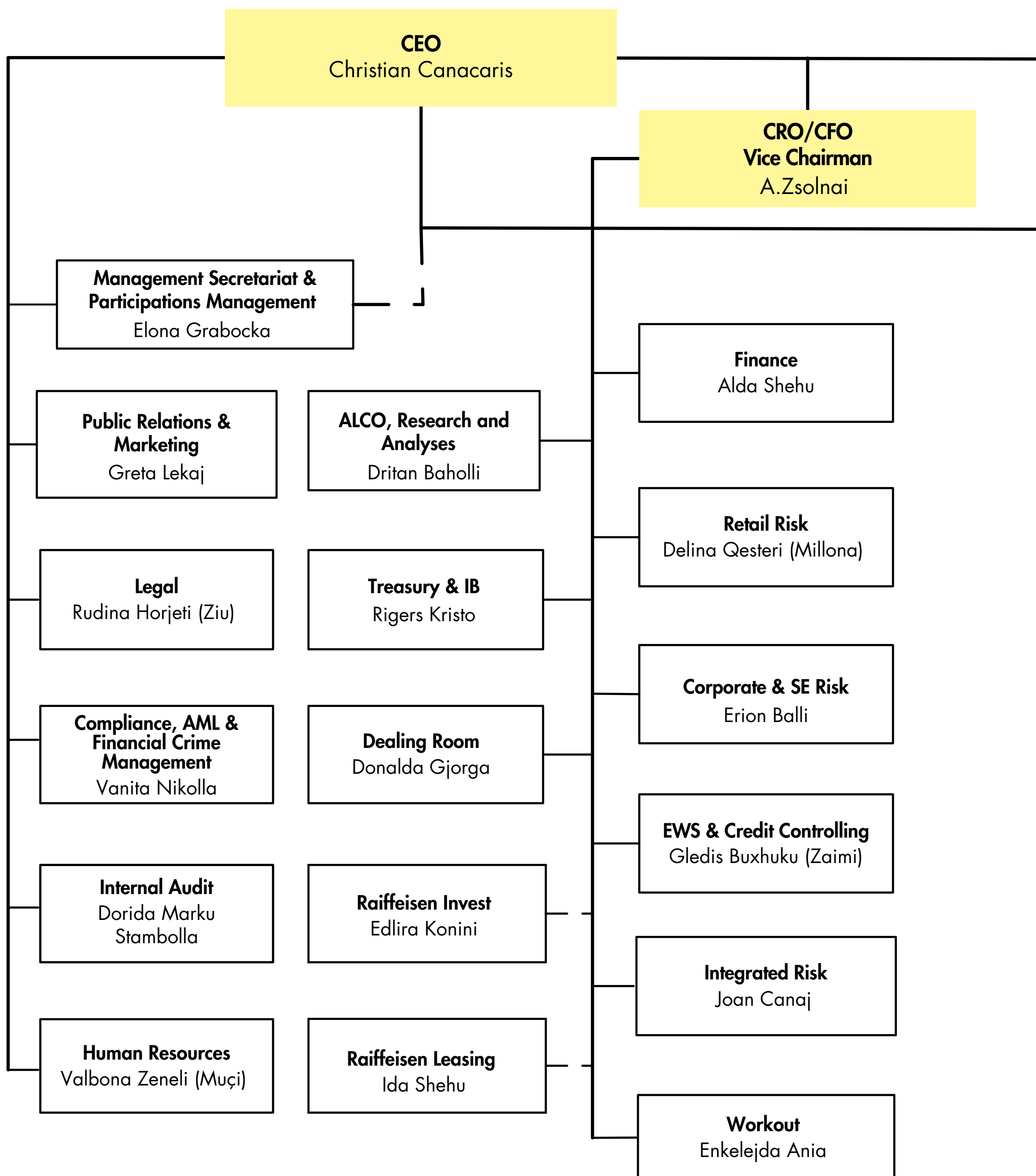
** This table shall be filled in separately for a) Steering Council and b) Executive Directors.

### Table19**: Forms and elements of remuneration for Executive Directors *(every year end)*
(in 000/ ALL)

| **Total value of remuneration awards for the current fiscal year** | **Immediate/for the actual period** Year 2019 | **Deferred** Year 2018 |
|---|---|---|
| Fixed remuneration | 225,080 | 230,436 |
| Cash/bonus | 195,592 | 197,946 |
| Shares | | |
| Others | 29,488 | 32,490 |
| | | |
| Variable remuneration | 29,303 | 36,825 |
| Cash/bonus | 29,303 | 36,332 |
| Shares | 0 | 493 |
| Others | 0 | 0 |

** This table shall be filled in separately for a) Steering Council and b) Executive Directors.

# Organizational Structure

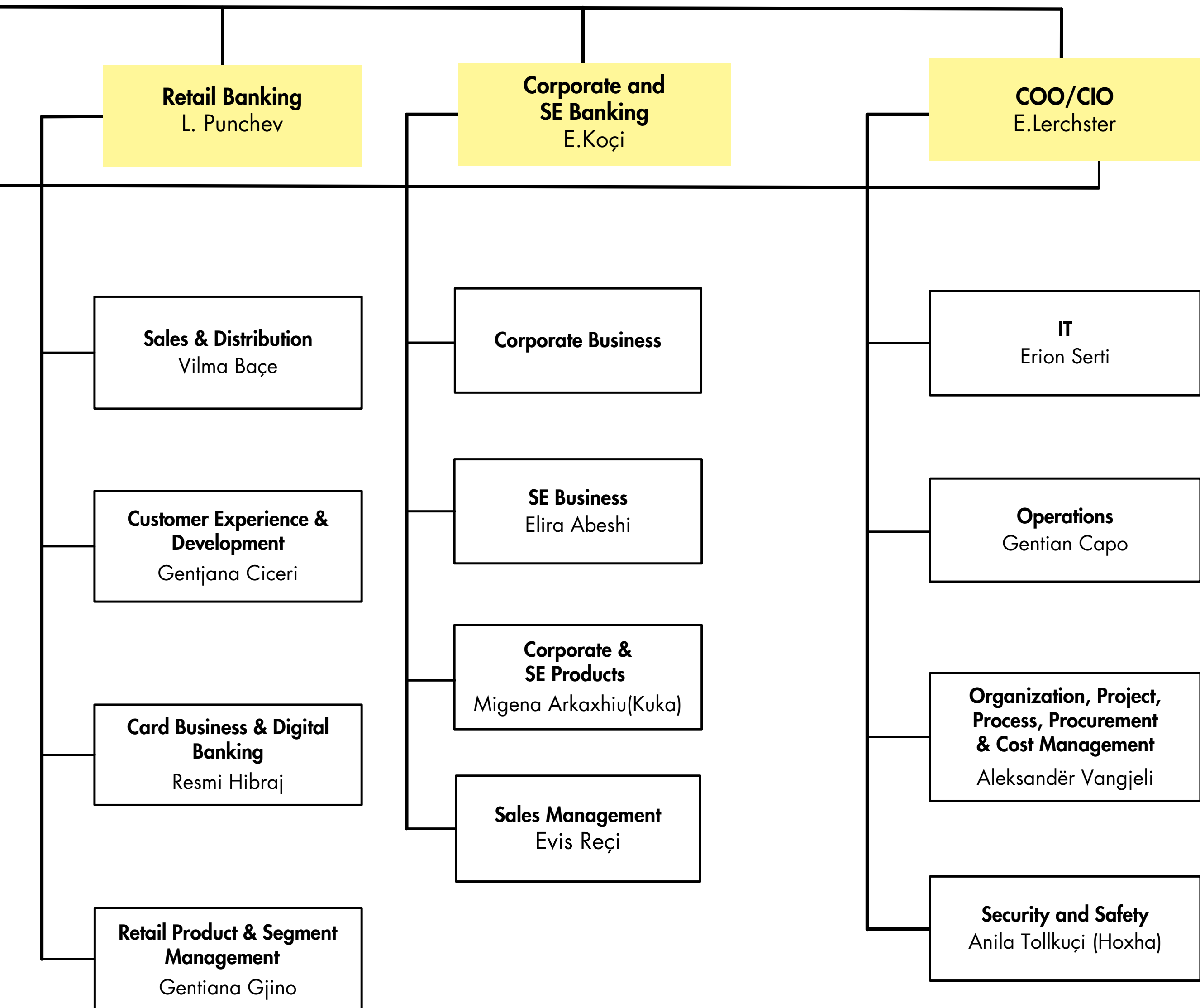



The organizational of the Bank provides a clear division of duties, responsibilities and reporting based on the model of the three lines of control.

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.

# of Raiffeisen Bank




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 "

# Contents

**Raiffeisen Bank Sh.a.**

Consolidated financial statements
**for the year ended 31 December 2019**

(with Independent auditors' report thereon)

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**Grant Thornton Sh.p.k.**
Rr. Sami Frasheri , kompleksi T.I.D
Hyrja B,Kati 1
1000 Tirana
Albania

T +355 44 525 880
M +355 69 4014 701
www.grantthornton.al
contact@al.gt.com

# Independent Auditors' Report

To the Shareholders and Board of Directors of Raiffeisen Bank Sh.a

## Opinion

We have audited the consolidated financial statements of Raiffeisen Bank Sh.a (hereafter referred as the "Bank" or the "Group") which comprise the consolidated statement of financial position as at 31 December 2019 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 financial position of the Bank as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Matter

The Group's consolidated financial statements for the year ended 31 December 2018 were audited by another auditor who expressed a unqualified opinion on those consolidated financial statements as at 5 July 2019.

## 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 Bank 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.

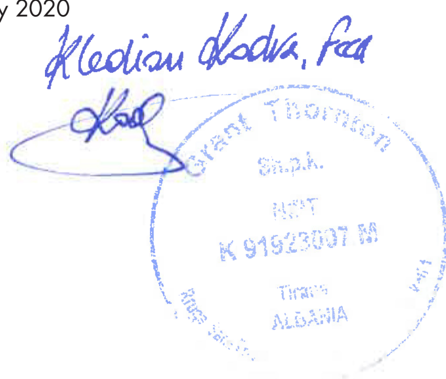
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.
- Obtain sufficient evidence of proper audit regarding the financial information of entities or business activities within the Group to express an opinion on consolidated financial statements. We are responsible for the direction, supervision and audit performance of the Group. We remain solely responsible for our audit opinion.

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.

**Grant Thornton sh.p.k.**

Tirana, Albania
20 July 2020



# The Group

These consolidated financial statements have been prepared in accordance with International Financial Re-porting Standards for the year ended 31 December 2019 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, dat-ed 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 domi-ciled 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 compa-nies and individuals and collection and investment of voluntary pension funds, within the Republic of Alba-nia. The Bank operates through a banking network of 76 service points, as of 31 December 2019 (31 Decem-ber 2018: 76 service points) throughout Albania, which are managed through 6 Districts and has no overseas operations.

# Material changes

The requirements of the new accounting standard for IFRS 16 Leases took effect on 1 January 2019.

The changes are explained in greater detail in the notes in the section entitled, principles underlying the consolidated financial statements, under changes in the presentation of the financial statements and IFRS 16 transition.

# Consolidated statement of comprehensive income
(in LEK'000)

Raiffeisen Group Sh.a. changed the structure of the consolidated statement of comprehensive income during the financial year. The disclosures for the previous year were adapted accordingly. The changes are explained in greater detail in the notes in the section on principles underlying the consolidated financial statements, under changes in the presentation of the financial statements.

| | Note | 2019 | 2018 |
|---|---|---|---|
| **in LEK thousand** | | | |
| Interest income | | 7,329,762 | 7,413,407 |
| Other interest income | | 648 | 177,440 |
| Interest expenses | | - 272,895 | -546,930 |
| **Net interest income** | **[1]** | **7,057,515** | **7,043,917** |
| *Fee and commission income* | | *3,449,213* | *3,377,633* |
| *Fee and commission expenses* | | *- 939,218* | *-748,972* |
| **Net fee and commission income** | **[2]** | **2,509,995** | **2,628,661** |
| Net trading income/(loss) | [3] | 332,791 | -270,043 |
| *Other operating income* | | *285,867* | *109,313* |
| *Other operating expenses* | | *- 244,870* | *-296,466* |
| **Other net operating (loss)/income** | **[4]** | **40,997** | **-187,153** |
| **Operating income** | | **9,941,298** | **9,215,382** |
| General administrative expenses | [5] | -5,231,652 | -5,186,812 |
| Special governmental measures | [6] | - 658,266 | -694,793 |
| Impairment recovery on financial assets | [7] | - 445,634 | 640,480 |
| **Profit before tax** | | **3,605,746** | **3,974,257** |
| Income taxes | [8] | - 498,929 | -676,477 |
| **Profit for the period** | | **3,106,817** | **3,297,780** |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive income** | | **3,106,817** | **3,297,780** |

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 179 to 251.

# Consolidated statement of financial position

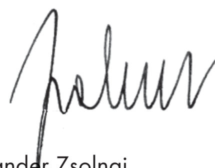
## Assets

| in LEK thousand | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Cash, cash balances at central bank and other demand deposits | [10, 30] | 25,068,597 | 22,996,693 |
| *Investment securities* | | *62,469,142* | *74,427,729* |
| *Loans and advances to financial instiutions* | | *34,694,515* | *33,025,375* |
| *Loans and advances* | | *94,809,375* | *87,051,837* |
| Financial assets - amortized cost | [11, 30] | 191,973,032 | 194,504,941 |
| Financial assets – fair value through profit or loss | [13, 22, 30] | 3,133 | 2,516 |
| Goodwill | [14] | 92,783 | 92,783 |
| Tangible fixed assets | [15, 30] | 2,688,634 | 1,456,318 |
| Intangible fixed assets | [15, 30] | 1,305,455 | 1,336,287 |
| Current tax asset | [16, 30] | 480,533 | 677,936 |
| Deferred tax asset | [16, 30] | - | 7,041 |
| Other assets | [17, 30] | 2,215,457 | 2,105,091 |
| **Total assets** | | **223,827,624** | **223,179,606** |

## Equity and Liabilities

| in LEK thousand | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Liabilities** | | | |
| *Deposits from Banks* | | *2,916,545* | *4,553,042* |
| *Subordinated financial liabilities* | | *1,874,489* | *1,899,629* |
| *Deposits from customers* | | *188,121,303* | *187,798,423* |
| *Other financial liabilities* | | *1,239,475* | *298,423* |
| Financial liabilities - amortized cost | [18, 30] | 194,151,811 | 194,549,517 |
| Provisions for liabilities and charges | [19, 30] | 289,370 | 292,781 |
| Deferred tax liabilities | | 4,721 | - |
| Other liabilities | [20, 30] | 628,371 | 722,642 |
| **Total liabilities** | | **195,074,273** | **195,564,940** |
| **Equity** | | | |
| Share capital | [21, 30] | 14,178,593 | 14,178,593 |
| Other reserves | [21, 30] | 3,306,190 | 3,306,190 |
| Retained earnings | [21, 30] | 11,268,568 | 10,129,883 |
| **Total Equity** | | **28,753,351** | **27,614,666** |
| **Total liabilities and equity** | | **223,827,624** | **223,179,606** |

These consolidated financial statements have been approved by the Management Board of the Group on June 3rd 2020 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 179 to 251.

# Consolidated statement of changes in equity

| | Share capital | Other reserves | Retained earnings | Equity |
|---|---|---|---|---|
| **in LEK thousand** | | | | |
| **Equity at 1 January 2018** | **14,178,593** | **3,306,190** | **10,925,787** | **28,410,570** |
| Dividend payments (Note19) | | | -4,093,684 | - 4,093,684 |
| Profit for the year | | | 3,297,780 | 3,297,780 |
| Other comprehensive income | | | | |
| Total comprehensive income for the year | | | 3,297,780 | 3,297,780 |
| **Equity at 31 December 2018** | **14,178,593** | **3,306,190** | **10,129,883** | **27,614,666** |
| **Equity at 1 January 2019** | | | | |
| Dividend payments (Note 19) | | | -1,964,211 | - 1,964,211 |
| Profit for the year | | | 3,106,817 | 3,106,817 |
| Other Changes | | | -3,921 | - 3,921 |
| Other comprehensive income | | | | - |
| Total comprehensive income for the year | | | 3,106,817 | 3,106,817 |
| **Equity at 31 December 2019** | **14,178,593** | **3,306,190** | **11,268,568** | **28,753,351** |

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 179 to 251.

# Consolidated statement of cash flows

| in LEK thousand | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash, cash balances at central Banks and other demand deposits as at 1 January** | **[9]** | **38,271,900** | **51,071,193** |
| ***Operating activities:*** | | | |
| Profit before tax | | 3,605,746 | 3,974,257 |
| Adjustments for the reconciliation of profit/loss after tax to the cash flow from operating activities: | | | 0 |
| Depreciation, amortization | [5] | 758,859 | 533,537 |
| Impairment and reversal of impairment of assets | [7] | 445,549 | -664,126 |
| Net provisioning for liabilities and charges and impairment losses | | 66,340 | 110,503 |
| Net interest income | [1, 2] | -7,056,384 | -7,042,351 |
| Other interest income | | 0 | -246,894 |
| Interest received | | 190,809 | 7,235,355 |
| Interest paid | | -183,723 | -568,819 |
| Effect of unrealized exchange rate changes | | 22,176 | -753,205 |
| Other adjustments (net) | | 25,592 | -47,263 |
| *Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:* | | - | 0 |
| Decrease in restricted balances | | 265,142 | 1,717,632 |
| *Financial assets - amortized cost* | *[10]* | *-1,770,907* | *4,396,563* |
| Financial assets - designated fair value through profit/loss | [11] | - | 2,241,346 |
| Financial assets - fair value through profit or loss | [11] | -576 | 6,858,286 |
| Tax assets | [14] | -292,825 | -111,310 |
| Other assets | [15] | -110,401 | 366,059 |
| Financial liabilities - amortized cost | [16] | 341,433 | -18,044,385 |
| Provisions for liabilities and charges | [17] | -69,390 | -79,268 |
| Other liabilities | [18] | -85,597 | 52,287 |
| **Net cash from operating activities** | | **-3,848,157** | **175,098** |
| ***Investing activities:*** | | | |
| Purchase of Investment securities and shares | [10, 11, 12] | -36,614,136 | -36,480,367 |
| Purchase of Tangible and intangible fixed assets | [13] | -2,000,758 | -433,282 |
| Proceeds from matured Investment securities and shares | | 48,438,027 | 33,837,755 |
| Proceeds from Tangible and intangible fixed assets | [13] | 8,799 | 85,750 |
| **Net cash from investing activities** | | **9,831,932** | **-2,990,144** |
| ***Financing activities:*** | | | |
| Outflows of subordinated liability | [16] | - | -6,643,768 |
| Dividend payments | | -1,964,211 | -4,093,684 |
| **Net cash from financing activities** | | **-1,964,211** | **-10,737,452** |
| Effect of exchange rate changes | | -22,176 | 753,205 |
| **Net decrease during te year** | | **3,997,388** | **-12,799,293** |
| **Cash, cash balances at central Banks and other demand deposits as at 31 December** | **[9]** | **42,269,288** | **38,271,900** |

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 179 to 251.

