Raiffeisen Bank Albania

Annual Report 2020

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MANAGEMENT BOARD
of Raiffeisen Bank Sh.a

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the MB

Elona Mullahi (Koçi)
Board Member Corporate

Lyubomir Punchev
Board Member Retail

Egon Lerchster
Board Member CIO/COO

Report of the Board of Directors

Ladies and Gentlemen,

The 2020 financial year was undoubtedly marked by the global COVID-19 pandemic and the ensuing economic repercussions. After the devastating earthquake in Albania in late 2019, the crisis was yet another hit on the country's economy. The challenging conditions and related risk costs, as for most banks, had a visible impact on profit for Raiffeisen Bank in 2020. More positively, all business lines contributed to the result and the bank increased its total deposits and customer base in the reporting period while maintaining a solid liquidity and capital position. On behalf of the Board of Directors, I would like to express our appreciation with the results and the progress achieved given the difficult operating environment.

During the 2020 financial year, the members of the Board of Directors held 4 meetings. The overall attendance rate was 85%. In the period between meetings, the Board of Directors adopted decisions in writing, 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 business and risk strategies. The Board of Directors also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. During 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 continuous exchange of information and views with representatives from supervisory authorities on topical issues.

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

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

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

Considering what can honestly be described as an unprecedented year due to the challenges resulting from the COVID-19 pandemic, I would like to take this opportunity to sincerely thank the Management Board and all employees of Raiffeisen Bank sh.a. for their unwavering and dedicated efforts, and also our customers for their continued trust during these exceptional times.

On behalf of the Board of Directors

Peter Lennkh,
Chairman of the Board of Directors

Message from the CEO

Despite the effects caused by the pandemic outbreak, Raiffeisen Bank managed to maintain a sound financial performance during 2020. Thanks to the contribution of all business lines, profit before tax reached € 14 million. The bank increased the level of deposits by 8.3% year on year following the market trend. Regarding lending volumes, the bank ranked third in the market with a share of 15.3%, with business lending making the largest contribution to the result. During 2020, the focus in the retail segment was very much on developing customer engagement, improving the customer segment approach, and providing more efficient lending processes in the market. With a total portfolio of € 310 million at the end of the year.

Raiffeisen ON, our digital banking channel, continued to have an exceptional performance. The total number of subscribers reached 180,500 private individuals and businesses and we have already achieved a penetration of 50% of the active customer base. Raiffeisen ON is the most downloaded financial digital platform in Albania that provides technological innovations and enables the performance of online banking services, due to its continuous improvements in functionalities and performance. It is worth mentioning here that the Raiffeisen Bank virtual assistant, RONA, the first chatbot in the Albanian banking market, replied to 121,145 messages in 2020 via four online channels (Website, Messenger, Viber and WhatsApp) to make real-time banking easier and more customer friendly.

We continued to be the bank with the widest branch and ATM network in Albania. Furthermore, we are embracing the digital transformation to shape the model of the "bank of the future". The project of cashless branches with human touch was initiated during 2020 by redirecting cash operations starting from two branches in 'Rruga e Kavajës' and 'Ali Demi'.

Moreover, aiming for technological and innovative transformation, Raiffeisen Bank has embraced many new initiatives in collaboration with start-ups and fintech companies. We now stand in a consolidated phase of our innovative and fruitful collaboration stemming from many RBI Group programs, such as Innovation Garden and Elevator Lab.

We proudly serve 465,096 customers all over the country and we will strive to explore the future frontiers of technology and create an enhanced customer experience to become the most recommended bank.

The corporate segment had a satisfying performance during 2020. Despite the pandemic and the negative impact due to the lockdown and restrictions, the year was closed with almost the same outstanding lending volumes as 2019. The segment ensured a visible increase in interest revenues of 1.5% YoY maintaining a positive performance on Gross Income level. These results were achieved thanks to the commitment of the relationship managers, who continuously work to improve services towards our business customers.

Despite the lockdown and restrictions, Raiffeisen Leasing sh.a. continued to be the favorite choice for companies and individuals who wanted to finance machinery, equipment, production lines, vehicles, and cars. Raiffeisen Leasing sh.a. maintained its high ranking in 2020, with a market share of 40%, representing the number one leasing financial institution in the Albanian leasing market.

Additionally, Raiffeisen Invest remained the leading company in the Albanian market for investment funds, with a market share of 94.84%. In 2020, it launched the fourth investment fund, Raiffeisen Mix in Euro, providing financial portfolio diversification for the market through various asset classes, such as bonds and equities. Moreover, a step forward was made towards digital embracement adding the option for existing customers of Raiffeisen Invest to purchase fund units through Raiffeisen ON.

Regarding 2021, we expect there will be a return to economic growth despite the challenges that many industries are still facing. We will remain focused on our goal to be the most recommended bank in Albania and therefore, we are working to improve our internal processes and move towards digital transformation through more flexible operating models.

Ultimately, on behalf of the Management Board, I would like to sincerely express my gratitude to all our customers and business partners for their trust and cooperation during 2020. I express my gratitude to our employees for their dedication, fast adaptation to the circumstances without losing focus on customers. I am optimistic about what Raiffeisen Bank will still provide to the customers with a range of financial products and services by being the bank of first choice in the domestic banking sector.

Christian CANACARIS
Chief Executive Officer
Chairman of the Management Board

Vision & Mission

Our Vision for 2025

To be the most recommended financial services group.

Mission

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

Values

Collaboration

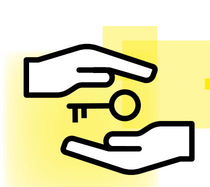
When we work with each other, talk to each other, listen to each other, and support each other, we can achieve so much more. We constantly create an environment of mutual understanding, respect, and trust.

Proactivity

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

Learning

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



Responsibility

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

Perspectives and Future Plans for 2021

Raiffeisen Bank intends to continue in 2021 its development and will further contribute to the country's economy, after the detrimental impact of the earthquake and the pandemic. Client satisfaction will be at the center of the Raiffeisen world with particular focus on exclusive services with innovative and digital products tailored to the clients. Raiffeisen Bank will be even closer to the customer under these challenging times by attentively valuating the position of our creditors, after the difficult year of stringent measures to face off the pandemic situation.

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 representing the most innovative and advanced bank in the country. In this context, we plan to enrich our digital platform 'Raiffeisen ON' with new features and functionalities especially by digitalizing our loans offer. Further on, the quality of customer services in all our segments will continue to remain a priority. Retail, Corporate & SE Segments will keep on focusing in providing the best customers' products and services in the market, like digital banking services, innovative paying methods, loans, etc.

We will continue focusing on the personal development of our employees, to obtain the highest customer service' standards. A transformative way of working will permit more collaboration and enhance the creativity of our employees. We will experiment with the new avant-garde ways of working, just taking shape in the most developed markets worldwide, by providing to our employee the opportunity of partly work from home. Hybrid working between the office and home will furthermore contribute to the development of our working force. In the meantime, we will continue improving the branches network in line with our digital transformation, to deliver contemporary and customer friendly branches.

We remain fully committed to meeting our customers' expectations, getting better at reading signals of change and becoming lean and agile in response to market conditions.

Finally, Raiffeisen Bank will enhance its focus on social responsibility. In this fast-changing world with the increase in temperatures that risk a climate disaster we will more convincingly support green investments and those business that will embrace UN and Paris climate agreements. Raiffeisen Bank will also provide its contribution to this epochal change by sponsoring community projects that go in the same direction and help keep temperature changes at manageable levels.

Management Board
Raiffeisen Bank Sh.a

Christian Canacaris	Alexander Zsolnai	Elona Mullahi (Koçi)	Lyubomir Punchev	Egon Lerchster
Chief Executive Officer	Vice-chairman of the MB	Board Member Corporate	Board Member Retail	Board Member CIO/COO

Governing Bodies

BOARD OF DIRECTORS

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

Members of the Board of Directors

Peter Lennkh	Chairman
Heinz Wiedner	Vice-Chairman
Harald Kreuzmair	Member
Slavoljub Dordevic	Member
Thomas Matejka	Member

AUDIT COMMITTEE

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

Members of the Audit Committee

Heinz Wiedner	Chairman
Ulf Leichsenring	Vice-Chairman
Johannes Kellner	Member

RISK COMMITTEE

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

Members of the Risk Committee

Thomas Matejka	Chairman
Harald Kreuzmair	Vice-Chairman
Heinz Wiedner	Member

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

Thomas Matejka	Chairman
Heinz Wiedner	Vice-Chairman
Harald Kreuzmair	Member

MANAGEMENT BOARD

The Management Board organizes and manages the activity of the bank continuously. It sets out and delegates the duties to the personnel and supervises the enforcement of delegated responsibilities, in compliance with the adopted policies and procedures; undertaking 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 adopted 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 declined in 2020 due to the consequences of the pandemic. The annual average growth rate of the economy in 2020 was -3.3%. Consumption, investments, and exports, especially those related to tourism suffered the most, but even imports indicated a sharp drop. Eased restriction measures in the third quarter decelerated the drop, marking an annual decline of only 3.5% compared to the drastic drop of 10.2% in the second quarter when the economy was under harsh lockdown to prevent the virus spread. In the fourth quarter the economy grew by a surprising 3%. We expect the GDP to recover in 2021 after the progress in the vaccination of the population. However, the pace of growth will be determined by the following actions to bring the pandemic under control, the vaccination process, or the natural herd immunity.

Inflation in 2020 was low at 1.6% on average compared to 1.5% in 2019. It is still below the objective of 3.0% of the Bank of Albania. The main reason was the decline in the consumer demand and lower oil prices in the international markets due to the negative effects of the pandemic. Core inflation after removing the items with high fluctuations (food and oil) continued to be subdued at 1.3% on average in 2020. However, it was higher than the previous year (0.7%) but still reflecting low inflationary pressures in the domestic market. In March 2020, the Bank of Albania immediately responded to the pandemic by reducing the base rate to a historic minimum of 0.5% easing further the monetary policy.

The unemployment rate rose slightly from 11.6% in 2019, on average to 11.7% in 2020 impacted by the consequences of the lockdown in the second quarter and restrictions in force in the last quarter. Easing of the measures in the third quarter positively impacted the dynamics in the labor market improving the unemployment rate (11.6%) especially due to the seasonal employment in tourism. Looking ahead to 2021, we expect an improvement in unemployment rate, impacted positively from the reconstruction and rise of the domestic demand in the second part of the year.

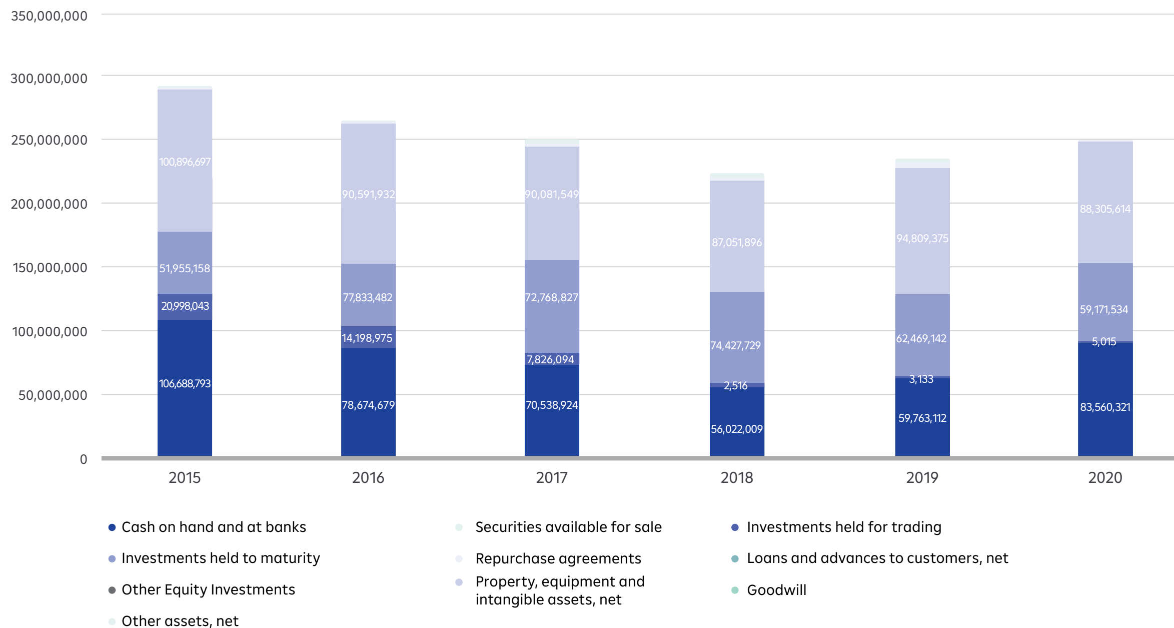
Public sector provided its support to the economy (businesses and individuals affected from the lockdown) increasing the budget deficit and public debt. Total government revenues declined by 7.5% yoy, while total expenditures increased with 9.0% yoy resulting in a budget deficit of ALL 110.4 billion or 2.5 times higher than in the previous year. The estimated budget deficit as a percentage of GDP was 7.0% compared to the 8.4% forecasted by government. In 2020 the government successfully issued a Eurobond of Eur 650 million to cover immediate financial needs contributing to the stabilization of the domestic forex market. As a result, public debt peaked at 77.84% of GDP at the end of 2020, from 66.22% of GDP in 2019. Fiscal policy will continue to be expansionary in 2021, while the public debt ratio is expected to decline in the next years.

The country's external position deteriorated in 2020, as the current account deficit amounted to EUR 1.154.8 million, expanding by 6.1% compared to the previous year. The deterioration in the service account (- 16.4% yoy) and the deepening of the trade deficit by 5.1% yoy are the main reasons for the widening of the current account deficit. Contribution from tourism was about Eur 180 million less compared to the last year which was negatively affected from limited traveling due to the pandemic situation. In 2020 foreign direct investment reached EUR 933 million, marking an annual drop of 13%, while remittances were Eur 673 million, decreasing by 4.1% compared to the previous year.

The overall banking sector activity expanded significantly in 2020, with an annual growth of assets of 7.2% (1.6% in 2019) mostly due to the activity in securities and lending. Lending recorded an annual growth of 5.8% in 2020, reflecting the expansion of the loans volume in both segments the retail (6.8%) and the business segment (5.3%). Business loans were supported by the sovereign guarantee scheme, introduced by the government, as part of the two packages to sustain the economy. During 2020, the postponement of the loan installments for 3 months was introduced, and the restructuring was enabled without worsening the status of the borrower. This intervention did not allow the level of NPL to increase beyond the level of 8.2% at the end of 2020 compared to 8.4% in 2019.

Financial Results

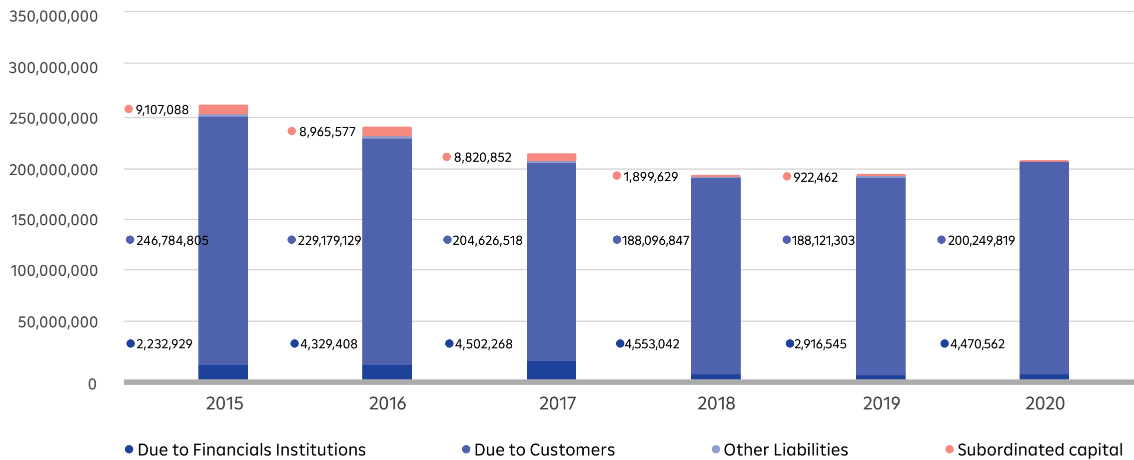
Total assets at the end of 2020 were ALL 237,554 million (2019: ALL 223,828 million). The loan book at the end of 2020 represented 37 per cent (2019: 42 per cent) of the Bank's total assets. The investments in securities represented nearly 25 per cent of it in 2020 (2019: 28 per cent). While Cash on hand and balances with banks increased with 40 per cent year on year.



Total gross loans and advances to customers at year end 2020 totaled ALL 99,440 million (2019: ALL 105,156 million) representing a 5 per cent decrease in lending over the year. Corporate Sector in percentage terms is 45 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 44,506 million (2019: ALL 51,216 million). The SE and Micro Business recorded and a 3 per cent increase each in its outstanding loan book amounting to ALL 13,171 million (2019: ALL 12,786 million).

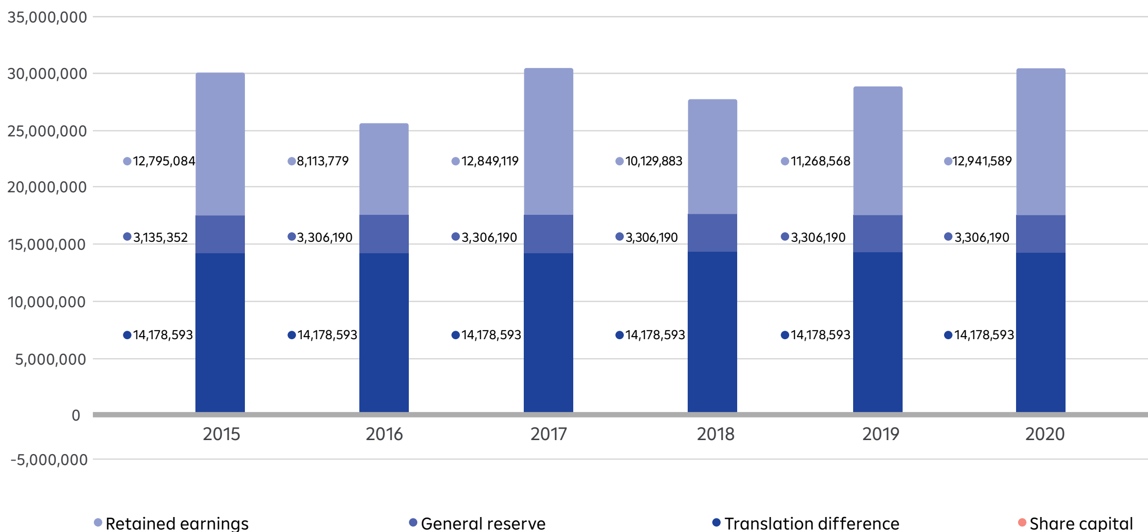
The total liabilities at the end of 2020 were ALL 207,128 million (2019: ALL 195,074 million). In 2020, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 97 per cent (2019: 96 per cent) of the Bank's total liabilities.

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



2020 showed a 46 per cent decrease in net profit after tax over 2020 to ALL 1,673 million (2019: ALL 3,107 million). There are no dividend payments in 2020 as per Central Bank decision (2019: ALL 1.964 million). The Group maintains a sound capital profile with Local Capital Adequacy Ratio of 24.07 per cent, well above regulatory minimum requirement of 12 per cent.

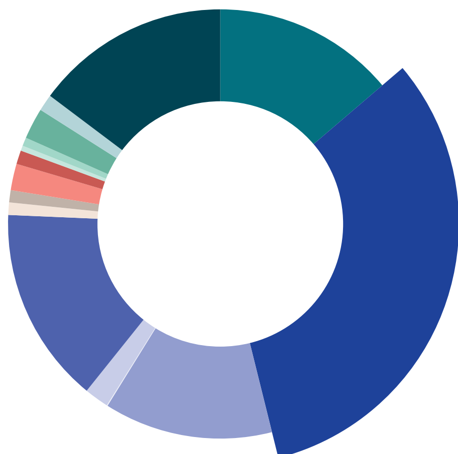
Structure of Shareholder's Equity
(in '000 LEK)



Total general administrative expenses during 2020 were ALL 1,839 million (2019: ALL 1,962 million). Despite Opex optimization in 2020 the cost/income ratio increased from 52.62 per cent to 56.59 per cent.

General Administrative Expenses

(in '000 LEK)

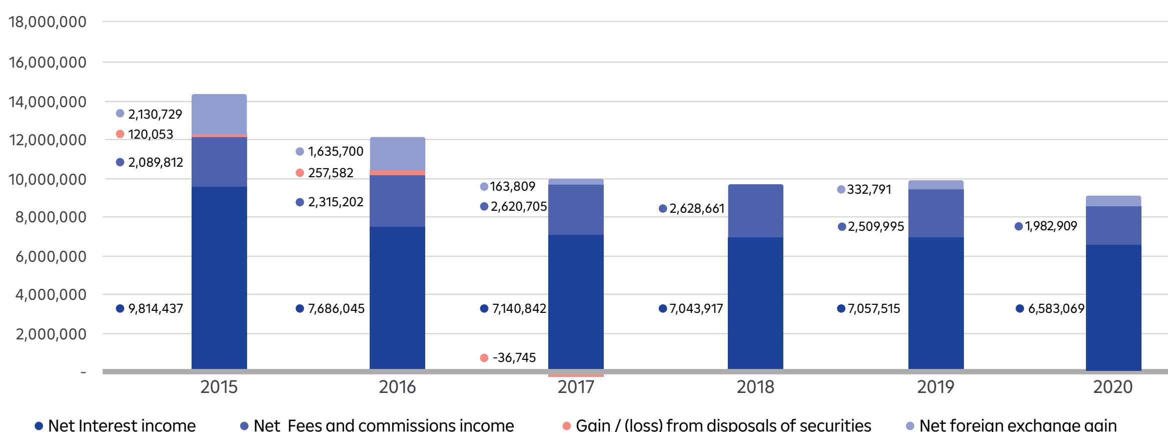


Office space expenses	14%
IT cost	32%
Legal, advisory and consulting expenses	13%
Legal, advisory and consulting expenses	0%
Litigation expenses not covered by provisions	2%
Advertising, PR and promotional expenses	15%
Communication expenses	1%
Office supplies	1%
Car expenses	2%
Security expenses	1%
Traveling expenses	0%
Expenses for leases	1%
Other taxes	2%
Training expenses for staff	1%
Sundry administrative expenses	15%

The year on year decrease in Group's net interest income is 6.72 per cent, reflecting COVID 19 crisis and lockdown impact. This together with the increase in the Bank's total balance sheet (6.1 per cent) due to surplus liquidity, result in decrease of the net interest margin (calculated in relation to average balance sheet – total) which is 2.85 per cent in 2020 from 3.16% in 2019.