# NOTES

## Principles underlying the consolidated financial statements

### *Principles of preparation*

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) including the applica-ble interpretations of the International Financial Reporting Interpretations Committee (IFRIC/SIC) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss.

A financial asset is recognized when it is probable that the future economic benefits will flow to the company and the acquisition or production costs or another value can be reliably measured. A financial liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation and the amount at which the settlement will take place can be measured reliably. An exception is certain financial instruments which are recognized at fair value at the reporting date. Reve-nue is recognized if the conditions of IFRS 15 are met and if it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

### *Key sources of estimation uncertainty and critical accounting judgments*

If estimates or assessments are necessary for accounting and measuring under IFRSs, they are made in accord-ance with the respective standards. They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely. The estimates and underlying assumptions are reviewed on an ongoing basis. Alterations to estimates that affect only one period will be taken into account only in that period. If the following reporting periods are also affected, the alterations will be taken into con-sideration in the current and following periods. The critical assumptions, estimates and accounting judg-ments are as follows:

*Impairment of financial assets*

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 as-sets carried at amortized cost and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The calculation of expected credit losses (ECL) requires the use of accounting estimates that by definition rarely match actual results. The amount of impairment to be allocated depends on the change in the default risk of a financial instrument after it was added. In order to determine the amount of the impairment, significant credit risk parameters such as PD (Probability of Default), LGD (Loss Given De-fault) 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 (IFRS 9) under Recognition and measurement principles.

*Going Concern*

During the beginning of 2020, the pandemic of COVID-19 was spread globally. Since 31 December 2019, the consequences of the COVID-19 outspread have adversely affected the supply and demand for the Group's primary products and therefore, its operating results have been negatively impacted. In March 2020, the gov-ernment of Albania took drastic measures by suspending all activities that were not vital. Nevertheless, the Groups' activities were not suspended. The pandemic created delays in some of the Group's customers. The government has announced a sovereign guarantee to all the business which are facing liquidity problems and will seek financing. Furthermore the Bank of Albania has announced that customer that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Banks for a 3 months period.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains uncertain as the pandemic continues.

The activity of the Group has continued without suspension during 2020, and there has been a relatively stable performance on the customers' collection. For the year ending 2020, the Group would expect an in-crease on the nonperforming loans portfolio due to the economic downturn. Following the emergence of COVID-19 pandemics, the Group is analyzing macroeconomic changes and will reflect these changes in the stress tests used to dermine the impact of COVID-19 in the calculation of the Expected Credit Loss.

The Group considers in its internal capital adequacy assessment the stress scenario in calculating the capital demand for market risk related to its portfolio of investments, majority of which is measured at amortised cost. The fluctuation on the fair values is expected to have a minimal impact on the results of the Group due to the small size of the Group's portfolio measured at fair value through profit or loss.

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, be-ing the Group's main source of income, financial position including market risk. Official forecast models of the Central Bank and Group's internal risk valuation are used in these exercises.

For the month-end June 2020, it was noted a decline by 48 % to the budgeded results. The accumulated pro-vison was higher by 0.44% compared to the budget the loan portfolio/total assets was lower by 1,79%. The return of equity afer tax

7.09% below the budgeted ratio. For the year ending 2020, the Bank expect a nega-tive deviation to its budged figures, standing however at positive results.

The Group's management has made an assessment of the Group's ability to continue as a going concern con-sidering 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's ability to continue as a going concern. Therefore, the Consolidated Fi-nancial Statements continue to be prepared on the going concern basis. For additional disclosures on capital management refer to note 42.

*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 Group considers certain features of the asset or liability (e.g. condition and loca-tion 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 us-ing 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 ad-justments are necessary to account for other factors such as model risk, liquidity risk or credit risk. The valua-tion models are described in the notes in the section on financial instruments –under recognition and meas-urement principles. In addition, the fair values of financial instruments are disclosed in the notes under (20) Fair value of financial instruments.

*Net realizable value of repossessed collaterals*

Repossessed collaterals 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 recog-nised 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 revalues 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*

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 differ-ences 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 consolidatedly in the income statement and are disclosed under (9) Income taxes. By contrast, deferred taxes are shown consolidatedly in the statement of financial position in the notes under (14) Tax assets.

## *Foreign currency translation*

The consolidated financial statements of the Group were prepared in LEK which is the functional currency of the Group. The functional currency is the currency of the principal economic environment in which the com-pany 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 func-tional 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 retrans-lated 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 2019 and 31 December 2018 were as below:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | *As at* | *Average* | *As at* | *Average* |
| Rates in LEK to the units | 31/12 | 1/1 - 31/12 | 31/12 | 1/1 - 31/12 |
| European Union currency unit (EUR) | 121.77 | 123.18 | 123.42 | 127.74 |
| US dollar (USD) | 108.64 | 109.85 | 107.82 | 108.19 |

## *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 consolidated financial statements.

**IFRS 16 (Leases; effective date: 1 January 2019)**

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition, as explained in the section Recognition and measurement principles in the chapter Leasing.

*The Group as lessee*

Under IAS 17 the Group previously classified leases as operating or finance leases based on its assessment whether the lease transferred significantly all the risk and rewards incidental to ownership of the underlying asset to the Group. The new standard requires lessees to recognize assets and liabilities arising from all leases with terms of more than twelve months in the statement of financial position, unless the underlying asset has a low value. For leases previously classified as operating leases under IAS 17, a lessee recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. For leases that were previously accounted for as operating leases in accordance with IAS 17, the exemptions apply if the underlying assets are low-value assets or short-term leases (less than twelve months).

Regarding the transitional arrangements, IFRS 16 grants the Group as lessee an accounting option concerning transitioning to the new lease standard. Lessees may choose to apply IFRS 16 through either a full retrospective approach in which the standard is applied retrospectively to each prior reporting period presented in accordance with the provisions of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, or through a modified retrospective approach where the right- of-use asset is recognized in the same amount as the leasing liability and consequently no impact on the equity. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16. The impacts on the consolidated financial statements are disclosed in section Application of new and revised standards

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and lease liability as at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before the date. The Group makes use of the exceptions for the recognition of short-term leases and leases of low value. The Group does not apply IFRS 16 for intangible assets.

*The Group as lessor*

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Under this standard, a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. If subleases exist (i.e. intragroup lease agreements), the sub-lessor must examine all subleases classified as operating leases to determine whether they should be classified as operating leases or finance leases under IFRS 16. In the case of subleases which were accounted for as operating leases in accordance with IAS 17 but are classified as finance leases under IFRS 16, the sub-lessor must account for the leases in the same way as for a new finance lease contract concluded as of that date.

*IFRS 16 transition*

Right-of-use assets amounting to approximately 1,401,514 thousand were recognized as at 1 January 2019 based upon the initial application of IFRS 16. Nearly all of that related to leases for buildings for the company's own use. The carrying amount of the right-of-use asset exceeds that of the corresponding lease liabilities because of taking advance lease payments into account.

The lessee's weighted average incremental borrowing rate applied to the lease liabilities as at 1 January 2019 was about 1.74 per cent.

| | |
|---|---|
| Operating lease commitments as at 31/12/2018 | **576,702** |
| **Operating lease commitments as at 31/12/2018 (discounted)** | **575,456** |
| Finance lease liabilities recognized as at 31/12/2018 | - |
| Extensions and termination options reasonably certain to be exercised | 718,429 |
| **Lease liabilities recognized as at 1/1/2019** | **1,293,885** |

*IFRIC 23 (Uncertainty over Income Tax Treatments; entry into force 1 January 2019)*

This interpretation clarifies the accounting for uncertainties in income taxes. The first-time application of the interpretation is not expected to have any impact on the consolidated financial statements of the Group. Additional information can be found in the notes under (8) Income taxes.

Annual improvements to the IFRS Cycle 2015-2017 (effective date: 1 January 2019)

Specifically, the amendments include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it must remeasure its previously held interests in that business. The amendments to IFRS 11 additionally clarify that when an entity obtains joint control of a business that is a joint operation, it is not required to remeasure its previously held interests in that business.

IAS 12 Income Taxes: The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.

IAS 23 Borrowing Costs: The amendments clarify that if any borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset remain outstanding after the related asset has been prepared for its intended use or sale, those borrowing costs are included in the calculation of the capitalization rate for the funds generally borrowed for obtaining the asset.

The application of these amendments had no effect on the consolidated financial statements of the Group.

Amendment to IAS 28 (Investments in Associates and Joint Ventures; effective date: 1 January 2019) The amendments clarify that an entity must apply IFRS 9 Financial Instruments (including the impairment provisions) to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Hence the application of IFRS 9 takes precedence over the application of IAS 28. Application of the revised IAS 28 had no significant impact on the Group consolidated financial statements.

Amendment to IAS 19 (Plan Amendment, Curtailment or Settlement; effective date: January 1, 2019) As a result of the amendments to IAS 19, in the event of amendment, curtailment or settlement of a defined benefit plan, it is now mandatory that the current service cost and the net interest for the remaining fiscal year be recalculated using the current actuarial assumptions applied to the required remeasurement of the net liability/net asset. In addition, amendments were included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of the amendment had no effect on the conslidatedi financial statements of the Group.

# NOTES TO THE INCOME STATEMENT

## 1. NET INTEREST INCOME

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Interest income** | **7,329,762** | **7,413,407** |
| Financial assets - amortized cost | 7,251,834 | 7,324,417 |
| Other assets | 77,485 | 87,027 |
| Interest income on financial liabilities | 443 | 1,963 |
| **Other interest income** | **648** | **177,440** |
| | | |
| **Interest expenses** | **-272,895** | **-546,930** |
| Financial liabilities - amortized cost | -148,269 | -404,288 |
| Interest expenses on financial assets | -100,338 | -142,642 |
| Interest expense on lease liabilities | -24,288 | - |
| **Total** | **7,057,515** | **7,043,917** |

## 2. NET FEE AND COMMISSION INCOME

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Clearing, settlement and payment services | 1,822,147 | 2,059,571 |
| Loan business | 122,056 | 121,285 |
| Securities | 18,832 | 31,835 |
| Foreign exchange transactions | 137,287 | 141,646 |
| Other | 1,322,983 | 1,002,612 |
| **Total fee and commission income from contracts with customers** | **3,423,305** | **3,356,949** |
| Financial guarantee contracts and loan commitments | 25,908 | 20,684 |
| **Total fee and commission income** | **3,449,213** | **3,377,633** |
| Clearing, settlement and payment services | -317,632 | -607,888 |
| Other | -571,548 | -133,250 |
| **Total fee and commission expense from contracts with customers** | **-889,180** | **-741,138** |
| Financial guarantee contracts and loan commitments | -50,038 | -7,834 |
| **Total Fee and commission expenses** | **-939,218** | **-748,972** |

Fee and commissions do not include fees received for loans and advances (transaction costs), which are ad-justed on initial recognition for the carrying value of these financial assets as per effective interest rate meth-od. Fee and commission income from contracts with customers is measured based on the consideration speci-fied 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 manage-ment, 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 consolidatedly for retail and corporate Banking customers on a regular basis. Transaction-based fees for interchange, foreign currency exchange transactions and overdrafts are charged to the customer's account when the transaction takes place.

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. Reve-nue related to transactions is recognised at the point in time when the transaction takes place.

# 3. NET TRADING INCOME/(LOSS)

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Net gains/(loss) on financial assets and liabilities - fair value through profit or loss** | **17,940** | **54,728** |
| Debt securities | 17,940 | 54,728 |
| Short positions | - | - |
| **Net loss on financial assets and liabilities - designated fair value through profit or loss** | **-** | **-** |
| Debt securities | - | - |
| **Exchange differences, net** | **314,851** | **-324,771** |
| **Total** | **332,791** | **-270,043** |

# 4. OTHER NET OPERATING (LOSS)/INCOME

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Gains on derecognition of non-financial assets | 1,043 | 48,539 |
| Net rental income from investment property incl. operating lease (real estate) | 5,014 | 7,592 |
| Income from release of other provisions | 8,010 | - |
| Sundry operating income | 271,800 | 53,182 |
| **Other operating income** | **285,867** | **109,313** |
| Write down of repossessed collateral | -138,352 | -154,308 |
| Losses on derecognition of non-financial assets | -28,756 | - |
| Expense from allocation and release of other provisions | -569 | -13,255 |
| Other taxes | 0 | -46,486 |
| Sundry operating expenses | -77,1933 | -82,417 |
| **Other operating expense** | **-244,870** | **-296,466** |
| **Total** | **40,997** | **-187,153** |

# 5. GENERAL ADMINISTRATIVE EXPENSES

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Staff expenses | -2,510,532 | -2,451,253 |
| Other administrative expenses | -1,962,261 | -2,202,022 |
| Depreciation of tangible and intangible fixed assets | -758,859 | -533,537 |
| **Total** | **-5,231,652** | **-5,186,812** |

## 5. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

### Staff expenses

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Wages and salaries | -2,176,382 | -2,126,191 |
| Social security costs and staff-related taxes | -229,075 | -226,117 |
| Other voluntary social expenses | -30,294 | -41,153 |
| Expenses for defined contribution pension plans | -15,824 | -15,917 |
| Staff expenses under deferred bonus program | -39,555 | -35,062 |
| Termination benefits | -19,402 | -6,813 |
| **Total** | **-2,510,532** | **-2,451,253** |

### Expenses for severance payments and retirement benefits

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Members of the management board and senior staff | -3,454 | -6,805 |
| Other employees | -12,370 | -9,112 |
| **Total** | **-15,824** | **-15,917** |

### Other administrative expenses

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Office space expenses | -230,459 | -534,014 |
| IT expenses | -540,346 | -565,300 |
| Legal, advisory and consulting expenses | -306,226 | -289,926 |
| Advertising, PR and promotional expenses | -325,182 | -307,949 |
| Communication expenses | -20,507 | -54,862 |
| Office supplies | -28,129 | -25,543 |
| Car expenses | -43,027 | -40,964 |
| Security expenses | -18,852 | -20,532 |
| Traveling expenses | -30,609 | -31,029 |
| Training expenses for staff | -37,028 | -27,806 |
| Sundry administrative expenses | -381,897 | -304,097 |
| **Total** | **-1,962,261** | **-2,202,022** |

### Depreciation of tangible and intangible fixed assets

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Tangible fixed assets | -552,120 | -283,792 |
| Intangible fixed assets | -206,739 | -249,745 |
| **Total** | **-758,859** | **-533,537** |

# 6. SPECIAL GOVERNMENTAL MEASURES

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Resolution fund | -113,294 | -123,050 |
| Deposit insurance fees | -544,972 | -571,743 |
| **Total** | **-658,266** | **-694,793** |

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 con-tribution 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 Group of Albania and is managed by Alba-nian Deposit Insurance Agency" (ADIA) in compliance with the investment policy of the financial instru-ments of the fund.

# 7. IMPAIRMENT RECOVERY ON FINANCIAL ASSETS

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Loans and advances | -397,807 | 671,890 |
| Debt securities | -47,742 | -7,764 |
| Loan commitments, financial guarantees and other commitments given | -85 | -23,646 |
| **Total** | **-445,634** | **640,480** |

# 8. INCOME TAXES

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Current income taxes | -487,167 | -663,378 |
| Deferred taxes | -11,762 | -13,099 |
| **Total** | **-498,929** | **-676,477** |

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

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Profit before tax** | **3,605,746** | **3,974,257** |
| Theoretical income tax expense using the domestic tax rate of 15% | 540,862 | 596,139 |
| Tax effect of: | | |
| Tax-exempt income | -116,358 | 7,748 |
| Non-deductible expenses | 74,425 | 116,453 |
| Utilization of tax losses carried forward from prior years | - | -43,863 |
| **Effective tax burden** | **498,929** | **676,477** |
| Tax rate in per cent | 11.7% | 14.3% |

# NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 9. CASH, CASH BALANCES AT CENTRAL BANK AND OTHER DEMAND DEPOSITS

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Cash on hand | 4,804,975 | 4,381,367 |
| Balances at central Banks | 19,133,098 | 18,025,477 |
| *Hereof restricted balance – Compulsory reserve* | *17,253,467* | *17,566,342* |
| Other demand deposits at Banks | 1,130,524 | 589,849 |
| *herof restricted balance as bank guarantees* | *231,490* | *183,757* |
| **Total** | **25,068,597** | **22,996,693** |

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.

Cash, cash balances at central Banks and other demand deposits, excluding compulsory reserves held with the central Bank, are 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.

Compulsory 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. 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, respec-tively, 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 Bank in the management of its short-term commitments. A break-down of cash and cash equiva-lents as included in the statement of cash flows is presented below:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Cash on hand (Note 9 above) | 4,804,975 | 4,381,367 |
| Balances at central bank, excluding compulsory reserve (Note 9 above) | 1,879,631 | 459,135 |
| Other demand deposits at banks net of restricted balances (Note 9 above) | 899,035 | 406,092 |
| Loans and advances to central banks (Note 10 below) | 6,085,017 | 6,100,453 |
| Loans and advances to other banks (Note 10 below) | 28,600,630 | 26,924,853 |
| **Total cash and cash equivalents as included in the statement of cash flows** | **42,269,288** | **38,271,900** |

# 10. FINANCIAL ASSETS - AMORTIZED COST

| | 2019 | | | 2018 |
|---|---|---|---|---|
| **in LEK thousand** | Gross carrying amount | Accumulated impairment | Carrying amount | Carrying amount |
| **Debt securities** | **62,552,748** | **-83,606** | **62,469,142** | **74,427,729** |
| General governments | 54,538,285 | -83,304 | 54,454,981 | 60,113,733 |
| Banks | 8,014,463 | -302 | 8,014,161 | 14,313,996 |
| **Loans and advances** | **139,842,462** | **-10,338,572** | **129,503,890** | **120,077,212** |
| Central Banks | 6,085,938 | -223 | 6,085,715 | 6,100,453 |
| General governments | 36 | -1 | 35 | 10 |
| Banks | 28,599,993 | -62 | 28,599,931 | 26,924,853 |
| Other financial corporations | 8,890 | -21 | 8,869 | 69 |
| Non-financial corporations | 63,993,536 | -7,977,837 | 56,015,699 | 52,738,307 |
| Households | 41,154,069 | -2,360,428 | 38,793,642 | 34,313,520 |
| **Total** | **202,395,210** | **-10,422,178** | **191,973,032** | **194,504,941** |

# 11. FINANCIAL ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

| **in LEK thousand** | **2019** | **2018** |
|---|---|---|
| Debt securities | 3,133 | 2,516 |
| **Total** | **3,133** | **2,516** |

Treasury bills as at 31 December 2019 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 1.13% to 2.3% per annum (31 December 2018: zero-coupon treasury bills of the Gov-ernment of Albania with yields ranging from from1.7% to 2.74%).