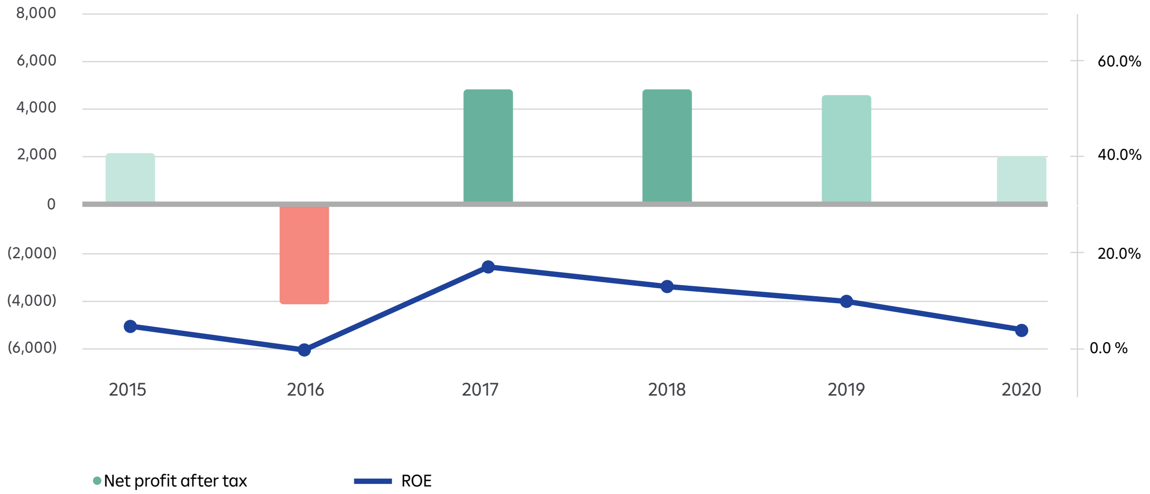
Net Income

(in '000 LEK)



Profit & ROE

(in '000,000 ALL)



Risk Appetite / Tolerance Statement

The Risk Appetite Framework (RAF) aims at providing the management, along with the drafting and approval of a top-down Risk Appetite statement, a tool to manage and control the level of the overall risk the Bank is willing and able to take on, in order to achieve its strategic and business goals. There is a close interconnection to the Internal Capital Adequacy Assessment Process (ICAAP) as RAF's main objective 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. The Bank of Albania requires the bank to hold a minimum amount of capital for all their material risks. For the so-called Pillar 1 risks (i. e., credit, market and operational risk) explicit quantification and assessment procedures are provided; adding up those numbers yields the regulatory capital requirement. Risk management in Raiffeisen Bank must ensure that regulatory capital requirements are met. Raiffeisen Bank holds more capital 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"), otherwise known 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 necessary. Generally, the MCR is the necessary 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 consist 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 must be set below the level of Risk Tolerance, with a large enough cushion 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 as 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	861,749.89	908,143.96	986,794.17
Market Risks	10,545.39	10,545.37	10,545.37
Operational Risk	142,360.89	142,002.38	143,626.96

	December 2020
Regulatory Total Capital Adequacy Ratio	24.07%
Capital Adequacy Ratio in line with local ICAAP methodology	22.91%

Segment Reports

Corporate products Division

First two months of 2020 started at an accelerated pace in terms of lending, proceeding afterwards by the slowdown generated by the Covid 19 outbreak. Despite the pandemic situation, new lending volumes, increased by 17% compared to the previous year.

Excess is linked to proactive usage of two Sovereign Guarantees in support to businesses impacted by Covid-19.

2020 was an atypical year that transformed the entire way of doing business world-wide. Numerous challenges emerged and one of the top priority emergencies to deal with consisted in the safety of our staff and customers.

Our core activity throughout the entire year focused on the intense communication with the business to understand their exigencies and on the other hand to manage the portfolio quality. The moratorium measures were applied on demand, providing the opportunity to the customers to adapt to the new market conditions and temporary releasing them from the burden of the bank's obligations.

Later, the priorities shifted to support lending activities under the framework of two agreements signed with EBRD:

- New Risk Sharing Facility Agreement of EUR 50 million signed with EBRD in September 2020, which will improve the access to finance of Corporates and SMEs and strengthen RBAL capacity to meet the financial needs clients, risk profile and diversification.
- New Unfunded Innovative Guarantee agreement of EUR 100 million signed with EBRD in December, linked to RBAL's local currency sovereign bond portfolio. RBAL will use the freed-up risk-taking capacity from this commitment to increase lending to the real economy. Sub-loans under the program will focus on supporting sound small and medium sized businesses that are substantial to the Albanian economy.

Raiffeisen Bank sh.a. aims to improve customers' journey and increase the satisfaction of Corporate customers. Since a year ago, several initiatives have been taken, to improve the quality and delivery time to our lending customers, such as: introducing the agile lending culture, simplified lending process, faster and less administrative procedures, etc.

Customer development and digital progress have been among the biggest achievement of 2020 where the Mid-Market active customers grew up by 12% compared to YE 2019, while continuous increase in payments executed in digital channels reaching a ratio of 87.1%.

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

The corporate division for many years continues to serve to the following categories of the customers:

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

As part of the long-term strategy, Raiffeisen will remain focused on the positive impact in the overall Albanian Economy through elevating banking standards in the market. On an uncommon pandemic year like 2020, the consolidated long-term partnership with all Public Institutions, Central and Local Government, is reflected by playing an essential role focused on following developments:

- Supporting the Albanian Government in its efforts to mitigate the negative effects of the pandemic situation "Covid 19", by either financing the private businesses with loans covered by Sovereign Guarantee and providing support to design the appropriate approach and solution that would best fit to all stakeholders that are part of this process.
- Continuous support for important IT infrastructural projects through the introduction innovative IT solutions and banking services. Pursuant to the new Law of Fiscalization, the banks play a significant role on the process of the invoices fiscalization and serving this purpose an important investment on IT infrastructure to facilitate the implementation of this law has been initiated.

Testimonials

Salillari Shpk started the collaboration with Raiffeisen Bank Albania almost 16 years ago. This period has been characterized from a cooperation by bonding the partnership year after year.

Raiffeisen Bank is one of our main partners regarding the bank transactions of our group, considering this bank our most valuable financial partner in the domestic market.

The staff of Raiffeisen Bank that collaborates with our professionals, in the quality of financial advisers to us providing alternatives and possibilities for fulfilling our commercial transactions and strategies. We consider them as an added value asset to our companies, being always proactive and highly professional. We have been always pleased with the professional service and financial advice that the staff of Raiffeisen Bank Albania has provided and impressed us with their ability to provide useful financial advice about important financial issues.

Contact Person
Mr. Pëllumb Salillari

Retail Banking

Customer Segment Development

Private Individuals Customers

Private Individuals Segment focus continues to be the growth of customer activity, boosting of direct relationships and customer acquisition, especially targeted on youth population in the country.

2020 has been an incredibly tough year. The pandemic situation faced us with new challenges, new customer needs and new ways of providing our products and services. Despite all difficulties faced, we managed to increase our customer base and maintain stable the customer activity rate (82%).

Due to the Government measure undertaken denominated the "war salaries payments" in the framework of the pandemic financial packages, the business entities that receive their salaries at our Bank received this service in due time, due to the bank's stable positions and excellent network coverage, benefited from these credited amounts during the pandemic lockdown of April-August 2020. We continue to maintain our leading position in the market for public employees (48 percent market share).

Raiffeisen Bank supported this subsegment providing free current account, debit card and packages for all of them who received the financial payment denominated the "war salary" during the whole year. Furthermore, considering the immense contribution of medical staff during pandemic period, we launched a preferential offer for the Ministry of Health employees during May-Jul 2020, to demonstrate the gratitude toward the dedication of doctors and nurses during the COVID 19 situation

We had very good performance in customer acquisition acquiring 2 percent more customers compared to 2019. In October 2020, we launched an improved model of onboarding program for new customers. Through onboarding program, we aim to facilitate customer experience and increase their engagement in the early stages of the relationship with the bank, providing information and providing products and services as per customer needs. The new program is more interactive, providing automated and more frequent communications with customers. Furthermore, it manages the combination of different communication channels such as emails, SMS and phone calls, which in almost every case are accompanied by videos and respective tutorials.

Our packages model continues to provide a simple, practical, innovative concept aligned with the Bank's mission and digitalization strategy. Each customer can easily choose the package that better fit their needs. We continue to have a social stand towards specific categories of customers with basic needs for banking products and services such as students and pensioners, providing them with preferential package fees, meanwhile for employed individuals, that are frequent users of banking products and services we provide packages with more benefits.

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 represents the market leader in the provision of services to affluent customers since the launch of Premium Banking in early 2010. Currently, there are around 12,000 customers in the Premium Banking segment, responding to various banking needs from basic accounts to complex ones, obtaining full banking services.

Premium Banking at Raiffeisen Bank Albania continues to provide a unique package of banking services towards affluent customers. During 2020, the two levels of Premium Banking, namely Classic, i.e., clients who receive special service from senior branch positions, and Club, the most exclusive and upscaled service channel, have persistently enhanced the quality of services and benefits offered to affluent customers.

Club Premium customers are served in more private areas of the branch with especially trained senior Premium Banking Relationship Managers. They provide their services in the largest cities, in 16 main branches. They are well trained to provide highly personalized financial advisory services.

Even though 2020 was a tough year, Premium Segment increased client base by 8%, while the asset portfolio increased by 4% and the revenue interest by 8%. Even though under the pandemic situation, Premium contributes 67% of total Retail profit after tax.

In November 2020, was launched the new channel service Premium Direct via RaiConnect platform. Raiffeisen Albania represents the first bank in Albania to provide Remote Service for Premium customers using an advanced communication platform and support on the daily activities for the best customer category.

The aim is to expand this service to more clients and, at the same time, develop best client experience by offering E2E products soon.

Micro Segment

Raiffeisen Bank Albania top priority for 2020 was restarting the lending activity and maintaining a sound performance of the Micro portfolio. Due to the pandemic outbreak, we shifted the focus into the proactive management of the existing customer base, therefore meeting the customers' needs in compliance with the government-imposed measures for facilitating the process under the moratorium requirements, Sovereign Guarantee loans, the opening of the "war accounts", relaxation of transactions fees and commissions, etc.

During 2020, despite operating under trying conditions, we evidenced excellent results in increasing the customer number year on year by 26.8%. Although with some delay in implementing of Lending Strategy (only in the last quarter of 2020), lending volumes reflected a 22% increase from year to year.

For 2021, our focus will continue to be in the lending business by increasing the portfolio through automation, simplifications of processes and infrastructure improvements. More focus will be put on unsecured loans, increase of pre-approved/pre-selected programs and furthermore in the acquisition and digitalization of our customer base. Our aim is to be present physically or digitally by our customer base– based on their needs and wherever they are located.

SME Segment

During 2020, with the aim of exploiting all the potential the market offers, a new dedicated joint department "Small and Micro (SME) Business" was established in RBAL. The scope of this department is: the products design and development, sales management and providing quality advisory sales, for both Micro and SE segments. This organizational change was based on the strategy of providing more standardized approaches in the lending activity and in the daily banking viability, as well as to exploit common synergies within the micro segment.

Thresholds between SE and Corporate segment were reviewed, to ensure that the biggest number of SE segment customers are provided with a more "Corporate – like" approach in terms of product usage, transactions frequency and volumes are still being provided a tailor-made service, thus guaranteeing that all the banks' customers get the service that fits best their needs.