# 12. GOODWILL

During the year 2009, Raiffeisen Bank acquired 100% of the shares of the Raiffeisen INVEST – Shoqëri Ad-ministruese 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 2019 (2018: Lek 90 mil-lion).

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 2019, 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 im-paired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2019 (2018: nil).

# 13. DEVELOPMENT OF FIXED ASSETS

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Tangible fixed assets** | **2,688,634** | **1,456,318** |
| Land and buildings used by the Group for own purpose | 580,552 | 599,350 |
| Other land and buildings (investment property) | 107,623 | 114,737 |
| Office furniture, equipment and other tangible fixed assets | 774,677 | 742,231 |
| Right of use assets (RoU) | 1,225,782 | - |
| **Intangible fixed assets** | **1,305,455** | **1,336,287** |
| Software | 1,305,455 | 1,336,287 |
| **Total** | **3,994,089** | **2,792,605** |

The fair value of investment properties carried at cost model as at 31 December 2019 is 305,210 thousand lek, 31 December 2018 is 172,167 thousand lek.

Rental income from investment property of Lek 7,790 thousand (2018: Lek 7,592 thousand) has been recog-nised in other net operating income.

| | Cost of acquisition | | | | |
|---|---|---|---|---|---|
| in LEK thousand | As at 1/1/2019 | Additions | Disposals | Transfers | As at 31/12/2019 |
| **Tangible fixed assets** | **4,931,575** | **1,806,498** | **-375,162** | **-** | **6,362,911** |
| Land and buildings used by the Group for own purpose | 1,317,945 | 41,300 | -18,338 | 142 | 1,341,049 |
| Other land and buildings (investment property) | 146,785 | - | - | - | 146,785 |
| Office furniture, equipment and other tangible fixed assets | 3,466,845 | 258,243 | -347,143 | -142 | 3,377,803 |
| Right of use assets (RoU) | - | 1,506,955 | -9,681 | - | 1,497,274 |
| **Intangible fixed assets** | **3,012,538** | **194,593** | **-107,823** | **-** | **3,099,308** |
| Software and licences | 3,012,538 | 194,593 | -107,823 | - | 3,099,308 |
| **Total** | **7,944,113** | **2,001,091** | **-482,985** | **-** | **9,462,219** |

Fixed assets developed as follows:

| | Write-ups, amortization, depreciation, impairment | | | Carrying amount |
|---|---|---|---|---|
| in LEK thousand | Cumulative | Accumulated depreciation on sales | Depreciation | As at 31/12/2019 |
| **Tangible fixed assets** | **-3,475,257** | **353,320** | **-552,340** | **2,688,634** |
| Land and buildings used by the Group for own purpose | -718,595 | 12,033 | -53,935 | 580,552 |
| Other land and buildings (investment property) | -32,048 | - | -7,114 | 107,623 |
| Office furniture, equipment and other tangible fixed assets | -2,724,614 | 337,971 | -216,483 | 774,677 |
| Right of use assets (RoU) | 0 | 3,316 | -274,808 | 1,225,782 |
| **Intangible fixed assets** | **-1,676,250** | **89,010** | **-206,613** | **1,305,455** |
| Software | -1,676,250 | 89,010 | -206,613 | 1,305,455 |
| **Total** | **-5,151,507** | **442,330** | **-758,953** | **3,994,089** |

## 13. DEVELOPMENT OF FIXED ASSETS (CONTINUED)

| | Cost of acquisition | | | | |
|---|---|---|---|---|---|
| **in LEK thousand** | **As at 1/1/2018** | **Additions** | **Disposals** | **Transfers** | **As at 31/12/2018** |
| **Tangible fixed assets** | **4,907,652** | **310,803** | **-286,880** | **-** | **4,931,575** |
| Land and buildings used by the Group for own purpose | 1,352,858 | 63,073 | -98,463 | 477 | 1,317,945 |
| Other land and buildings (investment property) | 146,296 | 5,240 | -4,751 | - | 146,785 |
| Office furniture, equipment and other tangible fixed assets | 3,408,498 | 242,490 | -183,666 | -477 | 3,466,845 |
| **Intangible fixed assets** | **2,891,324** | **126,155** | **-4,942** | **-** | **3,012,537** |
| Software and licences | 2,891,324 | 126,155 | -4,942 | - | 3,012,537 |
| **Total** | **7,798,976** | **436,958** | **-291,822** | **-** | **7,944,112** |

| | Write-ups, amortization, depreciation, impairment | | | Carrying amount |
|---|---|---|---|---|
| **in LEK thousand** | **Cumulative** | **Accumulated depreciation on sales** | **Depreciation** | **As at 31/12/2018** |
| **Tangible fixed assets** | **-3,425,068** | **233,345** | **-283,534** | **1,456,318** |
| Land and buildings used by the Group for own purpose | -713,200 | 59,497 | -64,892 | 599,350 |
| Other land and buildings (investment property) | -26,369 | 2,765 | -8,444 | 114,737 |
| Office furniture, equipment and other tangible fixed assets | -2,685,499 | 171,083 | -210,198 | 742,231 |
| **Intangible fixed assets** | **-1,430,373** | **3,706** | **-249,583** | **1,336,287** |
| Software | -1,430,373 | 3,706 | -249,583 | 1,336,287 |
| **Total** | **-4,855,441** | **237,051** | **-533,117** | **2,792,605** |

# 14. TAX ASSETS

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Current tax assets | 480,533 | 677,936 |
| Deferred tax assets | - | 7,041 |
| **Total** | **480,533** | **684,977** |

Deferred tax assets/liabilities derived from the following items:

| in LEK thousand | 2018 | Recognised in profit or loss | 2019 |
|---|---|---|---|
| Tangible and Intangible Fixed Assets | 7,041 | -11,762 | -4,721 |
| **Total** | **7,041** | | **-4,721** |

| in LEK thousand | 2017 | Recognised in profit or loss | 2018 |
|---|---|---|---|
| Tangible and Intangible Fixed Assets | 20,140 | -13,099 | 7,041 |
| **Total** | **20,140** | | **7,041** |

# 15. OTHER ASSETS

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Prepayments and other deferrals | 278,902 | 285,727 |
| Repossessed collaterals | 1,344,113 | 1,359,633 |
| Other assets | 592,442 | 459,731 |
| **Total** | **2,215,457** | **2,105,091** |

Repossessed collaterals 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 collateral, net comprise the following:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Repossessed collaterals | 1,876,047 | 1,780,254 |
| Write down of repossessed collateral | -531,934 | -420,621 |
| **Total** | **1,344,113** | **1,359,633** |

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

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Balance at the beginning of the year | 420,621 | 271,398 |
| Additional write down | 138,352 | 154,308 |
| Reversal of write down | -27,039 | -5,085 |
| **Balance at the end of the year** | **531,934** | **420,621** |

# 16. FINANCIAL LIABILITIES - AMORTIZED COST

The following table provides a breakdown of Deposits from Banks and customers by product and a break-down of debt securities issued:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Due to Banks** | **4,791,034** | **6,452,671** |
| Current accounts/overnight deposits/redeemable at notice | 20,543 | 50,751 |
| Deposits with agreed maturity | 2,896,002 | 4,502,291 |
| Subordinated financial liabilities | 1,874,489 | 1,899,629 |
| **Deposits from customers** | **188,121,303** | **187,798,423** |
| Current accounts/overnight deposits/redeemable at notice | 141,802,775 | 138,058,897 |
| Deposits with agreed maturity | 46,318,528 | 49,739,526 |
| **Other financial liabilities** | **18,920** | **298,423** |
| **Lease liabilities lessee** | **1,220,555** | **-** |
| **Total** | **194,151,811** | **194,549,517** |

In Deposits from Banks is included the subordinated debt.

During 2015, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 15,000 thousand. The debt carries an interest rate of 4.8% p.a. (2018: 4.8% p.a) and matures on 28 June 2020. The debt ranks after all other creditors in case of liquidation.

## 16. FINANCIAL LIABILITIES - AMORTIZED COST (CONTINUED)

The following table shows the cash and non-cash effects for financial according to IAS 7:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Carrying amount as at 1 January** | **1,899,629** | **8,820,852** |
| Cash flows | | |
| effect of exchange rate changes | -31,007 | -146,682 |
| Interest expense | 94,516 | 337,406 |
| Interest paid | -88,649 | -468,180 |
| Principal paid | - | -6,643,768 |
| **Total change** | **-25,140** | **-6,921,224** |
| **Carrying amount as at 31 December** | **1,874,489** | **1,899,629** |

The following table provides a breakdown of balances with from Groups and customers by business segments and subordinated debt:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Central Banks | - | 2 |
| General governments | 3,959,611 | 2,153,744 |
| Banks | 4,791,034 | 6,452,669 |
| Other financial corporations | 3,636,469 | 3,507,756 |
| Non-financial corporations | 29,196,164 | 38,451,903 |
| Households | 151,329,059 | 143,685,020 |
| **Total** | **192,912,337** | **194,251,094** |

# 17. PROVISIONS FOR LIABILITIES AND CHARGES

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **ECL for off-balance-sheet items** | **81,898** | **81,821** |
| ECL for contingent liabilities and commitments | 81,898 | 81,821 |
| **Accruals for staff** | **179,725** | **174,889** |
| Bonus payments | 134,959 | 125,428 |
| Overdue vacations | 44,766 | 49,461 |
| **Other provisions** | **27,747** | **36,071** |
| Legal issues and tax litigation | 27,647 | 36,071 |
| Other provisions | 100 | - |
| **Total** | **289,370** | **292,781** |

The following table shows the changes in provisions for liabilities and charges in the reporting year, alt-hough provisions for off-balance-sheet items pursuant to IFRS 9 of 81,898 LEK thousand are not included. These are shown under (26) Development of impairments.

## 17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

| in LEK thousand | 1/1/2019 | Allocation | Release | Usage | Transfers, exchange differences | 31/12/2019 |
|---|---|---|---|---|---|---|
| **Accruals for staff** | **174,889** | **118,778** | **-45,181** | **-68,761** | **-** | **179,725** |
| Bonus payments | 125,428 | 88,778 | -10,486 | -68,761 | - | 134,959 |
| Overdue vacations | 49,461 | 30,000 | -34,695 | 0 | - | 44,766 |
| **Other provisions** | **36,071** | **669** | **-8,010** | **-983** | **-** | **27,747** |
| Legal issues and tax litigation | 36,071 | 569 | -8,010 | -983 | - | 27,647 |
| Other provisions | - | 100 | - | - | - | 100 |
| **Total** | **210,960** | **119,447** | **-53,191** | **-69,744** | **-** | **207,472** |

The following table shows the changes in provisions for liabilities and charges in the previous year, although provisions for off-balance-sheet items pursuant to IFRS 9 of 81,821 LEK thousand are not included.

| in LEK thousand | 1/1/2018 | Allocation | Release | Usage | Transfers, exchange differences | 31/12/2018 |
|---|---|---|---|---|---|---|
| Accruals for staff | 160,548 | 338,759 | -260,283 | -64,135 | - | 174,889 |
| Bonus payments | 120,548 | 292,395 | -223,380 | -64,135 | - | 125,428 |
| Overdue vacations | 40,000 | 46,364 | -36,903 | 0 | - | 49,461 |
| Other provisions | 43,020 | 14,710 | -6,328 | -14,631 | -700 | 36,071 |
| Legal issues and tax litigation | 33,255 | 14,228 | -6,328 | -5,084 | - | 36,071 |
| Other provisions | 9,765 | 482 | - | -9,547 | -700 | - |
| **Total** | **203,568** | **353,469** | **-266,611** | **-78,766** | **-700** | **210,960** |

# 18. OTHER LIABILITIES

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Deferred income and accrued expenses | 188,060 | 242,581 |
| Due to employees | 109,229 | 115,488 |
| Other tax liabilities | 68,654 | 107,016 |
| Sundry liabilities | 262,428 | 257,557 |
| **Total** | **628,371** | **722,642** |

# 19. EQUITY

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Sharecapital | 14,178,593 | 14,178,593 |
| Other reserves | 3,306,190 | 3,306,190 |
| Retained earnings | 11,268,568 | 10,129,883 |
| *hereof profit for the year* | *3,106,817* | *3,297,780* |
| **Total** | **28,753,351** | **27,614,666** |

## 19. EQUITY (CONTINUED)

During 2019, the Assembly meeting of the Sole Shareholder approved the distribution and payment of a dividends amounting to thousand Lek 1,964,211 from the retained earnings.

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

*Share capital*

The Group's capital is EUR 100,397,823 comprised of 7,000 shares (2018: 7,000 shares). The Group's capital is equal to LEK 14,178,593 thousand and the nominal value of each share is LEK 2,025,513 (2018: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each). The capital con-version was approved through decision of General Meeting of the Shareholders dated 25 January 2016.

*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 | 2019 | 2018 |
|---|---|---|
| Regulatory reserves | 1,852,979 | 1,852,979 |
| Legal reserves | 1,453,211 | 1,453,211 |
| **Total** | **3,306,190** | **3,306,190** |

# NOTES TO FINANCIAL INSTRUMENTS

## 20. 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 volatili-ties.

If fair value cannot be measured using either sufficiently regularly quoted market prices (Level I) or using valuation models which are entirely based on observable market prices (Level II), then individual input pa-rameters 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 fi-nancial instrument, it is assigned to Level III of the fair value hierarchy. These measurement parameters, which are not regularly observable, are mainly credit spreads derived from internal estimates.

Assigning certain financial instruments to the level categories requires regular assessment, especially if measurement 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 category. 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.

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| **Assets in LEK thousand** | **Level I** | **Level II** | **Level III** | **Level I** | **Level II** | **Level III** |
| **Financial assets - fair value through profit or loss** | | | **3133** | | | **2,516** |
| Debt securities | | | 3133 | | | 2,516 |

Qualitative information for the valuation of financial instruments in Level III

| **Assets 2019** | **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** | **3,133** | **Discounted cash flow method (DCF)** | **ALL base rate -last auctions yields -T bills** | **1.12 % - 1.61 %** |
| **Total** | | | | |

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### 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. With the introduction of IFRS 9, the calcula-tion 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 transactions (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.

| **2019 in LEK thousand** | **Level I** | **Level II** | **Level III** | **Fair value** | **Carrying amount** | **Difference** |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Financial assets - amortized cost | | | | | | |
| Cash and cash equivalents | | | 25,065,896 | 25,065,896 | 25,065,896 | - |
| Debt securities | | | 63,649,574 | 63,649,574 | 62,447,834 | 1,201,740 |
| Loans and advances | | | 129,628,607 | 129,628,607 | 129,628,607 | - |
| **Liabilities** | | | | | | |
| Financial liabilities - amortized cost | | | | | | |
| Deposits | | | 193,409,892 | 193,409,892 | 193,421,899 | -12,007 |
| Other financial liabilities | | | 1,235,521 | 1,235,521 | 1,235,521 | - |

As a result of the change in the presentation of the statement of financial position, the preparation of a direct prior-year comparison would require undue cost and effort.

| **2018 in LEK thousand** | **Level I** | **Level II** | **Level III** | **Fair value** | **Carrying amount** | **Difference** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Financial assets - amortized cost | | | | | | |
| Cash and cash equivalents | - | - | 22,996,693 | 22,996,693 | 22,996,693 | - |
| Debt securities | - | - | 75,977,043 | 75,977,043 | 74,427,729 | 1,549,314 |
| Loans and advances | - | - | 120,077,213 | 120,077,213 | 120,077,213 | - |
| **Liabilities** | | | | | | |
| Financial liabilities - amortized cost | - | - | 194,534,298 | 194,534,298 | 194,549,517 | -15,219 |
| Deposits | - | - | 194,235,875 | 194,235,875 | 194,251,094 | -15,219 |
| Other financial liabilities | - | - | 298,423 | 298,423 | 298,423 | - |

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

# 21. LOAN COMMITMENTS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS

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

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Loan commitments given | 13,315,474 | 12,204,151 |
| Financial guarantees given and other commitments given | 9,539,592 | 9,038,241 |
| **Total** | **22,855,066** | **21,242,392** |
| Provisions for off-balance-sheet items under IFRS 9 | 81,898 | 81,821 |

The following table shows the nominal amount and provisions for off-balance-sheet liabilities from commit-ments and financial guarantees under IFRS 9.

| | Nominal amount | | | Provisions for off-balance-sheet items under IFRS 9 | | |
|---|---|---|---|---|---|---|
| **2019 in LEK thousand** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| Central Banks | 11,256 | - | - | 6 | - | - |
| Banks | 2,311,124 | - | - | 1 | - | - |
| Other financial corporations | 76,213 | - | - | 1,573 | - | - |
| Non-financial corporations | 15,366,512 | 1,381,021 | - | 34,098 | 6,001 | - |
| Households | 3,479,582 | 202,884 | 26,474 | 18,058 | 2,955 | 19,206 |
| **Total** | **21,244,687** | **1,583,905** | **26,474** | **53,736** | **8,956** | **19,206** |

| | Nominal amount | | | Provisions for off-balance-sheet items under IFRS 9 | | |
|---|---|---|---|---|---|---|
| **2018 in LEK thousand** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| Central banks | 11,858 | - | - | 9 | - | - |
| Banks | 2,702,366 | 757,627 | - | 58 | 4 | - |
| Other financial corporations | - | - | - | - | - | - |
| Non-financial corporations | 13,470,695 | 595,094 | 465 | 26,456 | 3,219 | 300 |
| Households | 3,430,117 | 245,991 | 28,180 | 21,630 | 6,412 | 23,733 |
| **Total** | **19,615,036** | **1,598,712** | **28,645** | **48,153** | **9,635** | **24,033** |

# 22. 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 increase 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 probability of default:

- Excellent are exposures which demonstrate a strong capacity to meet financial commitments, with negligible or no probability of default (PD range 0.0000 - 0.0300 per cent).

## (22) CREDIT QUALITY ANALYSIS (CONTINUED)

- Strong are exposures which demonstrate a strong capacity to meet financial commitments, with neg-ligible 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 default risk (PD range 0.1878 - 1.1735 per cent).
- Satisfactory are exposures which require closer monitoring and demonstrate an average to fair capac-ity 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 sets out information about the credit quality of financial assets measured at amortized cost and fair value through other comprehensive income. The amortized cost and fair value through other comprehensive income amounts represent the gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

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

| **2019**<br>**in LEK thousand** | **Stage 1**<br>**12 month ECL** | **Stage 2**<br>**Lifetime ECL** | **Stage 3**<br>**Lifetime ECL** | **Total** |
|---|---|---|---|---|
| Excellent | 65,402 | - | - | 65,402 |
| Strong | 33,618,091 | - | - | 33,618,091 |
| Good | 87,024,832 | 349,013 | - | 87,373,846 |
| Satisfactory | 54,568,551 | 3,581,088 | - | 58,149,639 |
| Substandard | 3,521,292 | 3,714,169 | - | 7,235,461 |
| Credit impaired | - | - | 12,434,437 | 12,434,437 |
| Unrated | 3,449,519 | 68,815 | - | 3,518,334 |
| **Gross carrying amount** | **182,247,688** | **7,713,085** | **12,434,437** | **202,395,210** |
| Accumulated impairment | -802,266 | -675,658 | -8,944,254 | -10,422,178 |
| **Carrying amount** | **181,445,422** | **7,037,427** | **3,490,183** | **191,973,032** |

| **2018**<br>**in LEK thousand** | **Stage 1**<br>**12 month ECL** | **Stage 2**<br>**Lifetime ECL** | **Stage 3**<br>**Lifetime ECL** | **Total** |
|---|---|---|---|---|
| Excellent | - | - | - | - |
| Strong | 38,421,880 | - | - | 38,421,880 |
| Good | 95,663,089 | 583,103 | - | 96,246,192 |
| Satisfactory | 43,978,765 | 4,172,249 | - | 48,151,014 |
| Substandard | 3,062,972 | 3,955,953 | - | 7,018,925 |
| Credit impaired | - | - | 13,795,441 | 13,795,441 |
| Unrated | 2,589,492 | 95,076 | - | 2,684,568 |
| **Gross carrying amount** | **183,716,198** | **8,806,379** | **13,795,441** | **206,318,019** |
| Accumulated impairment | -596,366 | -756,901 | -10,459,811 | -11,813,078 |
| **Carrying amount** | **183,119,832** | **8,049,479** | **3,335,630** | **194,504,941** |

The category unrated includes financial assets for several retail customers for whom no ratings are available. The rating is therefore based on qualitative factors.

## (22) CREDIT QUALITY ANALYSIS (CONTINUED)

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

| 2019<br>in LEK thousand | Stage 1<br>12 month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| Excellent | 585,010 | - | - | 585,010 |
| Strong | 1,591,364 | - | - | 1,591,364 |
| Good | 7,949,131 | 222,184 | - | 8,171,315 |
| Satisfactory | 8,733,175 | 1,276,787 | - | 10,009,962 |
| Substandard | 496,533 | 81,588 | - | 578,121 |
| Credit impaired | - | - | 26,474 | 26,474 |
| Unrated | 1,889,474 | 3,346 | - | 1,892,820 |
| **Total** | **21,244,687** | **1,583,905** | **26,474** | **22,855,066** |
| Provisions for off-balance-sheet items under IFRS 9 | 53,736 | 8,956 | 19,206 | 81,898 |

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

| 2018<br>in LEK thousand | Stage 1<br>12 month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| Excellent | - | 750,000 | - | 750,000 |
| Strong | 2,641,413 | 7,627 | - | 2,649,040 |
| Good | 6,600,776 | 245,933 | - | 6,846,709 |
| Satisfactory | 6,367,961 | 460,546 | - | 6,828,507 |
| Substandard | 342,191 | 129,552 | - | 471,743 |
| Credit impaired | - | - | 28,645 | 28,645 |
| Unrated | 3,662,693 | 5,054 | - | 3,667,747 |
| **Total** | **19,615,034** | **1,598,712** | **28,645** | **21,242,391** |
| Provisions for off-balance-sheet items under IFRS 9 | 48,152 | 9,636 | 24,033 | 81,821 |

# 23. 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:

| 2019<br>in LEK thousand | Maximum exposure to credit risk | Fair value of collateral | Credit risk exposure net of collateral |
|---|---|---|---|
| Central Banks | 6,085,715 | - | 6,085,715 |
| General governments | 54,433,708 | - | 54,433,708 |
| Banks | 36,614,093 | - | 36,614,093 |
| Other financial corporations | 3,570,922 | - | 3,570,922 |
| Non-financial corporations | 55,781,984 | 46,258,681 | 9,523,303 |
| Households | 39,374,351 | 14,927,981 | 24,446,370 |
| Commitments/guarantees issued | 23,537,546 | 3,620,077 | 19,917,469 |
| **Total** | **219,398,319** | **64,806,739** | **154,591,580** |

| 2018<br>in LEK thousand | Maximum exposure to credit risk | Fair value of collateral | Credit risk exposure net of collateral |
|---|---|---|---|
| Central Banks | 6,100,453 | - | 6,100,453 |
| General governments | 60,108,640 | - | 60,108,640 |
| Banks | 41,238,849 | - | 41,238,849 |
| Other financial corporations | 2,705,590 | - | 2,705,590 |
| Non-financial corporations | 52,597,711 | 28,530,316 | 24,067,395 |
| Households | 34,814,437 | 10,035,027 | 24,779,410 |
| Commitments/guarantees issued | 21,792,051 | 5,445,743 | 16,346,308 |
| **Total** | **219,357,731** | **44,011,086** | **175,346,645** |

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

| 2019<br>in LEK thousand | Maximum exposure credit risk (Stage 3) | Fair value of collateral (Stage 3) | Credit risk exposure net of collateral (Stage 3) | Impairment (Stage 3) |
|---|---|---|---|---|
| Non-financial corporations | 10,030,054 | 2,284,044 | 7,336,678 | -7,353,993 |
| Households | 2,404,385 | 354,143 | 2,065,951 | -1,590,261 |
| Commitments/ guarantees issued | 26,474 | 215 | 26,259 | -19,206 |
| **Total** | **12,460,913** | **2,638,402** | **9,428,888** | **-8,963,460** |

| in LEK thousand | Maximum exposure credit risk (Stage 3) | Fair value of collateral (Stage 3) | Credit risk exposure net of collateral (Stage 3) | Impairment (Stage 3) |
|---|---|---|---|---|
| Non-financial corporations | 11,593,817 | 2,355,409 | 9,238,408 | -8,808,343 |
| Households | 1,757,867 | 103,142 | 1,654,725 | -1,359,044 |
| Commitments/ guarantees issued | 28,645 | 520 | 28,125 | -24,033 |
| **Total** | **13,380,329** | **2,459,071** | **10,921,258** | **-10,191,420** |

# 24. EXPECTED CREDIT LOSSES

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of the 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.

## 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 signif-icant assumptions about future economic conditions and payment behavior. Significant judgements are re-quired 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.

*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*

Whether credit risk has increased significantly over the expected life of the financial instrument, the risk of a default at reporting date needs to be compared with the risk of a default at initial recognition.

*Qualitative criteria*

Active management practice

If based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk management practice is expected to become more active, the impairment model will react by possibly assigning such financial instrument to stage 2, for which a lifetime expected credit loss will be calculated. Necessary information to detect the affected assets is available in the early warning system of the RBAL in form of a client risk status. Generally speaking, workout assets of RBAL are more closely monitored or con-trolled, which indicates significant increase in credit risk and in the implemented impairment calculation model triggers stage 2 and lifetime expected credit loss calculation.

*Contractual framework of an instrument*

If changes to the contractual framework of the instrument occur, the Group uses information on a financial instrument level and identifies all forborne assets, which are claimed to fulfill the criteria for a significant increase in credit risk and are consequently likely to be transferred to stage 2.

*30 Days past due*

Breaching the threshold of 30 days past due, a financial instrument will be considered to indicate a signifi-cant increase in credit riskand are consequently likely to be transferred to stage 2.

*Default on customer level*

In Private Individual segment a default on one instrument of the borrower causes all other instruments to move to stage 2 under the assumption that there is no cross-default clause for Retail ("default flag").

### 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, the presumption that financial assets which are more than 30 days overdue should be moved to Stage 2, is rebutted.

## 24. EXPECTED CREDIT LOSSES (CONTINUED)

**Low credit risk exemption**

The low credit risk exception is applied within the Group only to the particular segment of sovereign bonds, defined via bond exposures to counterparties belonging to the sovereign rating model. The low credit risk exemption is applied regardless of the counterparty type within the sovereign rating model. And if for sover-eign bonds the one-year PD, including forward-looking information, is below 0.5% the credit risk is consid-ered to be low and stage 1 applies. In all other cases the usual staging rule is used solely.

### 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 are

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial diffi-culty, havinggranted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter Groupruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses, when it meets one or more of the following criteria:

**Quantitative criteria**

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

**Qualitative criteria**

The borrower meets unlikeliness to pay criteria, which indicate that the borrower is in significant financial difficulty and unlikely to repay any credit obligation in full. The indications of unlikeliness to pay include:

- A credit obligation is sold at a material economic loss
- A credit obligation is subject to a distressed restructuring
- An obligor is Grouprupt/insolvent
- An obligor committed credit fraud
- An obligor is deceased
- A credit contract was prematurely terminated due to obligor's non-compliance with contractual obliga-tions.

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

A credit obligation is considered to no longer be in default after a probation period of minimum three months (six months after a distressed restructuring in retail), where during the probation period the customer demon-strated good payment discipline and no other indication of unlikeliness to pay was observed.

### 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 signifi-cant increase in credit risk has occurred since initial recognition or whether an asset is considered to be cred-it-impaired. Forward-looking economic information is also included in determining the 12-month and life-time 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 with-in the Basel framework.

## 24. EXPECTED CREDIT LOSSES (CONTINUED)

*Measurement of ECL*

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

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

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash short-falls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carry-ing amount and the present value of estimated future cash flows;

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD and lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. ECL are discounte using the original effective interest rates.

*Probability of Default (PD)*

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next twelvemonths or over the remaining lifetime of the obligation. Starting with the regulatory internal ratings-based approach (IRB) parameterization, a number of adjustments are necessary to achieve IFRS 9 conformity for expected credit losses (ECL):

- Switch from through-the-cycle (TTC) to point-in-time (PIT) estimates for PD
- Apply a forward looking perspective including expected macroeconomic, sub-systemic and idiosyn-cratic factors
- Extend the time horizon in case of Stage 2 (lifetime ECL)
- Extract downturn and conservative add-ons, regulatory floors from loss and exposure in default esti-mation

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

- Sovereign, local and regional governments, insurance companies and collective investment undertakings:
- Corporate customers, project finance and financial institutions:
- Retail mortgages and other retail lending

*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,

## 24. EXPECTED CREDIT LOSSES (CONTINUED)

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 purposes. The adjustments needed to achieve IFRS 9 compliance are as follows::

- stripping of all conservative margins (e.g. downturn margin, estimation error margin),
- eliminating regulatory floors,
- adjusting the effect of the different discount rates inherent in the Basel LGD to resemble discounting with EIR,
- removing indirect costs from the LGD estimates, and
- carrying out adjustments to take into account relevant macroeconomic forecasts (if there is reasona-ble evidence that the relationship between recovery rates and macroeconomic factors exists).

In the limited circumstances where some inputs are not fully available alternative recovery models, bench-marking 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 de-fault. The prudential regulatory margins are removed from the credit conversion factor. In the limited circum-stances where some inputs are not fully available benchmarking of inputs is used for the calculation.

*Restructured financial assets*

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the origi-nal effective interest rate of the existing financial asset.

## 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.

If reasonable and supportable information to measure ECL is not available on an individual instrument basis, lifetime ECL for assets in Stage 3 is recognised on a collective basis that considers comprehensive credit risk information - same treatment as for assets in stages 1 and 2. In Retail, almost of the cases is used the collec-tive approach, considering that the majority of cases are assessed collectively based on historical loss infor-mation, while the individual assessment shall be performed on exceptional basis only for cases where the entity has the whole dataset needed to make the full assessment of the estimated future cash flows.

In this sense, RBAL Retail Risk considers that the most appropriate way to reflect the historical loss experi-ence in the estimation of the expected cash flows of a defaulted unsecured exposure is by using the so called Best Estimate of Expected Loss (BEEL) parameter. By definition, this parameter reflects the most probable loss potential for accounts in default which have similar risk and recovery profile and provides a statistically derived estimated level of loss for such

## 24. EXPECTED CREDIT LOSSES (CONTINUED)

accounts. Therefore, it has to be ensured that the use of BEEL to ad-just the contractual cash flows to their estimated recovery is applied on a homogeneous group of accounts.

### Forward looking information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incor-porate forward looking information. The Group has performed historical analysis and identified the key eco-nomic 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 exposure at default vary by category type. Forecasts of these economic variables (the base economic scenar-io) are provided by RBI Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. The set of forward looking information also includes the credit clock used for improvement of the regression which reproduces the current state of the credit cycle and the derived out-look of the credit cycle development. After three years, to project the economic variables for the full remain-ing lifetime of each instrument, a mean reversion approach has been used, which means that economic varia-bles 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 also estimates an optimistic and a pessimistic scenario to ensure non-linearities are captured. The Group has concluded that three or fewer scenarios appro-priately 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 management, resulting in selective adjustments to the optimistic and pessimistic scenarios. In case of a potential negative or positive forecast bias of selected macroeconomic indicators a potential bias correction is performed. In this respect the range of possible outcomes which is representative for each chosen scenario is taken into account. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected cred-it loss (ECL) model and multiplying it by the appropriate scenario weighting. 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.

### Sensitivity analysis

The most significant assumptions affecting the sensitivity of the expected credit loss allowance are as fol-lows:

- 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.

| 2019<br>in LEK thousand | 31/12/2019<br>(25/50/25%) | 100%<br>Optimist | 100%<br>Base | 100%<br>Pesimistic |
|---|---|---|---|---|
| Accumulated impairment (Stage 1 & 2) | 1,474,619 | 1,282,419 | 1,480,324 | 1,655,408 |

| 2018<br>in LEK thousand | 31/12/2018<br>(25/50/25%) | 100%<br>Optimist | 100%<br>Base | 100%<br>Pesimistic |
|---|---|---|---|---|
| Accumulated impairment (Stage 1 & 2) | 1,343,364 | 1,311,270 | 1,231,805 | 1,405,133 |

## 24. EXPECTED CREDIT LOSSES (CONTINUED)

### Write-Offs

Loans 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 Groupruptcy, 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.

# 25. 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:

| | Gross carrying amount | | | Accumulated impairment | | | ECL Coverage Ratio | | |
|---|---|---|---|---|---|---|---|---|---|
| **2019 in LEK thousand** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| Central Banks | 6,085,938.00 | - | - | -223 | - | - | 0.00% | 0.00% | 0.00% |
| General governments | 54,538,321 | - | - | -83,305 | - | - | 0.15% | 0.00% | 0.00% |
| Banks | 36,614,457 | - | - | -364 | - | - | 0.00% | 0.00% | 0.00% |
| Other financial corporations | 8,890 | - | - | -21 | - | - | 0.24% | 0.00% | 0.00% |
| Non-financial corporations | 48,485,508 | 5,477,973 | 10,030,053 | -307,246 | -316,597 | -7,353,993 | 0.63% | 5.78% | 73.32% |
| Households | 36,514,574 | 2,235,112 | 2,404,384 | -411,107 | -359,061 | -1,590,261 | 1.13% | 16.06% | 66.14% |
| hereof mortgage | 14,978,315 | 745,650 | 533,310 | -116,622 | -121,551 | -333,663 | 0.78% | 16.30% | 62.56% |
| **Total** | **182,247,688** | **7,713,085** | **12,434,437** | **-802,266** | **-675,658** | **-8,944,254** | **0.44%** | **8.76%** | **71.93%** |

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.

| | Nominal amount | | | Provisions for off-balance-sheet items under IFRS 9 | | | ECL Coverage Ratio | | |
|---|---|---|---|---|---|---|---|---|---|
| **2019 in LEK thousand** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| Central Banks | 11,256 | - | - | 6 | - | - | -0.05% | 0.00% | 0.00% |
| Banks | 3,288 | - | - | 2 | - | - | -0.06% | 0.00% | 0.00% |
| General governments | 2,311,124 | - | - | 1 | - | - | 0.00% | 0.00% | 0.00% |
| Other financial corporations | 76,213 | - | - | 1,573 | - | - | -2.06% | 0.00% | 0.00% |
| Non-financial corporations | 15,363,223 | 1,381,021 | - | 34,096 | 6,001 | - | -0.22% | -0.43% | 0.00% |
| Households | 3,479,583 | 202,884 | 26,474 | 18,058 | 2,955 | 19,206 | -0.52% | -1.46% | -72.55% |
| **Total** | **21,244,687** | **1,583,905** | **26,474** | **53,736** | **8,956** | **19,206** | **-0.25%** | **-0.57%** | **-72.55%** |

## 24. EXPECTED CREDIT LOSSES (CONTINUED)

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:

| | Gross carrying amount | | Impairment | | ECL Coverage Ratio | |
|---|---|---|---|---|---|---|
| **2019 in LEK thousand** | **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 | -3,301,384 | 3,301,384 | -129,062 | 421,020 | 3.91% | 12.75% |
| Households | -1,501,535 | 1,501,535 | -27,663 | 517,038 | 1.84% | 34.43% |
| **Movement from lifetime ECL to 12 month ECL** | | | | | | |
| Non-financial corporations | 759,586 | -759,586 | 125,356 | -297,355 | 16.50% | 39.15% |
| Households | 2,272,762 | -2,272,762 | 23,546 | -258,730 | 1.04% | 11.38% |