Despite these structural changes and under the effects of an ongoing pandemic, the SE segment reflected a very good performance during 2021. SE staff demonstrated resilience, proactivity and work ethic that enabled an excellent portfolio management, therefore meeting in due time all customers' requests. Moreover, due to the Sovereign Guarantee facilities, in terms of Assets Outstanding, we closed the financial year by recording a 10% increase vs budgeted volume.

Our focus for 2021 will be toward further simplification of products and services and most importantly in the direction of the processes' automatization. Our aim is to continue digitizing not only transaction business, but also lending activities. In this way we will reduce costs, provide a better service to our customers, and make room for more business customers.

Together with Micro segment, the aim will be the strengthening of each segment and build a stronger SME sales and service model, aiming to further improve the customer-based relationship, increase product usage and transaction business thus ensuring a sustainable level of profitability.

Product Management Division

Savings Productss

During 2020 Retail deposits remained the largest funder of the bank balance sheet.

Market Interest Rates continued to be in record low levels during 2020 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 provide clients alternative wealth management options through our subsidiary asset management company, Raiffeisen Invest – the biggest company in market to provide investment funds to the public. Most of our clients continued to place their trust in our bank by keeping their deposits with us despite low interest rates. However, a significant portion of our customer base opted for Raiffeisen Invest Funds gaining better annualized returns, relatively higher than the Term Deposits market rates.

Moreover, the Raiffeisen Funds, provided throughout our branch network, attracted new clients and funds from other sources. The combination of traditional banking savings products and Raiffeisen Invest Funds provided individuals with more choices and possibilities to grow their savings.

Individual Loans

2020 was the year that reshaped the banking industry and transformed every mindset in business. We started the year with a lot of expectations and goals to achieve but we had to adapt and cope with the COVID-19 situation. The pandemic effects were directly notable in the unsecured loans with a decrease of 30% in new volume compared to the previous year. The low results derived because of our country lockdown, the high increase in unemployment and the restricted measures applied on retail loans. Despite that, we managed to adapt under these circumstances, and focused on digitalization where the future leads. For the first time we launched automatic decision response in personal loans, where the loan is instantly approved in the branch, and the customers obtain their loan only with a branch visit. Another milestone achieved during this year was the electronic signature which provides our customers the possibility to sign electronically, by reducing as much as possible the physical presence in branch. Customer's experience and satisfaction remains our primary focus, and we are continuously looking for ways to improve the loan application process. Looking ahead to the 2021, there remains uncertainty due to COVID-19 and a lot of challenges to face, but we will work on process automation and digitalization and provide the right products to our customers, even in a global pandemic situation.

2020 has been a challenging year for financing mortgage loans, especially home loans. Difficulties are faced also in financing mortgage consumer loans due to unstable economic environment generated under the pandemic circumstances.

2020 started right after the consequences of the earthquake at the end of 2019. The crisis of the real estate market was postponed due to uncertain situation in buildings specially in the most affected area. The crises in the market directly affected the financing of housing loans. Covid Pandemic created unfavourable climate for results in financing. Results in lending were also influenced negatively by restrictions in crediting policy set by the group due to the pandemic situation. Despite the situation created the bank pursued crediting of housing loans mainly the ones from programs in collaboration with some Municipalities 'soft loans for new families' to finance the interested beneficiaries from the programs. During 2020, we started the crediting of housing loans under the new programme framework in collaboration with the Ministry of Finance, an agreement signed a year ahead but vitalized in 2020. The bank kept providing competitive interest rates in mortgage loans. The bank has been prudent in crediting, aiming to protect the clients and the portfolio of lending which remained solid during the difficult year and kept the same market share levels.

Despite the pandemic situation, the dedicated team in the Bank, Mortgage Agile Team, increased the engagement to initiatives that today have substantially changed the process of mortgage loans crediting.

The focus during 2020, was the improvement in the process of crediting dedicated on the customer satisfaction. Automatizations of internal procedures, provision of facilities to customers, accepting of documents through electronic means, customer satisfaction measurements, initiatives related to transparency, promotion and awareness for mortgage loans, constitute our main approach of Mortgage Agile Team during 2020, aiming at the improvement in indicators which are actually reflected in cutting times to answer to clients, to process of the loan and to overall financing with a mortgage.

Cards' Business and E-Banking Division

Cards

The cards' business increased significantly during 2020, despite the restrictions of pandemic Covid 19. Raiffeisen Bank Albania continuously focused on digitizing the credit and debit card user experience for our customers. So, during 2020 we launched Smart Pay for credit card following the Smart Pay launched for debit card during 2019.

This trendy contactless wearable payment tool was appreciated and very well accepted from our customers and doubled the number of customers compared to previous year, as well as increased the number of transactions performed through these innovative devices.

The 2020 cards' business results confirm the growing trend of recent years, especially for Debit Card products and POS usage. On Q4 2020, Credit Card portfolio faced a very important migration process from the existing card platform to a new upgraded one. This process was carefully managed through an awareness campaign, personal customer notification, social media events etc. Raiffeisen Bank Albania prepared the whole plastic portfolio prior to card expiry date and card migration end date, aiming to maximally facilitate this complex process to our customers.

Debit Card portfolio generated excellent results in 2020. Number of transactions performed with debit cards in ATMs and POS terminals increased by 2 % with a very high increase on sales transactions of 24% compared to the previous year. The contactless functionality card, launched in mid-2018, contributed significantly to the growth of the total POS transactions, impacted by the pandemic situation as well.

POS Network

During 2020, Raiffeisen Bank focused on enlarging the POS footprint, mainly strengthening the presence in the large enterprise category, such as shopping malls, hypermarkets, hotels, restaurants, petrol stations, hospitals etc.

The results of 2020 confirmed a steady double-digit growth of 12% on the number of transactions performed through our POS network. It is worth mentioning that pandemic restrictions have imposed not such growth for cross border transactions through POS network. Furthermore, the POS footprint increased 25% versus previous year.

E-Commerce

As always, Raiffeisen Bank Albania continues to provide the most advanced standard of payment security for the internet selling process through 3-D Secure Technology. During 2020, it was successfully implemented the upgrade of Technology Security. Raiffeisen Bank remains the market leader for E-Commerce service in the Albanian market with an increase of 70% on the merchant onboarded versus 2019. Furthermore, this leadership is confirmed through the significant growth of the number of transactions by 117% versus the previous year and the significant decrease of the number of chargebacks.

ATM Network

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

The Cash-In functionality introduced in mid-2018, resulted as a great success service during 2020, doubling the number of ATM-s with Cash-In functionality in the country and generating a strong growth of ~50% of transactions number year over year. There are now 92 ATMs throughout the country that enable our customers to deposit 24/7 in their accounts without having to visit a branch.

Enhancement of ATM digital functionalities is part of Raiffeisen Bank multi-channel banking ecosystem, aiming to increase availability and use of digital banking channels 24/7 in our ATM network and Self-Service Centers.

Digital Banking

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

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

In 2020, we were faced to an unprecedented time due to COVID-19. The global lockdowns have restricted many people to access banking services, while facing the increasing demand for online servicing & remote account opening.

We were committed to establish a comprehensive digital customer acquisition experience, considering that we must provide a quality customer experience, respecting the legal framework and being the first in the country to provide such service. All these challenges served as starting points to encourage the digital team to undertake this path. We reached the first important milestone in November 2020 when this service was introduced for friends and family and the launch of the first online end-to-end of new customer on-boarding in Albanian market.

The digital customer acquisition journey is easy, in less than 15 minutes our customers complete the process from the comfort of their home, and most importantly by being safe. In cooperation with our partner Evrotrust, covering the part of electronic signature in this process we managed to overcome the legal gap related to customer identification and document signing.

We did not limit our customer engagement only by opening an account online, furthermore providing the possibility to apply for other products such as personal loan, debit card and in the future for other online products will give substantial opportunity to sell products online.

Following the latest trends of digital financial apps, and being a market leader in innovation, provision of other digital features such as:

- Debit card application via digital & website
- Mobile apps in dark theme
- Face recognition
- Buy investment funds through Raiffeisen ON platform

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

During 2020 the number of customers that subscribed to Raiffeisen ON increased by 38% for individuals and 30% for micro businesses.

Payments

Payment processes from through digital platform Raiffeisen ON increased during the year, influenced from Covid-19 pandemic. PI customer payment through Raiffeisen ON increased 39% and Micro customer 16% from 2019. Payments initiated via electronic channels reached 76 % (89 % for Individuals and 53 % for Micro). Further improvement on processes were made to adopt to fast changes due to Covid-19 situation. Commission incomes were impacted as branch activity were limited for different months.

Customer experience

2020 was a different year, the unexpected we faced changed our customer expectations towards banking service, as well as the need for us to react fast and adopt.

The urgency and severity of the situation 'forced' us to find ways to overcome huge operational challenges, such as the logistical, technical, and security constraints that resulted when most of the workforce was working from home.

During the pandemic situation we were there for our customers reorganizing branches, ensuring safety first, for both branch employees and customers and by providing the service.

We actively informed and notified about operative branches and opening hours through our digital channels, such as bank web page, Raiffeisen ON digital platform and Raiffeisen Online Assistant (RONA). Our Call Center agents were 24/7 active to help our customers, to advice and support them step by step accordingly.

Customers were encouraged to use cards, as well as online banking by enrolling on Raiffeisen ON digital platform. We approached them via emails, calls, and SMS to pick up and activate their debit and credit cards, supported with card (and PIN) transfer to the nearest operative branch, etc.

We stood close to those in difficulty, a 6-month instalment postponement plan was provided and implemented for the ones financially hit by the pandemic.

Customer concerns, suggestions and feedback were collected and proactively shared within the organization to ensure the positive experience was kept throughout the whole year.

Thanks to the spirit of cooperation, sense of responsibility and belonging, as part of a large group, Raiffeisen Bank, we managed to fulfil customer needs while maintaining the quality of service in all channels within a dynamic environment.

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,
- Chatbot, social media, Evroturst and digital channel Raiffeisen ON.
- performing telemarketing / information / questionnaire campaigns for bank products and services for all areas of the bank

Contact Centres' 'Incoming' unit provides 24/7 service, providing information on bank products and services, according to customer needs identified through phone calls and other alternative communication channels. It provides assistance for all banking products and services - debit and credit cards, loans, POS & Ecommerce services, self-service kiosks, electronic channels such as: Mobile Banking/Internet Banking.

The Contact Center plays an outstanding role in the monitoring activity for Cards and Digital banking products helping to prevent fraud.

2020 has been a challenging year because of the Covid-19 pandemic and the Contact Center has been one of the most important contact points providing 24/7 service to all customers. During this year 2020 Contact Center staff handled about 160,000 customer requests, providing professional service regarding cards, digital channels and loan instalments payments under the postponed regime, compared to 97,780 requests handled in 2019.

Contact Center is very active providing dedicated offers that are part of the bank's customer relationship management. During the difficult pandemic year 2020, around 210 campaigns were conducted with a total of 604,650 targeted customers or about 12 % more compared to 2019.

Contact Center major objectives are to respond in a real time to our customer requirements, improving service quality and generate new sales and revenue while growing the customer base!

Distribution Channels

Raiffeisen Bank Albania represents the market leader with the largest branch network in Albania, 74 Branches and Agencies distributed in the majority of cities in the country, specifically in 43 cities. The branch network is supported by 19 Self Service Zones attached to the key branches equipped with Cash In/Out ATM's and Financial Terminals.

Investing in the branch network and maintaining the high standards in all banking outlets has continued to be one major pillar for the bank to provide comfortable service space and privacy to customers.

Some of the branch development projects completed during 2020:

- 3 Branch relocations, impacted from the November's 2019 earthquake
- 1 Branch expansion
- 2 Branch reorganizations, adopted to the cashless/digital model

During 2020, Raiffeisen Bank has introduced digital/cashless/banking concept in two branches in Tirana. The digital branches, equipped with tablets, provide all the variety of bank products and services, beside Cash Service. Cash Service in the branches is not provided in the Cash Desk, but only through Cash In cash Out ATM. The staff is focused on customer digital education, demonstrating them the use and how to perform transactions in digital channels and ATM-s. The number of digital branches will be increased throughout 2021.

Raiffeisen Bank Albania continued the successful cooperation with Albanian Post Office for cash deposit transactions. 30 postal offices throughout the country provide the RBAL bank cash deposits to our bank customers, mostly in the cities where the bank is not present.

Sales Force Effectiveness (SFE) team managed the preparation of the new Branches Going Digital Strategy which consist in transforming branches into cashless and digital outlets. The roles universalization is also managed through Multiskilling and Up skilling, to create a workforce capable to adapt quickly to the contextual changes. During the year staff development has been a priority, we have created and offered online training, despite the difficult situation, providing our people all the necessary skills to best perform.

Customer Satisfaction has been in focus and for the entire year we have managed many initiatives that directly impact Customer Experience.

Raiffeisen Bank in Albania, represents the biggest bank that provides fast financing onsite in Retail Shops, counting 33 locations as end of 2020. 9 new locations (especially furniture) were introduced to our customers, enhancing the benefits they receive, combined with very high service standards. For the first time we provide to our customers products and services on the spot, accomplishing immediately their needs and a superior customer experience, especially current account opening for the non-salary account holders

Premium Banking continued to provide superior banking services to high-value customers ensuring all needs, from the most basic to the complex ones, which are addressed with unparalleled personal attention. By the end of 2020, Premium Direct Service was introduced via RaiConnect application for Premium customers. It is a separate call line designed for additional communication by providing remote services specially to the Premium clients of the bank.

2020 has been an extraordinary year for Sales and Distribution Channels, facing the challenge to adopt to the pandemic Covid-19 restrictions that highly impacted the branch network. During the period March – May, since the country was going through a severe lock down, working hours were scheduled to be in compliance with the curfew hours, providing the basic transactions to support our customers under this unusual situation. During the same time, clients were highly encouraged to enrol to digital and perform the daily transactions through digital channels, without the need of visiting the branch. The top priority for the bank during the lockdown has been the safety and wellbeing of our staff and customers.Treasury and Investment Banking

Treasury and Investment Banking

Fixed Income

The year 2020 is estimated as one of the most challenging one impacted from measures undertaken to mitigate the impact of COVID-19 pandemic on both economic and financial aspect of Albania such as widely expected cut of the base rate by 50 BP. This year 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.

The pandemic and the new way of working under an unprecedented situation, has emerged a lot of difficulties giving rise to a new way of thinking and working. Under these circumstance we have tried to find new alternatives, such as the Innovative product as Covid-19 crisis response on supporting small businesses which are crucial to the Albanian economy.

The new Guarantee for growth mechanism in the amount of EUR 100 million is issued and linked to the bank's local currency sovereign bond portfolio. Under the supportive program of the economy, the equivalent of the Sovereign Guarantee was accommodated from the investment book limit to further support the Albania business as the main chain in the Albanian economy. The investments in Albanian government securities are also affected from the new measurement undertaken to mitigate the pandemic situation. The base rate cut by 50 bp implies low interest rates by providing the necessary stimulus for fuelling economic growth and for inflation to converge level, generating on the other hand a negative impact on our investment portfolio. Besides all difficulties the Investment portfolio has been in line with the overall group strategy, incompliance 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 some changes during 2020 by acting in accordance with the investment strategy of the year pursuant to the new regulation implied from local and ECB regulations.

During this year, our bank has given its main contribution by increasing the volumes traded within the banks by further developing the secondary market in Albania Government securities. The 3 and 5 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 and trade them in secondary market in way to enrich and diversify and to contribute to the development of a well consolidated secondary market.

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

This year was characterized from high volatility on the interest rate for all, they hit the floor once again in the first quarter by then increasing during mid-summer 2020, still there have been lots of fluctuations and a downward trend of 3-5-7 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 2020 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. RBAL continued during this year to offer the custody activity for its clients.

Money Market

The year we left behind was not a typical year in any of its` respects, the effects of which did have an impact on the Money Market as well. This unit, as an important part of the Dealing Room, during those trying days has performed its utmost to provide its contribution to the best management of short-term and medium-term liquidity of our Bank.

One of its main challenges has been minimizing the loss from steadily declining interest rates, the lowest in the history of the Money Market. Its portfolio has had high volumes in 2020, which has required maximum commitment for the management of this liquidity within all allowed limits and approved regulations. To achieve the most adequate management of this liquidity, interbank investments have been made, both in the international and domestic market, by so further developing the activity of this unit.

The Money Market Unit has undertaken its activity in accordance with all the regulations of the Bank of Albania, regulations which have made it necessary to increase the number of transactions in the international market, to always comply with the requirements of the regulator and within all her recommendations.

Given the unfavourable developments and conditions in the international market during 2020, the Money Market unit has tried to maximally contribute to a successful liquidity management of the Bank.

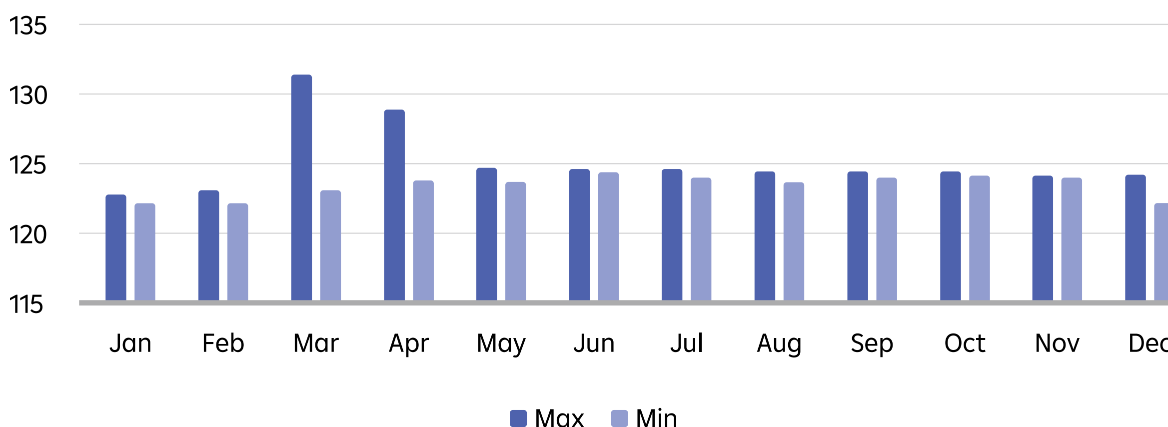
The Money Market Unit, in terms of the interbank domestic market, has been a very active part of it, helping the local market with liquidity. This unit continues to contribute, for many years now, with its daily quotations in the calculation and publication of TRIBID/TRIBOR by the Bank of Albania. These quotations are an important aspect of the development of the domestic interbank market as it reflects its activity. This unit has constantly updated prices, giving its impact on market development and finding a continuous opportunity for liquidity financing in the short term.

Foreign Exchange

The pandemic turned 2020 into a year of unprecedented events - where rapid changes in financial markets were not one of the most important things. At the beginning of March, the financial markets fluctuated and grew in very heigh rates. This market fluctuation was in stark contrast to an economy that was heading towards recession. Many small businesses were struggling for survival and many people remain unemployed, a situation which was reflected in our country as well.

In the domestic market, 2020 was dominated by a strong European currency in the first half of the year and in the second half the European currency left its position to the US dollar. As can be clearly seen from the graph, the big fluctuations started exactly in March and April with the beginning of the pandemic where the Euro is valued against the Lek with almost 9 points. The weakening of the Lek has come as a result of the reasons mentioned herein, the uncertainty of our country's economic future, the various policies followed by countries for pandemic management and the monetary policies followed by the FED and the ECB, etc. The second half of the year has been more stable, markets are boosted by a period of stronger growth as vaccines are widely distributed and the economy is fully reopening.

Eur/Lek 2021



Despite all fluctuations in local market, Forex Exchange Unit has been managed very carefully the bank Fx 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 an outstanding result.

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 EUR 195 million per month. The digital platform had a great impact on this success, through which in this pandemic period about 80% of exchange transactions from customers have been performed.

Treasury Sales

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SOCIAL RESPONSIBILITY

During this trying and unprecedented year, where many companies sharply contracted their business activities, Raiffeisen Bank placed corporate social responsibility in the special focus of its business activity, reaffirming the fact that we represent a company that operates in a responsible and ethical way, considering the well-being of the whole community.

During 2020 it was crucial for us not to be distracted from the long-term objectives of our bank, and pursuant to the entire RBI Group, for a Sustainable Development of the society and a Responsible Banking in accordance with the global principles for a better world. Serving this purpose, we supported activities that brought a positive impact regarding the improvement of health conditions in some areas of the country, environmental protection, promotion of education, support for the marginalized groups, enhancement of literacy of different age groups through art, provided support for the projects and practices aimed at improving livelihood in promoting a sustainable society.

Raiffeisen Bank again this year represents one of the companies demonstrating the greatest commitment to corporate social responsibility by supporting 90 projects, 74% of which meet the Sustainable Development Goals set by the United Nations (SDGs).

Particular attention was paid to the health sector, as one of the most important and most exigent sectors, where the contribution provided was quite significant and had a measurable and immediate impact. We highlight in this regard the support provided to the Ministry of Health with a fund to purchase respiratory equipment for patients infected with Covid-19, since the first months of the pandemic spread. We provided support to the rehabilitation of the Urgent Care Centre of Lushnja Hospital, the provision with the air conditioning systems of the Paediatric Ward of Fier Regional Hospital, the reconstruction of the Paediatric Ward in Saranda Hospital. Furthermore, we provided support with medical equipment and protective materials against the pandemic spread for the Durrës Regional Hospital, the Skrapar Hospital, the Hospitals of Kukës and Korça, and the Hospital centres in Vlora and Bulqiza as well as the carrying out of the Breast Cancer Awareness Campaign for women. The cooperation with the Albanian Red Cross constitutes one of the most relevant traditions of Raiffeisen Bank for several years now, regarding the Blood Donation Campaign for children with thalassemia. To support this cause on October 2, a part of the bank staff donated blood pursuant to all the measures in place against the Covid-19.

Education and learning represent one of the main pillars for the development of a sustainable society towards the promotion of education and therefore, the rehabilitation of some learning environments continues to be the focus of our social activity. During 2020, 17 projects in the field of education were supported. Among the most important projects it is worth mentioning the contribution dedicated to the project "Orientation and education of children for internet safety", equipping with a multimedia laboratory for young people at the TEN Multifunctional Centre in Tirana, a computer laboratory for the 9-year school "Konferenca e Pezës", funded some sports grounds etc. Furthermore, it became possible to equip the Library with new titles of books and computer equipment in the city of Lezha and the supply with computer materials to some regional educational institutions in the cities of Tirana, Shkodra, Memaliaj, etc. Another important project consisted in the furnishing of 3 kindergartens and 2 nurseries in the town of Burrel. Thanks to this project, about 500 children aged from 0-6, attending these institutions already have not only new beds, but also benefit from very comfortable entertainment spaces.