# 26. 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 1/1/2019** | **596,365** | **756,921** | **8,725,698** | **1,734,114** | **11,813,098** |
| Increases due to origination and acquisition | 76,612 | 6,115 | 120,690 | 383,624 | 587,041 |
| Decreases due to derecognition | -14,903 | -18,120 | -511,327 | - | -544,350 |
| Changes due to change in credit risk (net) | -333,637 | -257,616 | 1,060,171 | -277,879 | 191,039 |
| Changes due to update in the institution's methodology for estimation | 477,871 | 201,445 | -133,060 | - | 546,256 |
| Decrease in allowance account due to write-offs | -42 | -13,087 | -2,118,530 | -39,247 | -2,170,906 |
| **As at 31/12/2019** | **802,266** | **675,658** | **7,143,642** | **1,800,612** | **10,422,178** |

## 26. DEVELOPMENT OF IMPAIRMENTS (CONTINUED)

| in LEK thousand | Stage 1 12 month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | POCI | Total |
|---|---|---|---|---|---|
| **As at 1/1/2018** | **476,015** | **577,676** | **13,041,676** | **273,426** | **14,368,793** |
| Increases due to origination and acquisition | 49,527 | 10,428 | 52,708 | 1,608,043 | 1,720,706 |
| Decreases due to derecognition | -21,646 | -34,596 | -101,289 | - | -157,531 |
| Changes due to change in credit risk (net) | 95,244 | 228,419 | -2,193,910 | -99,899 | -1,970,146 |
| Decrease in allowance account due to write-offs | -2,775 | -25,026 | -2,073,487 | -47,456 | -2,148,744 |
| **As at 31/12/2018** | **596,365** | **756,901** | **8,725,698** | **1,734,114** | **11,813,078** |

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 1/1/2019** | **47,986** | **9,802** | **24,033** | **81,821** |
| Increases due to origination and acquisition | 58,791 | 456 | - | 59,247 |
| Decreases due to derecognition | -22,307 | -2,090 | - | -24,397 |
| Changes due to change in credit risk (net) | -34,998 | 1,829 | -3,435 | -36,604 |
| Decrease in allowance account due to write-offs | 4,265 | -1,041 | -1,392 | 1,832 |
| **As at 31/12/2019** | **53,736** | **8,956** | **19,206** | **81,898** |

| in LEK thousand | Stage 1 12 month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **As at 1/1/2018** | **30,993** | **8,572** | **18,777** | **58,342** |
| Increases due to origination and acquisition | 25,845 | 2,753 | - | 28,598 |
| Decreases due to derecognition | -16,849 | -3,892 | - | -20,741 |
| Changes due to change in credit risk (net) | 7,997 | 2,369 | 5,256 | 15,622 |
| **As at 31/12/2018** | **47,986** | **9,802** | **24,033** | **81,821** |

# 27. PAST DUE STATUS

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

| 2019 | 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 | 3,526,697 | 173,214 | - | 917,943 | 1,891,946 | - | 316,327 | 257,350 | 1,827,959 |
| Households | 355,379 | - | - | 135,776 | 137,245 | - | 195,317 | 20,592 | 369,775 |
| **Total** | **3,882,076** | **173,214** | **-** | **1,053,719** | **2,029,191** | **-** | **511,644** | **277,941** | **2,197,734** |

| 2018 | 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 | 4,091,692 | 2 | - | 847,679 | 435,921 | - | 440,959 | 76,296 | 1,915,390 |
| Households | 1,066,099 | - | - | 570,885 | 271,277 | - | 22,878 | 45,710 | 277,437 |
| **Total** | **5,157,791** | **2** | **-** | **1,418,564** | **707,198** | **-** | **463,837** | **122,006** | **2,192,827** |

# 28. BREAKDOWN OF REMAINING TERMS OF MATURITY

| **Assets** | | **Current assets** | | **Non-current assets** | |
|---|---|---|---|---|---|
| **2019 in LEK thousand** | **Due at call or without maturity** | **Up to 3 months** | **More than 3 months, up to 1 year** | **More than 1 year, up to 5 years** | **More than 5 years** |
| Cash, cash balances at central Banks and other demand deposits | 7,853,119 | 3,537,118 | - | - | - |
| Financial assets - amortized cost | 21,308 | 54,256,686 | 57,833,379 | 67,706,123 | 18,860,216 |
| Financial assets - fair value through profit or loss | - | 1,247 | 1,886 | - | - |
| Other assets | - | 33,460 | - | - | - |
| **Total** | **7,874,427** | **57,828,510** | **57,835,265** | **67,706,123** | **18,860,216** |

| **Liabilities** | | **Short-term liabilities** | | **Long-term liabilities** | |
|---|---|---|---|---|---|
| **2019 in LEK thousand** | **Due at call or without maturity** | **Up to 3 months** | **More than 3 months, up to 1 year** | **More than 1 year, up to 5 years** | **More than 5 years** |
| Financial liabilities - amortized cost | 141,823,318 | 16,767,000 | 33,730,946 | 1,538,604 | 287,989 |
| Other liabilities | 18,695 | 250,063 | - | 1,908 | - |
| **Total** | **141,842,013** | **17,017,063** | **33,730,946** | **1,540,512** | **287,989** |

| **Assets** | | **Current assets** | | **Non-current assets** | |
|---|---|---|---|---|---|
| **2018 in LEK thousand** | **Due at call or without maturity** | **Up to 3 months** | **More than 3 months, up to 1 year** | **More than 1 year, up to 5 years** | **More than 5 years** |
| Cash, cash balances at central Banks and other demand deposits | 5,430,351 | - | - | | - |
| Financial assets - amortized cost | - | 61,462,945 | 50,421,712 | - | 75,962,287 |
| Financial assets - fair value through profit or loss | | 480 | 2,036 | | |
| Other assets | | 33,011 | | | |
| **Total** | **5,430,351** | **61,496,436** | **50,423,748** | | **75,962,287** |

| **Liabilities** | | **Short-term liabilities** | | **Long-term liabilities** | |
|---|---|---|---|---|---|
| **2018 in LEK thousand** | **Due at call or without maturity** | **Up to 3 months** | **More than 3 months, up to 1 year** | **More than 1 year, up to 5 years** | **More than 5 years** |
| Financial liabilities - amortized cost | 138,117,630 | | 19,280,295 | 34,798,064 | 2,361,511 |
| Other liabilities | - | | 227,921 | 9,424 | 7,198 |
| **Total** | **138,117,630** | | **19,508,216** | **34,807,488** | **2,368,709** |

Compulsory reserve has not been included in the maturity analsysis for 2019 and 2018 as it is not a contractual financial instrument.

# 29. FOREIGN CURRENCY VOLUMES

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Assets | 95,827,280 | 100,119,190 |
| Liabilities | 83,796,021 | 88,319,041 |

For further details on the foreign currency exposures and sensitivity analysis refer to Note "34 Market Risk" below.

# RISK MANAGEMENT

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.

# 30. 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:

- Integrated risk management: Credit, country, market, liquidity, and operational risks are managed as key risks on a Group-wide basis. For this purpose, these risks are measured, limited, aggregated, and compared to available risk cov-erage capital.
- Continuous planning: Risk strategies and risk capital are reviewed and approved in the course of the annual budget-ing 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 operations 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 strategic 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. The credit risk strategy of the Group, for instance, sets credit portfolio limits for segments and defines the credit approval authority for limit applications.

# 31. 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 lev-els 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 business policy. For this purpose, they monitor resulting risks using standardized measurement tools and report them to central risk management units via defined interfaces.

The Central Bank Risk Controlling division assumes the independent risk controlling function required by Banking law.

## 31. ORGANIZATION OF RISK MANAGEMENT (CONTINUED)

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 subdivisions, and is responsible for ongoing development and implementation of methods and parameters for risk quantification 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 monitoring 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 connection 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 concerning 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 management 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 implementation.

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.

# 32. 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.

| 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 subor-dinated 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 (projected earnings plus capital in excess of the regulatory requirement) may not exceed 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 projection for a three-year planning period based on assumptions 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 |

# 33. 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 Groups, 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 exposureused 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, effects that are, however, consid-ered in the total assessment of credit risk. The total credit exposure is used – if not explicitly 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 (rating models):

## 33. CREDIT RISK (CONTINUED)

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Corporate customers | 62,640,904 | 62,328,600 |
| Project finance | 2,701,404 | 1,056,391 |
| Retail customers | 60,338,043 | 53,764,631 |
| Banks | 44,869,909 | 43,047,996 |
| Sovereigns | 79,768,613 | 85,165,187 |
| **Total** | **250,318,873** | **245,362,805** |

Total credit exposure comprises cash balances at central banks and other demand deposits at banks (Note 9), financial assets at amortized cost (Note 10) and loan commitments, financial guarantees given and other commitments given (Note 21).

### 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 industries 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 | | 2019 | Share | 2018 | Share |
|---|---|---|---|---|---|
| 1 | Minimal risk | - | 0.00% | - | - |
| 2 | Excellent credit standing | - | 0.00% | 390,072 | 0.63% |
| 3 | Very good credit standing | 1,415,232 | 2.26% | - | 0.00% |
| 4 | Good credit standing | 5,008,803 | 8.00% | 4,094,893 | 6.57% |
| 5 | Sound credit standing | 10,524,423 | 16.80% | 9,982,021 | 16.02% |
| 6 | Acceptable credit standing | 11,130,358 | 17.77% | 10,637,990 | 17.07% |
| 7 | Marginal credit standing | 24,305,424 | 38.80% | 23,904,508 | 38.35% |
| 8 | Weak credit standing / sub-standard | 1,082,793 | 1.73% | 1,701,001 | 2.73% |
| 9 | Very weak credit standing / doubtful | 869,951 | 1.39% | 1,559,302 | 2.50% |
| 10 | Default | 8,292,060 | 13.24% | 10,056,419 | 16.13% |
| NR | Not rated | 11,860 | 0.02% | 2,394 | 0.00% |
| **Total** | | **62,640,904** | **100.00%** | **62,328,600** | **100.00%** |

## 33. CREDIT RISK (CONTINUED)

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 | | 2019 | Share | 2018 | Share |
|---|---|---|---|---|---|
| 6.1 | Excellent project risk profile – very low risk | 0 | 0.00% | - | 0.00% |
| 6.2 | Good project risk profile – low risk | 2,038,668 | 75.47% | 3,130 | 0.30% |
| 6.3 | Acceptable project risk profile – average risk | 137,002 | 5.07% | 514,348 | 48.69% |
| 6.4 | Poor project risk profile – high risk | 0 | 0.00% | - | - |
| 6.5 | Default | 525,734 | 19.46% | 538,911 | 51.01% |
| NR | Not rated | 0 | 0.00% | 2 | |
| **Total** | | **2,701,404** | **100.00%** | **1,056,391** | **100.00%** |

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

| in LEK thousand | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Manufacturing | 11,412,923 | 17.47% | 9,498,903 | 14.99% |
| Wholesale and retail trade | 15,423,671 | 23.60% | 16,983,997 | 26.79% |
| Financial intermediation | 4,639,011 | 7.10% | 496,558 | 0.78% |
| Real estate | 1,186,928 | 1.82% | 1,614,163 | 2.55% |
| Construction | 6,409,209 | 9.81% | 4,472,292 | 7.06% |
| Freelance/technical services | 23,572 | 0.04% | 21,704 | 0.03% |
| Transport, storage and communication | 3,355,500 | 5.14% | 3,156,742 | 4.98% |
| Electricity, gas, steam and hot water supply | 19,026,132 | 29.12% | 16,686,840 | 26.33% |
| Other industries | 3,865,362 | 5.92% | 10,453,793 | 16.49% |
| **Total** | **65,342,308** | **100.00%** | **63,384,992** | **100%** |

### Credit portfolio – Retail customers

Retail customers are subdivided into private individuals and small and medium-sized entities (SMEs). For retail custom-ers 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 | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Retail customers – private individuals | 44,863,010 | 74% | 40,064,521 | 75% |
| Retail customers – small and medium-sized entities | 15,475,033 | 26% | 13,700,110 | 25% |
| **Total** | **60,338,043** | **100%** | **53,764,631** | **100%** |

## 33. CREDIT RISK (CONTINUED)

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

| in LEK thousand | | 2019 | Share | 2018 | Share |
|---|---|---|---|---|---|
| 0.5 | Minimal risk | 1,052,884 | 2.25% | 1,083,599 | 2.58% |
| 1.0 | Excellent credit standing | 850,235 | 1.82% | 694,388 | 1.65% |
| 1.5 | Very good credit standing | 3,156,993 | 6.76% | 6,322,586 | 15.06% |
| 2.0 | Good credit standing | 12,894,938 | 27.60% | 13,451,722 | 32.05% |
| 2.5 | Sound credit standing | 12,655,151 | 27.08% | 8,546,421 | 20.36% |
| 3.0 | Acceptable credit standing | 5,987,271 | 12.81% | 3,082,215 | 7.34% |
| 3.5 | Marginal credit standing | 2,101,686 | 4.50% | 1,586,306 | 3.78% |
| 4.0 | Weak credit standing / sub-standard | 561,986 | 1.20% | 632,200 | 1.51% |
| 4.5 | Very weak credit standing / doubtful | 517,857 | 1.11% | 634,813 | 1.51% |
| 5.0 | Default | 2,633,258 | 5.64% | 2,065,329 | 4.92% |
| NR | Not rated | 4,316,306 | 9.24% | 3,876,243 | 9.23% |
| **Total** | | **46,728,565** | **100%** | **41,975,822** | **100%** |

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

| in LEK thousand | | 2019 | Share | 2018 | Share |
|---|---|---|---|---|---|
| 1 | Minimal risk | 100,412 | 0.74% | - | 0.00% |
| 2 | Excellent credit standing | 124,913 | 0.92% | - | 0.00% |
| 3 | Very good credit standing | 620,843 | 4.56% | - | 0.00% |
| 4 | Good credit standing | 2,169,607 | 15.94% | 3,147,000 | 26.69% |
| 5 | Sound credit standing | 3,414,145 | 25.09% | 2,951,572 | 25.04% |
| 6 | Acceptable credit standing | 3,230,857 | 23.74% | 2,458,423 | 20.85% |
| 7 | Marginal credit standing | 1,767,219 | 12.99% | 1,499,546 | 12.72% |
| 8 | Weak credit standing / sub-standard | 701,103 | 5.15% | 916,675 | 7.78% |
| 9 | Very weak credit standing / doubtful | 583,305 | 4.29% | 449,361 | 3.81% |
| 10 | Default | 896,591 | 6.59% | 364,902 | 3.10% |
| NR | Not rated | 483 | 0.00% | 1,330 | 0.01% |
| **Total** | | **13,609,478** | **100.00%** | **11,788,809** | **100.00%** |

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

| in LEK thousand | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Mortgage loans | 19,167,219 | 31.77% | 15,994,653 | 29.75% |
| Personal loans | 18,526,398 | 30.70% | 17,285,012 | 32.15% |
| Credit cards | 2,465,910 | 4.09% | 2,323,868 | 4.32% |
| SME financing | 14,315,489 | 23.73% | 13,108,627 | 24.38% |
| Overdraft | 4,162,824 | 6.90% | 4,131,829 | 7.69% |
| Car loans | 1,700,203 | 2.82% | 920,642 | 1.71% |
| **Total** | **60,338,043** | **100%** | **53,764,631** | **100%** |

## 33. CREDIT RISK (CONTINUED)

### 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 | | 2019 | Share | 2018 | Share |
|---|---|---|---|---|---|
| 1 | Minimal risk | 791,098 | 1.76% | 770,791 | 2% |
| 2 | Excellent credit standing | 20,308,747 | 45.26% | 29,944,944 | 70% |
| 3 | Very good credit standing | 13,531,914 | 30.16% | 9,366,924 | 22% |
| 4 | Good credit standing | 1,268,537 | 2.83% | 1,234,063 | 3% |
| 5 | Sound credit standing | 4,048,018 | 9.02% | 1,533,561 | 4% |
| 6 | Acceptable credit standing | 116,561 | 0.26% | 137,705 | - |
| 7 | Marginal credit standing | 0 | 0.00% | 60,008 | - |
| 8 | Weak credit standing / sub-standard | 0 | 0.00% | - | - |
| 9 | Very weak credit standing / doubtful | 0 | 0.00% | - | - |
| 10 | Default | 0 | 0.00% | - | - |
| NR | Not rated | 4,805,034 | 10.71% | - | - |
| **Total** | | **44,869,909** | **100.00%** | **43,047,996** | **100.00%** |

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

| in LEK thousand | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Loans and advances | 1,136,653 | 3% | 550,339 | 1% |
| Bonds | 8,014,463 | 18% | 14,307,811 | 33% |
| Repo | 1,176,474 | 3% | 538,307 | 1% |
| Money market | 29,734,643 | 66% | 26,386,715 | 61% |
| Other | 4,807,676 | 11% | 1,264,824 | 3% |
| **Total** | **44,869,909** | **100%** | **43,047,996** | **100%** |

### 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 | | 2019 | Share | 2018 | Share |
|---|---|---|---|---|---|
| A1 | Excellent credit standing | - | - | - | - |
| A2 | Very good credit standing | - | - | - | - |
| A3 | Good credit standing | - | - | - | - |
| B1 | Sound credit standing | - | - | - | - |
| B2 | Average credit standing | 1 | - | - | - |
| B3 | Mediocre credit standing | - | - | - | - |
| B4 | Weak credit standing | 79,768,604 | 100% | 84,281,070 | 99% |
| B5 | Very weak credit standing | - | - | - | - |
| C | Doubtful/high default risk | - | - | - | - |
| D | Default | - | - | - | - |
| NR | Not rated | 8 | 0% | 884,117 | 1% |
| **Total** | | **79,768,613** | **100.00%** | **85,165,187** | **100.00%** |

## 33. CREDIT RISK (CONTINUED)

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

| in LEK thousand | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Loans and advances | 19,133,098 | 23.99% | 18,024,984 | 21.16% |
| Bonds | 54,538,285 | 68.37% | 60,144,221 | 70.62% |
| Money market | 6,097,230 | 7.64% | 6,100,017 | 7.16% |
| Other | 0 | 0.00% | 895,965 | 1.05% |
| **Total** | **79,768,613** | **100.00%** | **85,165,187** | **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** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Non-financial corporations | 10,236,377 | 12,117,430 | 15.99% | 19.44% | 71.84% | 74.92% |
| Households | 2,427,947 | 1,914,702 | 5.90% | 5.25% | 64.99% | 72.42% |
| **Loans and advances** | **12,664,324** | **14,032,132** | | | | |
| **Total** | **12,664,324** | **14,032,132** | | | | |

### 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.

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** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Non-financial corporations | 10,101,172 | 12,094,762 | 15.78% | 19.41% | 73.22% | 79.28% |
| Households | 2,427,948 | 1,810,929 | 5.90% | 5.55% | 66.22% | 120.84% |
| **Total non-Banks** | **12,529,120** | **13,905,691** | | | | |
| **Total** | **12,529,120** | **13,905,691** | | | | |

## 33. CREDIT RISK (CONTINUED)

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 1/1/2019 | Additions | Decrease | As at 31/12/2019 |
|---|---|---|---|---|
| Non-financial corporations | 12,094,783 | 1,495,329 | -3,488,940 | 10,101,172 |
| Households | 1,811,081 | 1,813,773 | -1,196,906 | 2,427,948 |
| **Total non-Banks** | **13,905,864** | **3,309,102** | **-4,685,846** | **12,529,120** |
| Banks | - | 0 | 0 | 0 |
| **Total** | **13,905,864** | **3,309,102** | **-4,685,846** | **12,529,120** |

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

| in LEK thousand | As at 1/1/2018 | Additions | Decrease | As at 31/12/2018 |
|---|---|---|---|---|
| Non-financial corporations | 14,872,019 | 2,490,412 | -5,267,648 | 12,094,783 |
| Households | 2,029,406 | 652,685 | -871,010 | 1,811,081 |
| **Total non-Banks** | **16,901,425** | **3,143,097** | **-6,138,658** | **13,905,864** |
| Banks | - | - | - | - |
| **Total** | **16,901,425** | **3,143,097** | **-6,138,658** | **13,905,864** |

### Concentration risk

The credit portfolio of the Group is well diversified in terms of geographical region and industry. Single name concentrations 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 | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Czech Republic | 4,364,995 | 1.77% | 10,602,369 | 4.30% |
| Poland | 3,655,858 | 1.48% | 3,705,442 | 1.50% |
| Austria | 11,311,599 | 4.58% | 13,719,335 | 5.57% |
| Other European Union | 25,087 | 0.01% | 1,714,583 | 0.70% |
| Germany | 10,832,666 | 4.39% | 10,587,451 | 4.30% |
| Great Britain | 4 | 0.00% | 70,622 | 0.03% |
| France | 4,261,626 | 1.73% | - | 0.00% |
| Netherlands | 204,795 | 0.08% | 155,597 | 0.06% |
| Italy | 2,868 | 0.00% | 9,875 | - |
| Romania | 244 | 0.00% | - | - |
| Bulgaria | 365 | 0.00% | 9 | - |
| Albania | 209,640,220 | 85.44% | 200,685,275 | 81.87% |
| Other | 480,701 | 0.19% | 2,224,728 | 0.90% |
| Switzerland | 550,024 | 0.22% | 913,737 | 0.37% |
| North America | 259,724 | 0.11% | 432,637 | 0.18% |
| Rest of World | 2,636 | 0.00% | 541,144 | 0.22% |
| **Total** | **245,593,412** | **100.00%** | **245,362,804** | **100.00%** |

## 33. CREDIT RISK (CONTINUED)

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

| in LEK thousand | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Euro (EUR) | 88,147,607 | 35.89% | 89,691,873 | 36.55% |
| US-Dollar (USD) | 17,264,651 | 7.03% | 17,849,349 | 7.27% |
| Swiss franc (CHF) | 354,651 | 0.14% | 191,524 | 0.08% |
| Albanian lek (ALL) | 135,420,026 | 55.14% | 133,296,760 | 54.33% |
| Other foreign currencies | 4,406,477 | 1.79% | 4,333,300 | 1.77% |
| **Total** | **245,593,412** | **100.00%** | **245,362,806** | **100.00%** |

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

| in LEK thousand | 2019 | Share | 2018 | Share |
|---|---|---|---|---|
| Banking and insurance | 63,119,402 | 25.70% | 67,681,609 | 27.58% |
| Private households | 46,077,156 | 18.76% | 40,914,828 | 16.68% |
| Public administration and defense and social insurance institutions | 57,360,915 | 23.36% | 61,742,630 | 25.16% |
| Wholesale trade and commission trade (except car trading) | 733,096 | 0.30% | 321,592 | 0.13% |
| Other manufacturing | 81,484 | 0.03% | 147,749 | 0.06% |
| Real estate activities | 1,263,468 | 0.51% | 1,709,610 | 0.70% |
| Construction | 8,985,976 | 3.66% | 6,344,265 | 2.59% |
| Other business activities | 4,434,101 | 1.81% | 3,663,619 | 1.49% |
| Retail trade except repair of motor vehicles | 23,875,898 | 9.72% | 24,853,390 | 10.13% |
| Electricity, gas, steam and hot water supply | 18,804,647 | 7.66% | 16,779,937 | 6.84% |
| Manufacture of basic metals | 11,985,458 | 4.88% | 11,974,097 | 4.88% |
| Other transport | 4,222,013 | 1.72% | 4,137,804 | 1.69% |
| Land transport, transport via pipelines | 165,628 | 0.07% | 198,942 | 0.08% |
| Manufacture of food products and beverages | 200,386 | 0.08% | 60,026 | 0.02% |
| Manufacture of machinery and equipment | 4,268 | 0.00% | - | - |
| Sale of motor vehicles | 191,471 | 0.08% | 279,018 | 0.11% |
| Extraction of crude petroleum and natural gas | 3,108,438 | 1.27% | 3,291,576 | 1.34% |
| Other industries | 979,608 | 0.40% | 1,262,113 | 0.51% |
| **Total** | **245,593,412** | **100%** | **245,362,805** | **100%** |

### Counterparty credit risk

The Group defines counterparty credit risk as the risk of possible default of a counterparty in a financial instrument.

# 34. MARKET RISK

The Group defines market risk as the risk of possible losses arising from changes in market prices of trading and investment positions. Market risk estimates are based on changes in exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters (e.g. implied volatilities).

Market risks from the customer divisions are transferred to the Treasury division using the transfer price method. Treasury is responsible for managing structural market risks and for complying with the Group's overall limit. 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 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.

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 combines the ad-vantages of a historical simulation and a Monte-Carlo simulation and derives market parameters from 500 days of his-torical data. Distribution assumptions include modern features such as volatility declustering and random time changes, which helps in accurately reproducing fat-tailed and asymmetric distributions and base interest rate risk fac-tors. 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 accumulate on their own proprietary positions but strictly limit them instead.

A comprehensive stress testing concept complements this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio. 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 and the Banking book. The Group's VaR mainly results from currency risk for trading book and interest rate risk for Banking book.

## 34. MARKET RISK (CONTINUED)

| Trading book VaR 99% 1d<br>in LEK thousand | VaR as at<br>31/12/2019 | VaR as at<br>31/12/2018 |
|---|---|---|
| Currency risk | 100% | 100% |
| Interest rate risk | 0% | - |
| Credit spread risk | 0% | - |
| Share price risk | 0% | - |
| Vega risk | 0% | - |
| Basis risk | 0% | - |
| **Total** | **-990** | **-3,572** |

| Banking book VaR 99% 1d<br>in LEK thousand | VaR as at<br>31/12/2019 | VaR as at<br>31/12/2018 |
|---|---|---|
| Currency risk | 0% | - |
| Interest rate risk | 88 % | 81.3% |
| Credit spread risk | 9.3% | 15.8% |
| Vega risk | 0% | - |
| Basis risk | 2.7 % | 2.9% |
| **Total** | **-78,466** | **-72,410** |

| Total VaR 99% 1d<br>in LEK thousand | VaR as at<br>31/12/2019 | VaR as at<br>31/12/2018 |
|---|---|---|
| Currency risk | 25.8% | 40.9% |
| Interest rate risk | 64.5% | 46.4% |
| Credit spread risk | 7.4% | 10.5% |
| Share price risk | 0% | - |
| Vega risk | 0% | - |
| Basis risk | 2.3% | 2.2% |
| **Total** | **97,850** | **-85,003** |

### 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 2019 and the corresponding values for the previous year.

## 34. MARKET RISK (CONTINUED)

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| ALL | -12,031,260 | -11,551,792 |
| AUD | -12,852 | -5,244 |
| CAD | 4,478 | -13,351 |
| CHF | 7,551 | -2,813 |
| DKK | 1,162 | 1,161 |
| EUR | 12,116,896 | 11,645,381 |
| GBP | 4,877 | -12 |
| JPY | 6,733 | 31,551 |
| NOK | 172 | 292 |
| SEK | 1,149 | 936 |
| USD | -98,904 | -106,110 |

### 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 2019 and 31 December 2018.

| 2019 in 000 Lek | 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 y | >20v |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ALL | -0.1 | | | -0.1 | | | | | | | | |

| 2018 in 000 Lek | 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 y | >20v |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ALL | -0.12 | | | -0.12 | -0.12 | | | | | | | |

### Interest rate risk in the Banking book

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 interest 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 context 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 2019 and 31 December 2018.

## 34. MARKET RISK (CONTINUED)

| 2019 in 000 Lek | 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 y | >20v |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ALL | 2,197 | -120 | -467 | 132 | -279 | 2,116 | -318 | 175 | 354 | 334 | 192 | 77 |
| CHF | -8 | 0 | 0 | -6 | -1 | 0 | - | 0 | 0 | - | - | - |
| EUR | 3,410 | -29 | 63 | 337 | 981 | -446 | 2,375 | 23 | 44 | 50 | 11 | 0 |
| GBP | 37 | 1 | 3 | 32 | 1 | - | - | - | - | - | - | - |
| USD | 659 | 26 | 9 | 131 | 252 | 150 | 91 | - | - | - | - | - |

| 2018 in 000 Lek | 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 y | >20v |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ALL | -2,127 | 161 | -618 | -258 | -1,633 | 123 | -597 | -30 | 269 | 209 | 154 | 93 |
| CAD | - | - | - | - | - | - | - | - | - | - | - | - |
| CHF | -10 | - | - | -8 | -1 | - | - | - | - | - | - | - |
| EUR | 702 | 21 | 98 | -365 | 112 | 503 | 230 | 2 | 39 | 50 | 12 | 10 |
| GBP | 46 | 4 | 3 | 39 | - | - | - | - | - | - | - | - |
| USD | 779 | 27 | 12 | 153 | 165 | 150 | 272 | - | - | - | - | - |

# 35. 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 Supervisory Authority.

### 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

## 35. LIQUIDITY MANAGEMENT (CONTINUED)

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 regulatory constraints. Secondly, these are monitored and supported by independent Integrated Risk division (Market Risk department). Market risk department measures and implements limits on different liquidity positions, as well as monitors their compliance. 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 diversification of the refinancing structure). Besides achieving a structural contribution by means of a maturity transformation 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

The Group is regularly forecasting its liquidity position under a going concern and stressed liquidity gaps scenarios, as well as internally measured stress survival period and in case it is necessary, the regulatory Liquidity Cover Ratio (LCR). The inputs used for these forecasts are mainly the balance sheet dynamics (maturities of main funding sources, i.e. cus-tomer deposits, financial institutions and other loans) and planned new loan disbursements. In addition, the planned stock of corporate term deposits, corporate current accounts and short term funding is taken into account. For the pur-pose of projecting the LCR, sovereign and Central Bank deposits are also relevant and considered. The funding activi-ties are calibrated by taking the forecast of the liquidity metrics (going concern, stressed liquidity gaps, and the LCR) into account.

Regulatory and internal liquidity reports and ratios are generated based on particular modelling assumptions. Whereas the regulatory reports are calculated on specifications given by authorities, the internal reports are modelled with assumptions from empirical observations.

### Risk appetite and liquidity limits

The liquidity position is monitored on Group level and on individual unit level and is restricted by means of a comprehensive limit system. Limits are defined both under a business as usual as well as under a stress perspective. In accordance with the defined risk appetite, our Group has a survival horizon of several months (TTW) in a severe, combined 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. For internal models, these limits are supplemented by limits for compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR). All liquidity position limits are complied with on a daily basis.

Additionally, the Group is compliant with Group of Albania regulations on Liquidity Risk management, which is regulated by regulation No. 71, dated 14.10.2009, amended by regulation No.75, dated 26.10.2011 and further amended by regulations No. 28, dated 27.03.2013 and No. 14, dated 7.2.2018 of the Supervisory Council of the Group of Albania)
According to Group of Albania regulations, the Group calculates and assures the compliance of the "liquid assets to short term liabilities ratio" on a daily basis.

### Liquidity Limits

The Group shall calculate and provide at any time the observation of the ratio of liquid assets against the short-term liabilities:

## 35. LIQUIDITY MANAGEMENT (CONTINUED)

- denominated in the national currency (ALL) at the minimum level 15 % (fifteen percent);
- denominated in the foreign currency (FCY) at the minimum level of 20% (twenty percent);
- as a total at the minimum level 20 % (twenty percent).

### Liquidity monitoring

The Group uses a series of customized measuring instruments and early warning indicators which provide the Management 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.

### Local Regulatory Liquidity Ratios

Local Regulatory Liquidity Ratios are calculated on daily basis and are reported on a weekly basis from market risk department. Results are reported to Treasury, which is then aware of the Group's current liquidity position versus local requirements. Treasury is in charge of reducing its liquidity surplus or increasing its liquidity base depending on the current position.

### 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 simultaneously 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 members of management on a weekly basis; they also form a key component of the monthly ALCO meetings and are included 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 customers. 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.

### 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 transactions 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.

# 35. LIQUIDITY MANAGEMENT (CONTINUED)

## Intraday Liquidity Management

In compliance with regulatory requirements for intraday liquidity management, Dealing Room De-partment 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 pur-pose, 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

Under difficult liquidity conditions, the Group will switch to a contingency process in which it will follow a predefined liquidity contingency plans. These contingency plans also constitute an element of the liquidity management frame-work 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 seri-ous crisis situations.

## 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

## 35. LIQUIDITY MANAGEMENT (CONTINUED)

going concern sce-nario 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 incorporates 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 | 2019 | | 2018 | |
|---|---|---|---|---|
| Maturity | 1 month | 1 year | 1 month | 1 year |
| Liquidity gap | 83,226,992 | 108,505,744 | 85,444,619 | 113,180,699 |

### Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets (HQLAs) held by the Group, to meet potential 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 HQLAs is based on regulatory specifications. In 2018 and 2019, the regulatory limit for the LCR stood at 100 per cent.

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Average liquid assets | 60,546,699 | 64,423,880 |
| Net outflows | 6,996,354 | 6,797,055 |
| Inflows | 44,207,579 | 38,180,213 |
| Outflows | 27,985,418 | 27,188,218 |
| **Liquidity Coverage Ratio** | **865%** | **948%** |

### 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 | 2019 | 2018 |
|---|---|---|
| Required stable funding | 198,034,542 | 153,856,045 |
| Available stable funding | 263,841,692 | 212,873,943 |
| **Net Stable Funding Ratio** | **133%** | **138%** |

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 creditworthiness 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 funding. 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. The only outstanding funding deal is the RBI's sub-loan.

Additionally, to have a better optimized RWA value of our portfolio, the Group has entered into an agreement with RBI regarding a guarantee issued by MIGA (World Group group) so that our minimum reserve is counted at 0 risk weight in the portfolio.

## 35. LIQUIDITY MANAGEMENT (CONTINUED)

Reporting and monitoring process for both these deals is made by Treasury Sales and IB department.

The following table shows a breakdown of cash flows according to the contractual maturity of financial assets:

| 2019 in LEK thousand | Carrying amount | 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** | **217,044,764** | **227,825,802** | **73,156,049** | **60,198,623** | **73,991,689** | **20,479,443** |
| Cash, cash balances at central Banks and other demand deposits | 25,068,597 | 25,068,597 | 25,068,597 | - | - | - |
| **Loans and advances** | **129,525,199** | **140,309,370** | **42,566,623** | **39,436,234** | **37,966,462** | **20,340,053** |
| Central Banks | 6,085,715 | 6,085,715 | 6,085,715 | - | - | - |
| General governments | 21,342 | 21,342 | 21,342 | - | - | - |
| Banks | 28,599,932 | 28,599,932 | 28,599,932 | - | - | - |
| Other financial corporations | 61 | 61 | 61 | - | - | - |
| Non-financial corporations | 56,024,507 | 58,376,303 | 5,470,984 | 32,417,097 | 17,565,522 | 2,922,701 |
| Households | 38,793,642 | 47,226,017 | 2,388,589 | 7,019,137 | 20,400,940 | 17,417,352 |
| **Debt securities** | **62,450,968** | **62,447,835** | **5,520,829** | **20,762,389** | **36,025,227** | **139,390** |
| General governments | 54,436,807 | 54,433,674 | 5,520,829 | 20,762,389 | 28,011,066 | 139,390 |
| Banks | 8,014,161 | 8,014,161 | 0 | 0 | 8,014,161 | 0 |

The following table shows a maturity analysis of undiscounted cash flows according to the contractual maturity of financial liabilities:

| 2019 in LEK thousand | Carrying amount | 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** | **212,474,117** | **61,576,871** | **41,368,896** | **10,625,104** | **7,153,232** | **2,429,640** |
| Deposits | 194,128,938 | 46,124,319 | 43,020,070 | 2,719,596 | 341,836 | 42,816 |
| Central Banks | - | - | - | - | - | - |
| General governments | 3,959,611 | 3,959,611 | 3,959,611 | - | - | - |
| Banks | 4,791,034 | 4,837,435 | 2,916,545 | 1,920,890 | - | - |
| Other financial corporations | 3,636,469 | 3,637,300 | 2,878,431 | 634,931 | 123,938 | - |
| Non-financial corporations | 29,605,062 | 29,605,303 | 29,180,814 | 163,775 | 217,898 | 42,816 |
| Households | 152,136,762 | 152,139,505 | 119,107,319 | 31,640,131 | 1,146,882 | 245,173 |
| **Other financial liabilies** | **18,920** | **18,920** | **18,920** | **-** | **-** | **-** |
| Issued financial guarantee contracts | 5,010,785 | 5,010,785 | 733,858 | 3,158,082 | 1,118,845 | - |
| Issued loan commitment | 13,315,474 | 13,315,474 | 488,674 | 4,747,426 | 5,692,551 | 2,386,824 |

# 36. 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 improbable) 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 according to their estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quan-tified by a Group-wide analytical tool (scenarios). The internal risk profile, losses arising and external changes deter-mine which cases are dealt with in detail.