Environmental protection constitutes one of the UN Sustainable Development Goals (SGD) to which Raiffeisen Bank has made a valuable contribution since its beginnings. Raiffeisen Bank promotes and supports the cleaning of coastal areas by enabling that through special and voluntary initiatives to clean 10 km of coastline during this year. Furthermore, thanks to the continuous cooperation with the Municipality of Tirana, we have supported the initiative to increase the green areas in Tirana by enabling the planting of 250 trees. This initiative was extended to several other cities such as Durrës, Kruja and Këlcyra.

Art and culture as an essential part of the emancipation of a society were promoted by the bank through the contribution provided for the realization of a series of projects in this field. Among the most important we would highlight the support provided to the National Theater in the artistic calendar of the year, the support of the artistic calendar of the Puppet Theater, the general sponsorship of the first edition of the International Short Documentary Film Festival, "Dardan Fest 2020", Urbanization - Civilization - Development were the main topics of this edition. Moreover, we mention some other supported projects such as the 'ZA Fest' concert, the recital 'The Three Musketeers", "Pianodrom 2020" to promote the heritage of classical music, the 9th edition of "Jazz fest 2020" etc.

Other important projects worth mentioning in various areas that were supported are: supporting innovation through the nationwide technology competition "ICT Awards", promoting sports with the support of the Albanian National Olympic Committee for the preparatory phase of athletes for participation in the Olympic Games in Tokyo 2020, the support provided to the National Museum where Raiffeisen Bank made possible the building of the Smart-Audio Guide application. While for the marginalized groups we highlight the unique project of the "Visium" Center for the digitization of books for the blind, the project "Secret Grandpa" which during the holidays provided gifts for poor children and the initiative "Team of yellow elves", through which 10 families in need were supported voluntarily with food and clothing by the bank staff in the cities of Elbasan, Shkodra, Kruja and Lushnje.

Raiffeisen Bank in Albania considers Corporate Social Responsibility of crucial importance and as such will strengthen the strategic orientation with the aim of becoming a pioneer of the Sustainable Development of society and our country.

90 projects
supporting the community in 2020

74% of the projects according to with the principles of Sustainable Development Goals (SDGs) of United Nations for a better world.

Human Resources

With a staff of 1'324 employees, Raiffeisen Bank is one of the biggest and best employers in Albania, providing a competitive environment in terms of staff compensation, development, and motivation.

Recruitment and Selection

During 2020, staff recruitment and selection process aimed to ensure the selection of qualified, experienced personnel, with professional skills at all levels of service at the bank by being in frequent and direct communication with line managers to better understand the requirements and necessities, also being familiar with their goals that would focus the acquisition of talents in types of individuals that have skills and competences identified in our meetings. To support all the business needs in all the areas where we operate, were hired a total of 53 new hires.

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

The promotion and development of our 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 2020, 25 per cent of the candidates selected as winners for the vacant positions consisted of internal staff. This provides them with the opportunity to build a successful career within the Bank thus increasing the internal staff motivation.

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

Direct Sales Agents Student Program

In 2020, DSA Student Program consolidated the cooperation with many universities in the country, with a total of 115 students who joined this program. The focus of this program launched by Direct & Relationship Sales Department aimed to increase business sales of various products in the branches. The selected students, who serve as Direct Sales Agents, are provided with training and coaching by experienced sales teams through this one-year program. At the end of the program, they acquire knowledge of Bank products and processes and are qualified for vacant positions in the Bank.

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

Key Academy Program

The aim of Key Academy Program is to create a talent pool under the program framework by preparing potential candidates for vacancies in the IT Division. A total of 18 students were selected and started the program – 50 % of the selected candidates filled the vacancies in the IT division.

Employees with leased contract

Even during 2020, continued its cooperation with an outsourced company, hiring 51 contract employees, according to the needs for staff in Head Office and Network Branches.

The leased staff are provided with online 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.

Learning and Development

Learning and development activities in our bank continued during the whole year 2020. During the pandemic situation we adapted and switched into an online format of providing trainings to meet business needs for updates and staff development as well as to equip our people with the new skillset needed to perform under the new reality. We promoted and emphasized the **concept of self-service learning** and enhanced the continuous learning mindset.

Through our communication and selected courses, we aimed to make a positive contribution in ensuring psychological safety for our people in turbulent times.

The Bank provided a wide range of online training programs and initiatives of personal and professional development.

Total number of training days is **5,235 days. 100 per cent** of the staff attended at least one training session.

Leadership and management education is another focus of Raiffeisen Bank. We invested many training programs on the new leadership models such as Inclusive Leadership, leading in times of crisis, Managing Remote Teams etc. The training programs about Agility, provided during 2020, aimed to support our people easily embrace the Agile mindset and ways of working.

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.

Banking Group Remuneration Policy

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

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

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

The categories of Identified Staff are as follows:

1. Material or Fully Affected Identified Staff. This category has a direct material risk impact on Bank's risk profile because the amount of risk which can be taken individually or collectively, can have significant impact on Bank's result & balance sheet. The number of staff who falls under this category is 40 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 42 and includes some of Middle management staff. The salary and other employee benefits are defined with the aim of establishing satisfactory and competitive levels. The policy followed in defining the salary system and structure aims to guarantee the achievement of 5 main objectives:

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

The Structure of Base Salary :

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

Variable Pay (Annual Bonus):

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

- Is closely related to the RBI Group (1/3); Bank (2/3); individual's performance results (above 3,5 score);
- Is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
- Shall be up to 16% of yearly base salary for all job positions that are included in Annual Bonus;
- In case of Identified Staff, a special bonus pay-out model is applied if their total variable compensation is over EUR 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% of target achievement);
- Is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
- Shall be up to 30% of quarterly base salary for all job positions which are included in Incentive schemes (Sales & Support).

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

Total value of remuneration awards for the current fiscal year	Immediate/for the actual period Year 2020	Past periods Year 2019
Immutable components of remuneration	12,544.98	11,205
Cash/bonus	12,544.98	11,205
shares		
others		
Variable elements of remuneration		
Cash/bonus		
shares		
others		

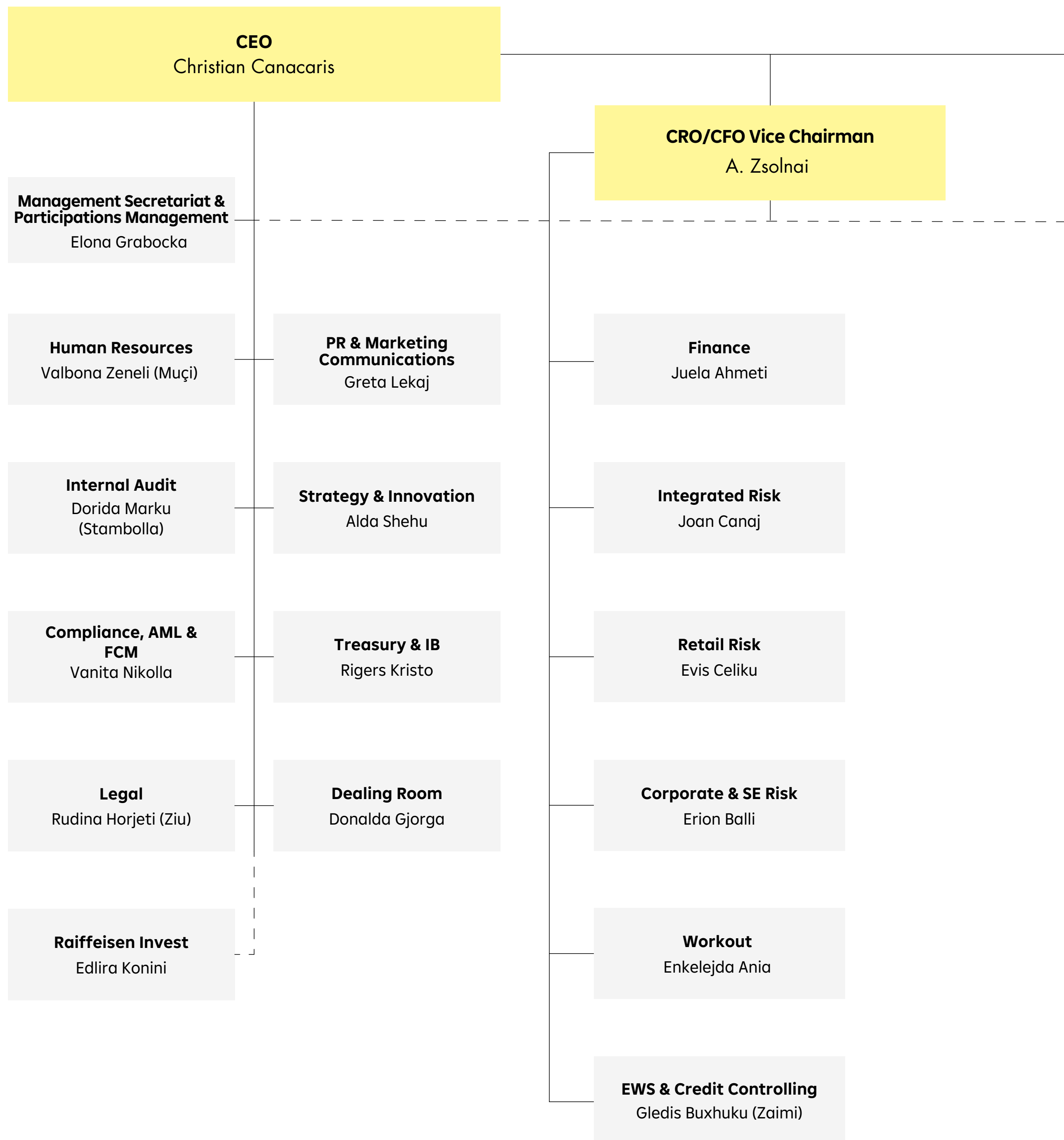
** This table will be completed separately for a) the Board of Directors and b) the Executive Directors.

Table 19: Remuneration forms and components for the Executive Directors** *(every year - end).*
(amounts in ALL'000)

Total value of remuneration awards for the current fiscal year	Immediate/for the actual period Year 2020	Past periods Year 2019
Immutable components of remuneration	209,413	225,080
Cash/bonus	183,888	195,592
shares		
others	25,525	29,488
Variable elements of remuneration	7,933	29,303
Cash/bonus	7,933	29,303
shares		0
others	**0**	0

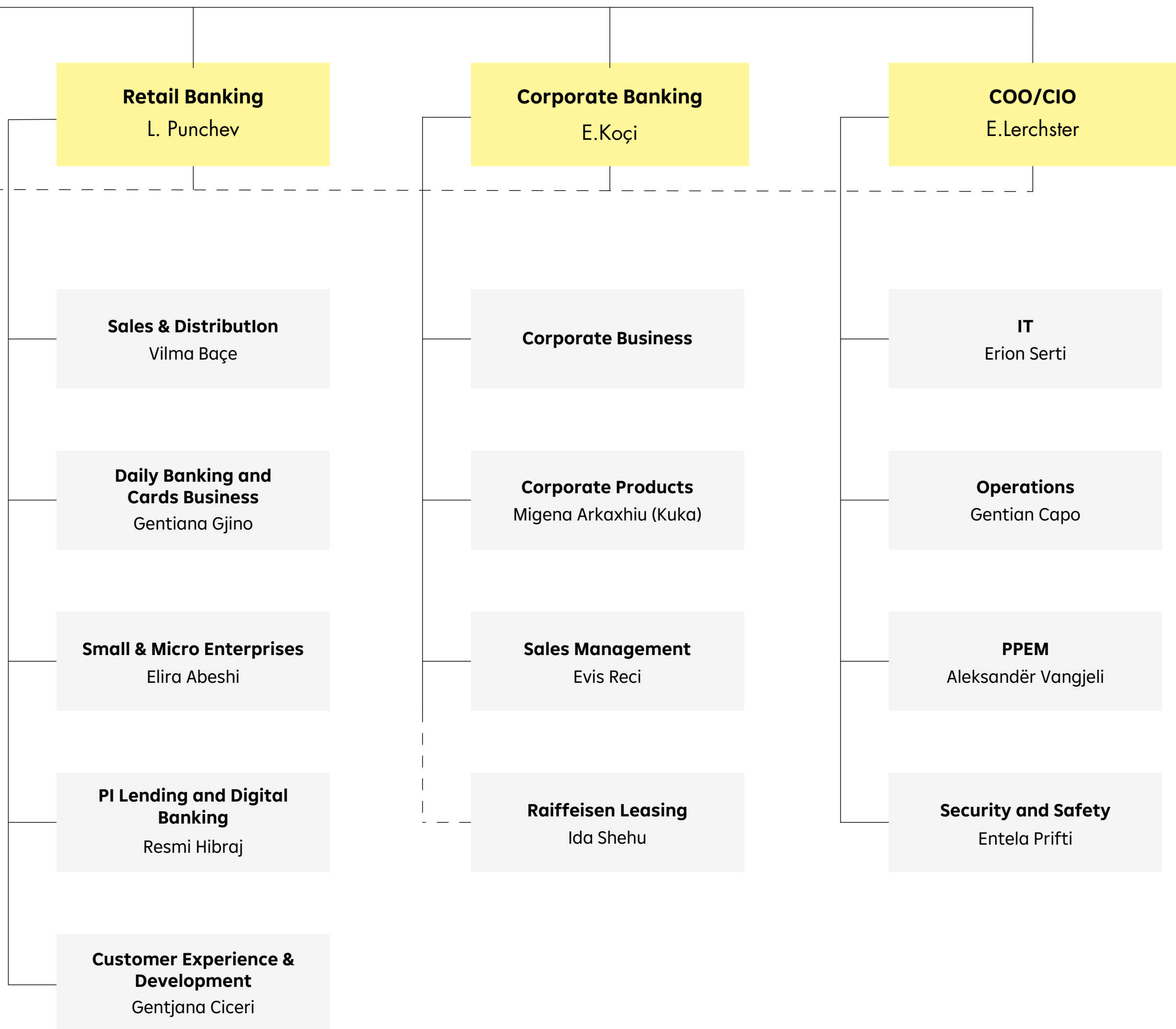
** This table will be completed separately for a) the Board of Directors and b) the Executive Directors.

Organisational structure of Raiffeisen Bank



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

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



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

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

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Raiffeisen Bank Sh.a.
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for the year ended 31 December 2020

(with Independent auditors' report thereon)

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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 2020 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 2020, 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.

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

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.

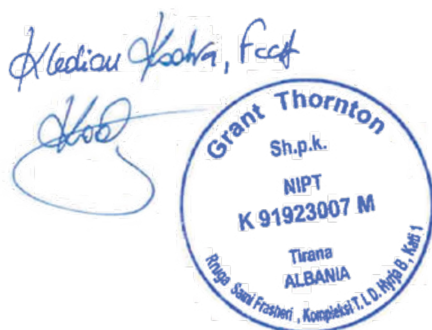
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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
11 June 2021



The Group

These consolidated financial statements have been prepared in accordance with International Financial Re-porting Standards for the year ended 31 December 2020 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 74 service points, as of 31 December 2020 (31 Decem-ber 2019: 76 service points) throughout Albania, which are managed through 6 Districts and has no overseas operations.

Consolidated statement of comprehensive income

(in LEK'000)

in LEK thousand	**Note**	**2020**	**2019**
Interest income		**6,836,762**	**7,329,762**
Other interest income		684	648
Interest expenses		-254,377	- 272,895
Net interest income	**[1]**	**6,583,069**	**7,057,515**
Fee and commission income		*3,187,580*	*3,449,213*
Fee and commission expenses		*-1,204,671*	*- 939,218*
Net fee and commission income	**[2]**	**1,982,909**	**2,509,995**
Net trading income/(loss)	[3]	579,309	332,791
Other operating income		*47,582*	*285,867*
Other operating expenses		*-179,072*	*- 244,870*
Other net operating (loss)/income	**[4]**	**-131,490**	**40,997**
Operating income		**9,013,797**	**9,941,298**
General administrative expenses	[5]	-5,092,796	-5,231,652
Special governmental measures	[6]	-655,953	- 658,266
Impairment on financial assets	[7]	-1,188,692	- 445,634
Profit before tax		**2,076,356**	**3,605,746**
Income taxes	[8]	-403,335	- 498,929
Profit for the period		**1,673,021**	**3,106,817**
Other comprehensive income for the year		-	-
Total comprehensive income		**1,673,021**	**3,106,817**

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 2020	31 December 2019
Cash, cash balances at central bank and other demand deposits	[9]	56,327,181	25,068,597
Investment securities		*59,171,534*	*62,469,142*
Loans and advances to financial instiutions		*27,233,140*	*34,694,515*
Loans and advances		*88,305,614*	*94,809,375*
Financial assets - amortized cost	[10]	174,710,288	191,973,032
Financial assets – fair value through profit or loss	[11]	5,015	3,133
Goodwill	[12]	92,783	92,783
Tangible fixed assets	[13]	2,880,126	2,688,634
Intangible fixed assets	[13]	1,470,260	1,305,455
Current tax asset	[14]	193,328	480,533
Other assets	[15]	1,875,393	2,215,457
Total assets		**237,554,374**	**223,827,624**

Equity and Liabilities

in LEK thousand	Note	31 December 2020	31 December 2019
Liabilities			
Deposits from Banks		*4,470,562*	*2,916,545*
Subordinated financial liabilities		*0*	*1,874,489*
Deposits from customers		*200,249,819*	*188,121,303*
Other financial liabilities		*1,526,216*	*1,239,475*
Financial liabilities - amortized cost	[18, 30]	206,246,597	194,151,812
Provisions for liabilities and charges	[19, 30]	290,551	289,370
Deferred tax liabilities		23,665	4,721
Other liabilities	[20, 30]	567,189	628,370
Total liabilities		**207,128,002**	**195,074,273**
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]	12,941,589	11,268,568
Total Equity		**30,426,372**	**28,753,351**
Total liabilities and equity		**237,554,374**	**223,827,624**

These consolidated financial statements have been approved by the Management Board of the Group on 3 June 2021 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

in LEK thousand	Share capital	Other reserves	Retained earnings	Equity
Equity at 1 January 2019	**14,178,593**	**3,306,190**	**10,129,883**	**27,614,666**
Dividend payments (Note 20)			-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**
Equity at 1 January 2020				
Profit for the year			1,673,021	1,673,021
Other Changes				-
Other comprehensive income				-
Total comprehensive income for the year			1,673,021	1,673,021
Equity at 31 December 2020	**14,178,593**	**3,306,190**	**12,941,589**	**30,426,372**

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	2020	2019
Cash, cash balances at central Banks and other demand deposits as at 1 January	[9]	42,269,288	38,271,900
Operating activities:			
Profit before tax		2,076,356	3,605,746
Adjustments for the reconciliation of profit/loss after tax to the cash flow from operating activities:			
Depreciation, amortization	[5]	770,307	758,859
Impairment and reversal of impairment of assets	[7]	1,145,689	445,549
Net provisioning for liabilities and charges and impairment losses		43,002	66,340
Net interest income	[1, 2]	-6,583,069	-7,057,515
Interest received		3,438,221	191,940
Interest paid		-205,753	-183,723
Effect of unrealized exchange rate changes		-40,057	22,176
Other adjustments (net)		-16,121	25,592
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		-	-
Decrease in restricted balances		-1,267,605	265,142
Financial assets - amortized cost	[10]	8,981,496	-1,770,907
Financial assets - designated fair value through profit/loss	[11]	-	-
Financial assets - fair value through profit or loss	[11]	-2,162	-576
Tax assets	[14]	-94,120	-292,825
Other assets	[15]	340,050	-110,401
Financial liabilities - amortized cost	[16]	13,644,969	341,433
Provisions for liabilities and charges	[17]	-41,822	-69,390
Other liabilities	[19]	-51,666	-85,597
Net cash from operating activities		22,137,715	-3,848,157
Investing activities:			
Purchase of Investment securities and shares	[10, 11, 12]	-32,556,636	-36,614,136
Purchase of Tangible and intangible fixed assets	[13]	-1,143,766	-2,000,758
Proceeds from matured Investment securities and shares		35,909,900	48,438,027
Proceeds from Tangible and intangible fixed assets	[13]	17,916	8,799
Net cash from investing activities		2,227,414	9,831,932
Financing activities:			
Outflows of subordinated liability	[16]	-1,874,489	-
Dividend payments		-	-1,964,211
Net cash from financing activities		-1,874,489	-1,964,211
Effect of exchange rate changes		40,057	-22,176
Net decrease during te year		22,530,697	3,997,388
Cash, cash balances at central Banks and other demand deposits as at 31 December	[9]	64,799,985	42,269,288

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 applicable interpretations of the Interna-tional 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 acquisi-tion 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 recog-nized at fair value at the reporting date. Revenue 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.

The Bank has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judge-ment may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Also, significant changes to estimates needed to be made in the measurement of entities' assets and lia-bilities.

The Bank also considered whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health ministries, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, where relevant.

The Group has prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'Group'). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated.

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 accordance 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 consideration in the current and following periods. The critical assumptions, esti-mates and accounting judgments 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 assets 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 Default) and EAD (Exposure at Default) as well as future-oriented information (economic forecasts) are to be estimated by management. The allowance for credit risks is adjusted for this expected loss at each reporting date. The meth-ods 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 government of Albania took drastic measures by suspend-ing all activities that were not vital. Although, the Banks' activities were not suspended, the pandemic created delays in some of the Group's customers. Bank of Albania has announced a "payment moratoria", therefore customers that will face liquidity prob-lems can request a postponement of the settlement of their liabilities toward the Banks until 31.08.2020. The Albanian govern-ment announced two sovereign guarantees to support all the

business which are facing liquidity problems and will seek financ-ing. The first program aimed to immediately finance "salary payments" to business employees while the second provides for a longer-term support to business facing issues related to lockdown and pandemics COVID-19.

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 increase on the nonperforming loans portfolio due to the economic downturn. Following the emergence of COVID-19 pandemics, the Group is analyzing macro-economic changes and will reflect these changes in the stress tests used to dermine the impact of COVID-19 in the calcula-tion 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 amrotised 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 meas-ured 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 finan-cial position, performance and regulatory compliance. These stress tests are mainly focused on the impact that some outlined macro and microeconomic scenarios might have on the loan portfolio, being the Bank's main source of income, financial posi-tion including market risk. Official forecast models of the Central Bank and Bank's internal risk valuation are used in these exercises.

Dynamic tests are performed to evaluate the effect that a similar increase/decrease in customer's shock would have on each of the balance sheet, liability and profit and loss line items, for a specific period of time.