## Monitoring

In order to monitor operational risks, early warning indicators are used that allow prompt identification and minimization 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.

# OTHER DISCLOSURES

## 37. OPERATING LEASES

### Operating leases from view of lessor

Future minimum lease payments under non-cancelable operating leases are as follows:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Up to 1 year | 14,780 | 4,098 |
| More than 1 year, up to 5 years | 0 | 1,488 |
| **Total** | **14,780** | **5,586** |

### Operating leases from view of lessee

Future minimum lease payments under non-cancelable operating leases are as follows:

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Up to 1 year | 278,354 | 165,731 |
| More than 1 year, up to 5 years | 698,008 | 419,356 |
| More than 5 year | 333,926 | |
| **Total** | **1,310,288** | **585,087** |

## 38. RELATED PARTIES

Transactions with related parties (companies and individuals) are limited to Banking business transactions that are carried out at fair market conditions. Disclosures on related parties (individuals) are reported under note (40) Relations to key management.

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| **Selected financial assets** | | |
| Equity instruments | 329,205 | 329,205 |
| Debt securities | 4,358,605 | 10,610,151 |
| Loans and advances | 7,846,769 | 9,916,810 |
| Other assets | 85,225 | 5,962 |
| **Selected financial liabilities** | | |
| Deposits | 1,875,236 | 1,955,617 |
| Provisions & Other liabilities | 60,383 | 59,723 |
| Loan commitments, financial guarantees and other commitments given | 1,485,036 | 2,195,238 |

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Interest income | 149,197 | 147,867 |
| Interest expenses | -114,918 | -367,014 |
| Dividend income | 0 | - |
| Fee and commission income | 673 | 1,725 |
| Fee and commission expenses | -181,675 | -158,694 |

# 39. AVERAGE NUMBER OF STAFF

| Full-time equivalents | 2019 | 2018 |
|---|---|---|
| Salaried employees | 1,215 | 1,251 |
| Wage earners | 40 | 40 |
| **Total** | **1,255** | **1,291** |

# 40. RELATIONS TO KEY MANAGEMENT

## Group relationship with key management

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Assets | 212,318 | 192,842 |
| Liabilities | 121,647 | 196,692 |

## 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 standards (IAS 19 and IFRS 2):

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Short-term employee benefits | 242,486 | 196,053 |
| Post-employment benefits | 0 | |
| Other long-term benefits | 53,518 | 32,683 |
| Termination benefits | 0 | |
| **Total** | **296,004** | **228,736** |

## Remuneration of members of the Supervisory Board

| in LEK thousand | 2019 | 2018 |
|---|---|---|
| Remuneration Supervisory Board | 15,681 | 16,879 |

# 41. MANAGEMENT BOARD

## The Management Board as at 31 December 2018 was as follows:

| Members of the Management Board | First assignment | End of period |
|---|---|---|
| Christian Canacaris | 01/10/2010 | 31/12/2024 |
| Alexander Zsolnai | 27/04/2010 | 31/12/2024 |
| Lyubomir Punchev | 18/10/2019 | 30/06/2023 |
| Elona Mullahi | 09/10/2015 | 30/06/2021 |
| Egon Lerchster | 13/11/2017 | 31/12/2020 |

## 41. MANAGEMENT BOARD (CONTINUED)

### Supervisory Board

The Supervisory Board as at 31 December 2019 was as follows:

| Members of the Supervisory Board | First assignment | End of period |
|---|---|---|
| Peter Lennkh | 07/07/2017 | 09/03/2021 |
| Heinz Wiedner | 10/07/2012 | 10/03/2020 |
| Slavoljub Dordevic | 24/01/2019 | 23/01/2023 |
| Harald Kreuzmair | 08/08/2014 | 08/08/2022 |
| Andreas Engels | 27/01/2011 | 08/08/2022 |

# REGULATORY INFORMATION

# 42. CAPITAL MANAGEMENT AND TOTAL CAPITAL

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 carries 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 | 2019 | 2018 |
|---|---|---|
| Total risk weighted assets | 120,195,660 | 113,098,889 |
| Regulatory capital | 23,247,305 | 23.270.769 |
| Capital adequacy ratio | 19.34 % | 20.58 % |

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.

# RECOGNITION AND MEASUREMENT PRINCIPLES

## Classification and measurement of financial assets and financial liabilities

According to IFRS 9, 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.

IFRS 9 contains a classification and measurement approach which 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 classifi-cation categories for financial assets:

- Financial assets measured at amortized cost (AC)
- Financial assets measured at fair value through OCI (FVOCI)
- Financial assets mandatorily measured at fair value through profit or loss (FVTPL)
- Financial assets designated fair value through profit or loss (FVTPL) and
- Financial assets 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 consolidated.

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 recog-nized 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 "accountingmismatch" – 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.

The presentation of financial liabilities is largely in accordance with the rules of IAS 39, with the exception that changes in the fair value of liabilities measured at fair value which are caused by changes in the Group's own default risk are to be booked in other comprehensive income. In accordance with IFRS 9, embedded derivatives are not consolidatedd 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. The recognition of derivatives which are embedded in financial liabilities and in non-financial host contracts has not changed in IFRS 9.

### 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 as-sets 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 col-lection of the remaining contractual cash flows.

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

## 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

## Modification of the 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 pay-ments 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 conclud-ing that an instrument, in the absence of such an assessment, will be measured at fair value.

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

## Financial assets and financial liabilities

### 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 secuities, loans and advances to financial instiutuins and loans and advances, are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. Loans and advances include loan and advances to customers measured at amor-tised cost and lease receivables. If there is a difference between the amount paid and face value – and this has an interest character – the effective interest method is used and the amount is stated under net interest income. Interest income is calculated on the basis of the gross carrying amount provided the financial asset is not impaired. As soon as the financial asset is impaired, interest income is calculated based on the net carrying amount. The amortized cost is also adjusted by the expected loss recognized, using the expected loss approach in accordance with IFRS 9, as outlined in the chapter Impairment general (IFRS 9).

## 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. Where such prices are not available, internal prices based on present value calculations for origi-nated financial instruments and futures or option pricing models for options are applied. Present value calculations are based on an interest rate curve which consists of money market rates, future rates and swap rates. Option price formulas Black-Scholes 1972, Black 1976 or Garman-Kohlhagen are applied depending on the kind of option. The measurement for complex options is based on a binominal tree model and Monte Carlo simulations.

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 mainly 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 presentation. These arise if the measurement of financial assets or liabilities or the presentation 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.

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.

In accordance with IFRS 9, 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/(loss).

## Financial liabilities – amortized cost

Financial liabilities – amortized cost include current accounts and Deposits from Banks, subordinated liabilities and other financial liabiliites, which are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method

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

| Assets/Liabilities | Fair value | Amortized cost | Category according to IFRS 9 |
|---|---|---|---|
| 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 peri-od, 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 ex-pired, 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 prin-ciple that the Group 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 (36) Expected credit losses

## Modification of financial assets

In the Group, a financial asset is derecognized on account of a modification if the underlying contract is modified substantially. Terms are substantially different 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 quantitative and qualitative criteria are considered in order to assess whether a substantial modification applies. These criteria consider the extension of the average remaining term (whereby in the case of Stage 3 loans which are restructured, this is often done to match the maximum expected payments). If this is the case then additional judgement is required to determine whether the extension 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 (4) 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.

## Reclassification of financial assets

Reclassification is only possible for financial assets, not for financial liabilities, In the Group a change in the measure-ment category is only possible if there is a change in the business model used to manage a financial asset. Reclassifica-tion 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 effected 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 wheth-er the price is directly observable or has been estimated using a valuation method. In accordance with IFRS 13, 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 interGroup market, and derivatives traded on the stock exchange. The valuation is mainly based on external data sources (stock exchange prices or broker quotes in liq-uid 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. Groups 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.

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. Further information on measurement methods and quantitative information for determination of fair value is shown in the notes under (20) Fair value of financial instruments.

## Financial guarantees

According to IFRS 9, 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 fulfill payment obligations on time as stipulated in the original terms of a debt instrument. At the date of recognition of a financial guarantee, the initial fair value corresponds under market conditions to the premium at the date of signature of the contract. In contrast to the presentation of impairments of financial assets, expected loan defaults are shown as a provision on the liabilities side.

## Contingent liabilities and commitments

This item mainly includes contingent liabilities from guarantees, credit guarantees, letters of credit and loan commitments recognized at face value. Guarantees are used in situations in which the Group guarantees payment to the creditor of a third party to fulfill the obligation of the third party. Irrevocable credit lines 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 contingent liabilities and irrevocable loan commitments are reported under provisions for lia-bilities and charges. Often, loan commitments are only partially drawn and thus comprise a drawn and an undrawn com-mitment. If it is not possible to consolidatedly identify the expected credit losses applicable to a drawn commitment and those to an undrawn commitment, these are shown together with the impairments for 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

#### Impairment general (IFRS 9)

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.

## Overview

As outlined in the chapter application of new and revised standards, the application of IFRS 9 has fundamentally changed the way in which the Group reports impairment losses on loans and advances. From 1 January 2018, impairment losses for all debt instruments which are not measured at fair value 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, 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 Group 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 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 Group 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’s 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.
- 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 effec-tive 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 (24) 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 (24) 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 (24) 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 9. The most important input parameters used by the Group 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 fulfill 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's expectation of the extent of loss on a defaulted exposure.

All risk parameters used from the Group's internal models are adjusted to meet the specific requirements of IFRS 9, 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 (24) Expected credit losses.

## Forward-looking information

As a rule, the risk parameters specific to IFRS 9 are estimated not only on historical default information but also, in par-ticular, on the current economic environment (point-in-time perspective) and forward-looking information. This assess-ment primarily involves regularly reviewing the effects which the Group'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 macroeco-nomic 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 (24) Expected credit losses in the chapter forward-looking information.

## Significant increase in the credit risk

The Group's 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 in accordance with IFRS 9 requirements 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 de-velopment of macroeconomic conditions. As a consequence, the Group uses the PD only as a frame of reference for as-sessing 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 Group's Group-wide credit-risk-management framework, the Group ensures that a significant increase in the credit risk is identified in a relia-ble and timely manner based on objective criteria. The review to determine whether the credit default risk as at the fi-nancial reporting date has risen significantly since the initial recognition of the respective financial instrument is per-formed 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 recogni-

tion. Further details on forward-looking information are provided in the notes (24) Expected credit losses in the chapter Significant increase in the credit risk.

## Collateral

In order to mitigate credit risks for financial assets, the Groupendeavors 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 IAS 39. Collateral is not recorded in the Group'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 (23) Collateral and maximum credit risk.

A special case is the classification of land and buildings from bail-out purchases within the framework of collateral real-ization 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 col-lateralized 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 with-in 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 repur-chase 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 under which they are shown. The securities are not derecognized since all the risks and rewards of the Group 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 Group's net interest income.

## Securities lending

The Group concludes securities lending transactions with Groups 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 portfo-lio and are valued according to IFRS 9. Borrowed securities are not recognized and not valued in the Group. Cash col-lateral 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.

## Leasing

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information for 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed consolidatedly if they are different from those under IFRS 16 and the impacts on the consolidated financial statements are disclosed in section application of new and revised standards.

#### Policy applicable before 1 January 2019

For contracts before 1 January 2019, The Group determined whether the arrangement was or contained a lease based on the assessment of whether.

- fulfilment of the arrangement was dependent upon a specific asset; and
- the arrangement had conveyed the right to control the use of the underlying asset. This was the case if any of the following conditions was met:
  - The purchaser in the arrangement had the ability or right to operate the asset or direct others to operate the asset.
  - The purchaser had the ability or right to control physical access to the asset.
  - There was only a remote possibility that parties other than the purchaser took more than an insignificant amount of the output of the asset and the price that the purchaser would pay was neither fixed per unit of output nor equal to the current market price at the time of delivery

**Accounting policy applicable from 1 January 2019**

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.

*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 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 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 elected 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 as lessor*

When The Group acts as lessor, it determines at lease inception whether the lease is accounted for as finance or

operating lease. In The Group a lease is classified as a finance lease if substantially all the risks and rewards incidental to ownership are transferred. Typical factors that, individually or in combination, would normally lead to a lease being classified as a finance lease:

Transfer of ownership of the asset by the end of the lease term;

Option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain at the inception date that the option will be exercised;

The lease term is for the major part of the economic life of the asset (even if the title is not transferred);

At the inception date, the present value of the lease payments equals at least substantially the fair value of the asset;

The asset is of such a specialized nature that only the lessee can use it without major modifications.

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. The accounting policies applied in 2018 as a lessor in the comparative period were not different from IFRS 16.

## Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of

associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

## Cash, cash balances at central Banks and other demand deposits

Cash, cash balances at central Banks and other demand deposits include notes and coins on hand, balances due on call and compulsory reserve at Central Bank of Albania, and demand deposits at Groups that are due on call.
Cash, cash balances at central Banks and other demand deposits are carried at amortised cost in the statement of finan-cial position.

## Cash and cash equivalents

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

## Intangible fixed assets

*Acquired intangible fixed assets*

In the Group, consolidatedly acquired intangible fixed assets, i.e. those with a definite useful life not acquired in a busi-ness 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 depreciation method are reviewed at each reporting date and any possible changes in measurement taken into account prospectively. Consolidatedly acquired intangible fixed assets with an indefinite useful life are capi-talized 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.

Intangible fixed assets with a definite useful life are amortized over the period during which the intangible fixed asset can be used.

## Tangible fixed assets

The land and buildings as well as office furniture and equipment reported under tangible fixed assets are measured at cost of acquisition or conversion less depreciation. Depreciation is recorded under the item general administrative ex-penses.

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

| **Useful life** | |
|---|---|
| Buildings | 20 |
| Office furniture and equipment | 4 – 7 |
| Hardware | 4 – 7 |
| Software | 8 |

Land is not subject to depreciation.

Expected useful lives, residual values and depreciation methods are reviewed annually. Any necessary future change of estimates is taken into account. Any anticipated permanent impairment is reported in the income statement and shown under the item general administrative expenses. In the event that the reason for the write-down no longer applies, a write-up will take place up to a maximum of the amount of the amortized cost of the asset.

A tangible fixed asset is derecognized on disposal or when no future economic benefit can be expected from the continued use of the asset. The resulting gain or loss from the sale or retirement of any asset is determined as the difference between the proceeds and the carrying value of the asset and is recognized in other net operating income.

## Investment property

This is property that is held to earn rental income and/or for capital appreciation. Investment property is reported at amortized cost using the cost model permitted by IAS 40 and is shown under tangible fixed assets because of minor importance. Straight line depreciation is applied on the basis of useful life. The normal useful life of investment property is identical to that of buildings recognized under tangible fixed assets. Depreciation is recorded under the item general administrative expenses.

Investment property is derecognized on disposal or when it is no longer to be used and no future economic benefit can be expected from disposal. The resulting gain or loss from the disposal is determined as the difference between the net proceeds from the disposal and the carrying value of the asset and is recognized in other net operating income in the reporting period in which the asset was sold.

## Provisions for liabilities and charges

Provisions are recognized when the Group has a present obligation from a past event, where it is likely that it will be obliged to settle, and a reliable estimate of the amount is possible. The level of provisions is the best possible estimate of expected outflow of economic benefits at the reporting date while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. If a provision is formed based on cash flows estimated to fulfill an obligation, the cash flows must be discounted if the interest effect is material.

These types of provision are reported in the statement of financial position under the item provisions for liabilities and charges. Allocation to the various types of provision is booked through different line items in the income statement depending on the nature of the provision. Restructuring provisioning, provisioning for legal risks and other employee benefits are recorded in general administrative expenses. Provision allocations that are not assigned to a corresponding general administrative expense are as a matter of principle booked against other net operating income.

## Employee compensation plans

*Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised in personnel expenses in profit or loss when they are due

*Social and health contributions*

The Group makes compulsory social security contributions that provide pension benefits for employees upon retire-ment. 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*

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

## Subordinated liabilities

Subordinated liabilities are presented in financial liabilities – amortized cost. Liabilities are subordinated if, in the event of liquidation or Grouptuptcy, they can only be met after the claims of depositors and all other not subordinated creditors have been satisfied.

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2018 and 2017.

## Net interest income

Net interest income includes interest income on financial assets such as loans, fixed-interest securities. Interest expenses include interest paid on deposits, debt securities issued and subordinated liability. Negative interest from asset items is shown in interest expense; negative interest from liability items is shown in interest income.

*Effective interest rate*

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit- impaired financial assets, a credit-adjusted efective interest rate is calculated using estimated future cash flows including ECL.

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.

*Amortised cost and gross carrying amount*

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

*Calculation of interest income and expense*

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a

gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 24 Expected credit loss, paragraph "Definition of default and credit-impaired assets".

*Presentation*

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
- – interest on financial assets and financial liabilities measured at amortised cost;
- – interest on debt instruments measured at FVOCI;

Interest expense presented in the statement of profit or loss and OCI includes interest on financial liabilities measured at amortised cost.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trad-ing income (see Other interest income below).

Interest income and expense were recognised as profit or loss in the 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 estimated future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

Interest income and expense presented in the statement of profit or loss and other of comprehensive income included:

- 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 were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

## Other interest income

Other interest income comprises interest related to trading assets and liabilities and financial assets designed at fair value through or loss and interest income on finance leases.

## Dividend income

Dividends from equities, subsidiaries not fully consolidated, strategic investments and associates not valued at equity are recognized under dividend income. Dividends are recognized through profit/loss if the Group's legal entitlement to payment has materialized.

## Net fee and commission income

Net fee and commission income mainly includes income and expenses arising from payment transfer business, asset management, foreign exchange business and credit business. Fee and commission income and expenses are accrued in the reporting period.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Net interest income).

Other fee and commission income – including account servicing fees, sales commission and placement fees– is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS

9 to consolidated and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

## Net trading income/(loss)

Net trading income/(loss) comprises gains less losses related to trading assets and liabilities, and includes all fair value changes and foreign exchange differences.

## General administrative expenses

General administrative expenses include staff and other administrative expenses as well as amortization/depreciation on tangible and intangible fixed assets.

## Income taxes

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 tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

## Statement of cash flows

The cash flow statement reports the change in the Cash, cash balances at central Banks and other demand deposits of the Group through the net cash from operating activities, investing and financing activities. Cash flows for investing activi-ties mainly include proceeds from the sale, or payments for the acquisition of, financial investments and tangible fixed assets. The net cash from financing activities shows all cash flows from equity capital, subordinated liabilities.

## Standards and interpretations that are not yet applicable

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

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting

The amendments to the definition of material is not expected to have a significant impact on the Group's financial statements and therefore the disclosures have not been made.

# EVENTS AFTER THE REPORTING DATE

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In March 2020, Government of Albania took drastic measures by suspending all activities that were not vital. Nonetheless, the Groups' activities were not sus-pended. The government of Albania has announced a sovereign guarantee to all the business which are facing liquidity problems and will seek financing. Furthermore the Bank of Albania has announced that customer that will face liquidity problems can request a postponement on the settlement of their liabilities toward the Groups for a 3 months period. The activity of the Group continued without suspension and during 2020, and there has been a relatively stable performance on the customers' collection. The Group foresees a slight decrease in results for 2020 from the budget, keeping positive profit margins. Furthermore, the Group has performed stress tests to evaluate the possible effect that a potential custom-er's shock would have on each of the balance sheet, liability and profit and loss line items, for a specific period of time and expects satisfying results. The Group has determined that these events are non-adjusting subsequent events. Accord-ingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

The management of the Group is not aware of any other event after the reporting date that would require either adjustments or additional disclosures in these Financial Statements.

Tirana, xx xx 2020

**The Management Board**

Christian Canacaris

Alexander Zsolnai    Lyubomir Punchev

Elona Mullahi    Egon Lerchster

# STATEMENT OF LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated 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

**Egon Lerchster**
Member of the Management Board
responsible for CIO/COO

**Lyubomir Punchev**
Member of the Management Board
responsi-ble for Retail Business

**Elona Mullahi**
Member of the Management Board
responsible for Corporate& SE Customers

# Raiffeisen Leasing

Raiffeisen Leasing Sh.a 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.

Raiffeisen Leasing Sh.a. has been established for the purpose of enhancing and promoting leasing activities in Albania, and at the same time extending the range of services of Raiffeisen Banking Group in this market.

The share capital is registered in Albanian Lek. From October 10th, 2016, Raiffeisen Bank Sh.a. is the unique shareholder of Raiffeisen Leasing Sh.a.

Even during year 2019, Raiffeisen Leasing Albania, maintained its high ranking and further strengthen its position as number one leader in the Albanian leasing market.

The value of new business in 2019 amounted to a record result of € 20 million, an increase of approx. 55 per cent from previous year, of which € 17,5 million were used for vehicle financing, and € 2,5 million for equipment.

The basic products of Raiffeisen Leasing are vehicle leasing 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 2019 is done with corporate customers 58 per cent, with SE customers 12 per cent, and with Micro customers is done 15 per cent of the business, and the rest 15 per cent is done with Individual customers.

Our goal was mainly focused on strengthening long-term partnership with clients of Raiffeisen Banking Group, providing them with efficient support they needed in their business. Also, aiming at improving its offer, Raiffeisen Leasing devoted special attention to further strengthening of partnerships and establishing strategic cooperation with the network of the most important dealers operating in Albania. Year 2019 was another year of challenges for the Albanian automotive market, where the number of new vehicles sold represents only a small number of the total cars sold 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 the establishment of standards in the re-sale market due to procedures we have implemented. However, the company used the know-how and experience of Raiffeisen Leasing International 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 2019, Raiffeisen Leasing had 19 employees, providing their clients with prompt and highly competent services.

Raiffeisen Leasing publishes a wide range of printed and electronic materials on its website: www.raiffeisen-leasing.al. During 2019, Raiffeisen Leasing been very active and has launched different marketing campaigns, mainly basing on policies and marketing activities of local concessionaires as our key business partners.

We would like to avail of this opportunity to thank our clients and business partners for the excellent cooperation in 2019 and especially for the trust they laid 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 2020 as well.

# Prospect 2020

Thanks to our high professional standards and expertise of the Group, which proved to be very strong, Raiffeisen Leasing Sh.a will be in position to actively support the business and investment plans of its clients in 2020 as well, by offering financing of vehicles and equipment. We will stay fully committed to further development of long-lasting cooperation with our clients and dealers and will continue to proactively respond to their needs by developing our range of products and services.

Our major objectives will 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 Sh.a

## About Raiffeisen INVEST Sh.a

Raiffeisen Invest kept its leading position in the Albanian market for investment funds during 2019, holding 96.4 per cent of the investment funds market share in terms of number of clients and 94.15 per cent of the market share in terms of asset under management. The main focus was on investor care and implementation of best asset management practices, being totally transparent during the process of investment funds sale.

Assets under the management of Raiffeisen Invest sh. a remained relatively stable compared to the previous year and exceeded the value of € 522.5 million for the investment funds and pension fund combined.

The investment funds marked a total of € 516.4 million, while the voluntary pension fund recorded a significant increase of 21 per cent, exceeding the level of € 6.2 million.

The number of investors who trusted the management of their assets to Raiffeisen Invest was 28,176 investors for investment funds and 3,052 investors for the voluntary pension fund.

With a clear focus on the investor, the strategic objective of Raiffeisen Invest sh.a. has been the expansion of the range of products and investment alternatives in proportion to the degree of investor financial education and sophistication of the capital market as a whole, the promotion of the funds for the broad mass of investors, development of the domestic market for the investment funds and voluntary pension funds as well as the enhancement of the level of transparency for the Albanian investor.

Based on these strategic objectives, during 2019, Raiffeisen Invest promoted investment plans through periodic payments in small amounts towards investment funds. It also took the first step towards digitalization, through the successful integration of its database with Raiffeisen ON platform. Thereby, for every customer of Raiffeisen Bank who is also a Raiffeisen Invest customer, it gave access to his/her investment accounts through Mobile Banking.

In addition, the company continued its efforts to promote the Voluntary Pension Fund, mainly in the form of professional voluntary pension plans. During 2019, six new companies joined the professional pension scheme offered by Raiffeisen Voluntary Pension Fund. These companies value the pension contribution on behalf of their employees, as a form of incentivization, motivation and fulfilment of social responsibility.

## Fund Performance

During 2019, the funds under management of Raiffeisen Invest provided the following net return on investment after deducting the management fee:

- Raiffeisen Voluntary Pension Fund: plus 4.91 per cent on an annual basis
- Raiffeisen Prestige Fund: plus 1.92 per cent on an annual basis
- Raiffeisen Invest Euro Fund: plus 3.98 per cent on an annual basis
- Raiffeisen Vision Fund: plus 3.86 per cent on an annual basis

Even during 2019, the low interest rate environment dominated the domestic and international markets. This factor has led to the annual performance of funds in Lek being lower compared to previous years. Despite the unfavorable market conditions and the higher interest rate volatility of the securities issued by the Albanian Government, Raiffeisen Invest managed to provide satisfactory annual performance for funds in domestic currency.

Regarding Raiffeisen Invest Euro Fund, we may easily say that this fund has achieved an excellent performance, with the best net annual return ever since its launch. This is because 2019 was a positive year for the euro denominated bond market, during which the simultaneous decline in yields and premiums generated very attractive returns and Raiffeisen Invest Euro Fund managed to perform very well throughout the year.

Raiffeisen Voluntary Pension Fund recorded a lower performance compared to previous years because the interest rates of Albanian Government securities in which the fund invests have been steadily declining. However, Raiffeisen Voluntary Pension Fund registered the highest annual return in 2019 compared to other voluntary pension funds operating in the domestic market.

For all funds under management, Raiffeisen Invest has implemented prudent investment policies by combining an efficient risk management with effective asset allocation, in accordance with the respective investor risk profile of each fund under management.

# Social Responsibility

During 2019, social responsibility continued to be an important and indivisible component of Raiffeisen Invest business standard.

Along 2019, Raiffeisen Invest prominently has supported many projects focusing on education, health and social care, promotion of sports, arts, and culture as well as the environmental protection. It is worth mentioning the company's support on the project of 24 TV documentaries, aiming the promotion of the history, culture, and traditions as well as the natural beauty of Albania, both inside and outside the country.

Raiffeisen Invest sha, as part of Raiffeisen Group, remains committed to give its contribution to support the Albanian community and society, thus fulfilling one of the important components of its mission, which is social responsibility.

# 2020 Outlook

The global economic growth is expected to slow down through 2020 and in this context the Albanian economy will be no exception. The challenges to the Albanian economy have increased, given the high financial burden left behind November 2019 earthquake, as well as the continued political instability in the country. On the other side, the opening of the negotiation process with EU and pursuing further reforms can improve the business climate in the country and ensure the attraction of foreign investment.

The interest rates are projected to experience moderate growth at the beginning of the year, given the increased demand for domestic debt by the Albanian government. On the other hand, the expected issuance of a new Eurobond in international markets at the beginning of the second half of the year may reduce interest rates in the domestic market, as it has been the case in the past.

For the euro area, the interest rates will continue to be in low levels and the European Central Bank is expected to pursue with its accommodative monetary policy. The political risks such as Brexit or the "trade war" are expected to fade, but on the other side new potential political or non-political risks may increase by 2020.

Raiffeisen Invest sh.a will continue to be committed in high-quality management of existing products, as well as the introduction of new products, with the ultimate objective of fulfilling investor needs and expectations.

# Raiffeisen Bank International at a glance

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 13 markets across the region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, almost 47.000 RBI employees serve 16.7 million customers in more than 2.000 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2019, RBI's total assets stood at € 152 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

# Raiffeisen Bank Sh.a, Network

**Tirana 1 District**
Rruga e Kavajës, Pallati 71,
Shkalla 1, Ap 4, Tiranë
Phone: +355 4 2253 644/6
+355 4 2233 396
+355 4 2224 540
Fax: +355 4 2230 013
+355 4 2247 912

**Tirana 2 District**
Rruga "Vangjel Noti", Nd: 12, H 6,
Laprakë, Tiranë
Phone: +355 4 2357828

**West District**
Lagja 3, Rruga "Hamdi Troplini",
Pallati 12-katësh, pranë Bashkisë, Durrës.
Phone: +355 52 254 95
+355 52 25 027

Lagja "28 Nëntori", Berat
Phone: +355 32 32628

Lagja " Pavarësia", Blvd "Ismail Qemali",
përballë "Kullave Aleksandria", Vlorë
Phone: +355 33 227 381

**North District**
Hotel Rozafa, Lagja "Vasil Shanto",
Rruga Teuta, Shkodër
Phone: +355 22 43171
+355 22 43764

Lagja Nr. 5, Rruga "Islam Spahiu", Kukës
Phone: +355 24 22279

**Elbasan District**
Lagja "Qemal Stafa", Rruga "11 Nëntori",
Pallati i ri, Elbasan
Phone: +355 54 42260

**South East District**
Shëtitore "Fan S. Noli", Silver Center, Korçë
Phone: +355 82 43179
Fax: +355 82 45870

Please visit our web site: www.raiffeisen.al

# Addresses and Contacts

## Raiffeisen Bank International AG

**Austria**
Am Stadtpark 9
1030 Vienna
Tel: +43-1-71 707-0
SWIFT/ BIC: RZBATWW
www.rbinternational.com
ir@rbinternational.com
communications@rbinternational.com

## CEE banking network

**Albania**
Raiffeisen Bank Sh.A.
European Trade Center
Bulevardi "Bajram Curri"
1000 Tirana
Tel: +355-4-23 81 381
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

**Belarus**
Priorbank JSC
V. Khoruzhey St. 31-A
220002 Minsk
Tel: +375-17-28 9-9090
SWIFT/BIC: PJCBBY2X
www.priorbank.by

**Bosnia and Herzegovina**
Raiffeisen Bank d.d.
Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Tel: +387-33-75 50 10
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

**Bulgaria**
Raiffeisenbank (Bulgaria) EAD
55 Nikola I. Vaptzarov Blvd.
Business Center EXPO 2000 PHAZE III
1407 Sofia
Tel: +359-2-91 985 101
SWIFT/BIC: RZBBBGSF
www.rbb.bg

**Croatia**
Raiffeisenbank Austria d.d.
Magazinska cesta 69
10000 Zagreb
Tel: +385-72-626 262
SWIFT/BIC: RZBHHR2X
www.rba.hr

**Czech Republic**
Raiffeisenbank a.s.
Hvezdova 1716/2b
14078 Prague 4
Tel: + 420-412 446 400
SWIFT/BIC: RZBCCZPP
www.rb.cz

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

**Kosovo**
Raiffeisen Bank Kosovo J.S.C.
Robert Doll St. 99
10000 Pristina
Tel: +383-38-222 222
SWIFT/BIC: RBKOXKPR
www.raiffeisen-kosovo.com

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

**Russia**
AO Raiffeisenbank
St. Troitskaya 17/1
129090 Moscow
Tel: +7-495-777 17 17
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

**Serbia**
Raiffeisen banka a.d.
Djordja Stanojevica 16
11070 Novi Beograd
Tel: +381-11-32 021 00
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

**Slovakia**
Tatra banka, a.s.
Hodžovo námestie 3
81106 Bratislava 1
Tel: +421-2-59 19-1000
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

**Ukraine**
Raiffeisen Bank Aval JSC
Vul Leskova 9
01011 Kiev
Tel: +38-044-490 8888
SWIFT/BIC: AVALUAUK
www.aval.ua

## Leasing companies

**Austria**
Raiffeisen-Leasing Gesellschaft m.b.H.
Mooslackengasse 12
1190 Vienna
Tel: +43-1-71 601-0
www.raiffeisen-leasing.at

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

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

**Bosnia and Herzegovina**
Raiffeisen Leasing d.o.o. Sarajevo
Zmaja od Bosne bb.
71000 Sarajevo
Tel: +387-33-254 340
www.rlbh.ba

**Bulgaria**
Raiffeisen Leasing Bulgaria OOD
32A Cherni Vrah Blvd. Fl.6
1407 Sofia
Tel: +359-2-49 191 91
www.rlbg.bg

**Croatia**
Raiffeisen Leasing d.o.o.
Radnicka cesta 43
10000 Zagreb
Tel: +385-1-65 9-5000
www.raiffeisen-leasing.hr

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

**Hungary**
Raiffeisen Corporate Lízing Zrt.
Akadémia utca 6
1054 Budapest
Tel: +36-1-477 8709
www.raiffeisenlizing.hu

**Kosovo**
Raiffeisen Leasing Kosovo LLC
Rr. UCK p.n. 222
10000 Pristina
Tel: +383-38-222 222-340
www.raiffeisenleasing-kosovo.com

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

**Romania**
Raiffeisen Leasing IFN S.A.
Calea Floreasca 246 D
014476 Bucharest
Tel: +40-21-36 532 96
www.raiffeisen-leasing.ro

**Russia**
OOO Raiffeisen-Leasing
Smolenskaya-Sennaya Sq. 28
119121 Moscow
Tel: +7-495-72 1-9980
www.raiffeisen-leasing.ru

**Serbia**
Raiffeisen Leasing d.o.o.
Djordja Stanojevica 16
11070 Novi Beograds
Tel: +381-11-220 7400
www.raiffeisen-leasing.rs

**Slovakia**
Tatra-Leasing s.r.o.
Cernyševského 50
85101 Bratislava
Tel: +421-2-5919-3168
www.tatraleasing.sk

**Slovenia**
Raiffeisen Leasing d.o.o.
Letališka cesta 29a
1000 Ljubljana
Tel: +386-8-281-6200
www.raiffeisen-leasing.si

**Ukraine**
LLC Raiffeisen Leasing Aval
Stepan Bandera Av. 9
Build. 6 Office 6-201
04073 Kiev
Tel: +38-044-590 24 90
www.rla.com.ua

## Branches and representative offices – Europe

**France**
RBI Representative Office Paris
9-11 Avenue Franklin D. Roosevelt
75008 Paris
Tel: +33-1-45 612 700

**Germany**
RBI Frankfurt Branch
Wiesenhüttenplatz 26
60 329 Frankfurt
Tel: +49-69-29 921 924

**Poland**
RBI Poland Branch
Ul. Grzybowska 78
00-844 Warsaw
Tel: +48-22-578 56 00
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

**Sweden**
RBI Representative Office
Nordic Countries
Drottninggatan 89, 14th Floor
11360 Stockholm
Tel: +46-8-440 5086

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

## Branches and representative offices – Asia

**China**
RBI Beijing Branch
Beijing International Club Suite 200
2nd Floor
Jianguomenwai Dajie 21
100020 Beijing
Tel: +86-10-65 32-3388

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

**India**
RBI Representative Office Mumbai
501, Kamla Hub, Gulmohar Road, Juhu
Mumbai – 400049
Tel: +91-22-26 230 657

**Korea**
RBI Representative Office Korea
#1809 Le Meilleur Jongno Town
24 Jongno 1ga
Seoul 110-888
Tel: +82-2-72 5-7951

**Singapore**
RBI Singapore Branch
50 Raffles Place
#31-03 Singapore Land Tower
Singapore 048623
Tel: +65-63 05-6000

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

## Selected specialist companies

### Austria

**Kathrein Privatbank**
Aktiengesellschaft
Wipplingerstraße 25
1010 Vienna
Tel: +43-1-53 451-300
www.kathrein.at

**Raiffeisen Bausparkasse Gesellschaft**
m.b.H.
Mooslackengasse 12
1190 Vienna
Tel: +43-1-54 646-0
www.bausparen.at

**Raiffeisen Centrobank AG**
Tegetthoffstraße 1
1015 Vienna
Tel: +43-1-51 520-0
www.rcb.at

**Raiffeisen Factor Bank AG**
Mooslackengasse 12
1190 Vienna
Tel: +43-1-21 974-57
www.raiffeisen-factorbank.at

**Raiffeisen Kapitalanlage-Gesellschaft m.b.H.**
Mooslackengasse 12
1190 Vienna
Tel: +43-1-71 170-0
www.rcm.at

**Raiffeisen Wohnbaubank**
Aktiengesellschaft
Mooslackengasse 12
1190 Vienna
Tel: +43-1-71 707-0
www.raiffeisen-wohnbaubank.at

**Valida Holding AG**
Mooslackengasse 12
1190 Vienna
Tel: +43-1-31 648-0
www.valida.at

### Czech Republic

**Raiffeisen stavební sporitelna a.s.**
Konevova 2747/99
13045 Prague 3
Tel: +420-800 112 211
www.rsts.cz