The Group's management has made an assessment of the Group's ability to continue as a going concern considering all the factors stated above and is satisfied that the Group has the resources to continue in business for the foreseeable future. Fur-thermore, 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 Financial 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 esti-mated 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 location of the asset, or restrictions in the sale and use of an asset) if mar-ket 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 estab-lished using a valuation technique or pricing model. For valuation methods and models, estimates are generally used depend-ing on the complexity of the instrument and the availability of market-based data. The inputs to these models are derived from observable market data where possible. Under certain circumstances, valuation adjustments are necessary to account for other factors such as model risk, liquidity risk or credit risk. The valuation models are described in the notes in the section on financial instruments under recognition and measurement principles. In addition, the fair values of financial instruments are disclosed in 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 recognised at fair value when acquired and are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss.

The Group revalues these assets on annual basis using a team of external independent valuers and internal certified apprais-ers, having appropriate recognised professional qualifications and recent experience in the location and category of the prop-erty 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 avail-able against which those tax loss carry-forwards, tax credits or deductible temporary differences can be utilized. A planning period of five years is used to this end. This assessment requires significant judgments and assumptions to be made by man-agement. 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 (8) Income taxes. By contrast, deferred taxes are shown consolidatedly in the statement of financial position in the notes under (18) Tax assets.

Accounting policies related to COVID-19

Payment moratoriums

Albania was part of the countries that applied moratoria after Covid cases increased in the country. First Moratoria in Albania was approved with the joint decision of Prime Minister and Bank of Albania Governor for a 3 Month period March – May 2020. A second one immediately followed for additional 3 months June – August 2020. Both moratoria were opt-in, but also not obligatory to the banks, that had the final decision to accept or not the client request to be part of any of the moratoria. Anyhow banks were very open to accept clients' request. For the first moratoria, by decision of Management Board, Raif-feisen Bank Albania decided to accept all request in all the business segments. For the second moratoria the bank made the decision based on arguments and provided information justifying the request.

Payment moratoriums are not considered to automatically trigger a significant increase in credit risk (SICR). The Group will instead continue to apply its defined assessment criteria consisting of qualitative information and quantitative thresholds.

Direct government programs

Albanian government came in support of business and private individuals impacted from the pandemic with different measures and mechanisms. Two of them as a guarantee program for businesses. First program was a full guarantee and interest covering schema for financing up to 3 months salaries (March – May) with a cap to a maximum salary of EUR 1,200 approx. This program availability is already expired.

The second schema offered a guarantee up to 60% of the principal amount, maximum limit of a company EUR2.4mn approx. Companies can use the loan for investment and working capital financing.

Considering overall liquidity position of Banks, support was considered as not needed.

Overview of modified loans related to direct government programs

The following tables provide a summary of the Bank's modified assets as at 31 December 2020.

	Stage 2				Stage 3			
in LEK thousand	Temporary and Permanent modification (GCA)	Refinancing	Total	ECL	Temporary and Permanent modification	Refinancing	Total	ECL
Non financial								
Household	1,159,382	-	1,159,382	194,470	391,548	-	391,548	216,856
Total	**8,189,532**	**427,199**	**8,616,731**	**630,647**	**5,982,393**	**-**	**5,982,393**	**4,309,687**

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 2020 and 31 December 2019 were as below:

	2020		2019	
Rates in LEK to the units	As at 31/12	Average 1/1-31/12	As at 31/12	Average 1/1-31/12
European Union currency unit (EUR)	123.70	124.07	121.77	123.18
US dollar (USD)	100.84	108.66	108.64	109.85

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.

New Standards adopted as at 1 January 2020

Some accounting pronouncements which have become effective from 1 January 2020 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

Standards and amendments that are effective for the first time in 2020 (for an entity with a 31 December 2020 year-end) and could be applicable to the Bank are:

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to Refences to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

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

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

NOTES TO THE INCOME STATEMENT

1. NET INTEREST INCOME

in LEK thousand	2020	2019
Interest income	**6,836,762**	**7,329,762**
Financial assets - amortized cost	6,782,122	7,251,834
Other assets	52,825	77,485
Interest income on financial liabilities	1,815	443
Other interest income	**684**	**648**
Interest expenses	**-254,377**	**-272,895**
Financial liabilities - amortized cost	-99,149	-148,269
Interest expenses on financial assets	-132,153	-100,338
Interest expense on lease liabilities	-23,075	-24,288
Total	**6,583,069**	**7,057,515**

2. NET FEE AND COMMISSION INCOME

in LEK thousand	2020	2019
Clearing, settlement and payment services	1,946,746	1,822,147
Loan business	91,297	122,056
Securities	15,445	18,832
Foreign exchange transactions	165,608	137,287
Other	953,220	1,322,983
Total fee and commission income from contracts with customers	**3,172,316**	**3,423,305**
Financial guarantee contracts and loan commitments	**15,264**	**25,908**
Total fee and commission income	3,187,580	3,449,213
Clearing, settlement and payment services	-894,052	-317,632
Other	-258,357	-571,548
Total fee and commission expense from contracts with customers	**-1,152,409**	**-889,180**
Financial guarantee contracts and loan commitments	-52,262	-50,038
Total Fee and commission expenses	**-1,204,671**	**-939,218**

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	2020	2019
Net gains/(loss) on financial assets and liabilities - fair value through profit or loss	**14,669**	**17,940**
Debt securities	14,669	17,940
Exchange differences, net	**564,640**	**314,851**
Total	**579,309**	**332,791**

4. OTHER NET OPERATING (LOSS)/INCOME

in LEK thousand	2020	2019
Gains on derecognition of non-financial assets	3,924	1,043
Net rental income from investment property incl. operating lease (real estate)	6,417	5,014
Income from release of other provisions	-	8,010
Sundry operating income	37,241	271,800
Other operating income	**47,582**	**285,867**
Write down of repossessed collateral	-79,727	-138,352
Losses on derecognition of non-financial assets	-	-28,756
Expense from allocation and release of other provisions	-6,045	-569
Sundry operating expenses	-93,300	-77,1933
Other operating expense	-179,072	-244,870
Total	**-131,490**	**40,997**

5. GENERAL ADMINISTRATIVE EXPENSES

in LEK thousand	2020	2019
Staff expenses	-2,483,495	-2,510,532
Other administrative expenses	-1,838,994	-1,962,261
Depreciation of tangible and intangible fixed assets	-770,307	-758,859
Total	**-5,092,796**	**-5,231,652**

Staff expenses

in LEK thousand	2020	2019
Wages and salaries	-2,147,980	-2,176,382
Social security costs and staff-related taxes	-233,935	-229,075
Other voluntary social expenses	-23,308	-30,294
Expenses for defined contribution pension plans	-15,905	-15,824
Staff expenses under deferred bonus program	-4,364	-39,555
Termination benefits	-58,003	-19,402
Total	**-2,483,495**	**-2,510,532**

5. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

Expenses for severance payments and retirement benefits

in LEK thousand	2020	2019
Members of the management board and senior staff	-13,104	-10,473
Other employees	-60,804	-24,753
Total	**-73,908**	**-35,226**

Other administrative expenses

in LEK thousand	2020	2019
Office space expenses	-254,215	-230,459
IT expenses	-593,246	-540,346
Legal, advisory and consulting expenses	-236,012	-306,226
Litigation expenses not covered by provisions	-1,191	-
Expenses related to credit risk	-34,120	-
Advertising, PR and promotional expenses	-272,778	-325,182
Communication expenses	-17,216	-20,507
Office supplies	-16,872	-28,129
Car expenses	-36,690	-43,027
Security expenses	-18,995	-18,852
Traveling expenses	-7,111	-30,609
Expenses for leases	-11,783	-
Other taxes	-43,059	-
Training expenses for staff	-23,242	-37,028
Sundry administrative expenses	-272,464	-381,897
Total	**-1,838,994**	**-1,962,262**

Depreciation of tangible and intangible fixed assets

in LEK thousand	2020	2019
Tangible fixed assets	-553,828	-552,120
Intangible fixed assets	-216,479	-206,739
Total	**-770,307**	**-758,859**

6. SPECIAL GOVERNMENTAL MEASURES

in LEK thousand	2020	2019
Resolution fund	-101,719	-113,294
Deposit insurance fees	-554,234	-544,972
Total	**-655,953**	**-658,266**

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	**2020**	**2019**
Loans and advances	-1,084,232	-397,807
Debt securities	-61,458	-47,742
Loan commitments, financial guarantees and other commitments given	-43,002	-85
Total	**-1,188,692**	**-445,634**

8. INCOME TAXES

in LEK thousand	**2020**	**2019**
Current income taxes	-384,391	-487,167
Deferred taxes	-18,944	-11,762
Total	**-403,335**	**-498,929**

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

in LEK thousand	**2020**	**2019**
Profit before tax	**2,076,356**	**3,605,746**
Theoretical income tax expense using the domestic tax rate of 15%	311,453	540,862
Tax effect of:		
Tax-exempt income	-534	-116,358
Non-deductible expenses	108,275	74,425
Utilization of tax losses carried forward from prior years	-15,859	-
Effective tax burden	403,335	498,929
Tax rate in per cent	16.0%	11.7%

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

in LEK thousand	**2020**	**2019**
Cash on hand	9,380,323	4,804,975
Balances at central Banks	45,985,573	19,133,098
Hereof restricted balance – Compulsory reserve	*18,573,120*	*17,253,467*
Other demand deposits at Banks	961,285	1,130,524
herof restricted balance as bank guarantees	*179,442*	*231,490*
Total	**56,327,181**	**25,068,597**

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	**2020**	**2019**
Cash on hand (Note 9 above)	9,380,323	4,804,975
Balances at central bank, excluding compulsory reserve (Note 9 above)	27,412,453	1,879,631
Other demand deposits at banks net of restricted balances (Note 9 above)	781,843	899,035
Loans and advances to central banks (Note 10 below)	6,180,462	6,085,017
Loans and advances to other banks (Note 10 below)	21,044,904	28,600,630
Total cash and cash equivalents as included in the statement of cash flows	**64,799,985**	**42,269,288**

10. FINANCIAL ASSETS - AMORTIZED COST

in LEK thousand	2020			2019
	Gross carrying amount	Accumulated impairment	Carrying amount	Carrying amount
Debt securities	**59,316,597**	**-145,063**	**59,171,534**	**62,469,142**
General governments	51,169,577	-144,852	51,024,725	54,454,981
Banks	8,147,020	-211	8,146,809	8,014,161
Loans and advances	**126,665,834**	**-11,127,080**	**115,538,754**	**129,503,890**
Central Banks	6,180,755	-293	6,180,462	6,085,715
General governments	167	-2	165	35
Banks	21,044,970	-66	21,044,904	28,599,931
Other financial corporations	7,776	-2	7,774	8,869
Non-financial corporations	57,669,446	-8,216,370	49,453,076	56,015,698
Households	41,762,720	-2,910,347	38,852,373	38,793,642
Total	**185,982,431**	**-11,272,143**	**174,710,288**	**191,973,032**

11. FINANCIAL ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

in LEK thousand	2020	2019
Debt securities	5,015	3,133
Total	**5,015**	**3,133**

Treasury bills as at 31 December 2020 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 1.5% to 2.25% per annum (31 December 2019: zero-coupon treasury bills of the Gov-ernment of Albania with yields ranging from from1.13% to 2.3%).

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 2020, 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 2020 (2019: nil).

13. DEVELOPMENT OF FIXED ASSETS

in LEK thousand	2020	2019
Tangible fixed assets	**2,880,126**	**2,688,634**
Land and buildings used by the Group for own purpose	582,759	580,552
Other land and buildings (investment property)	95,889	107,623
Office furniture, equipment and other tangible fixed assets	930,287	774,677
Right of use assets (RoU)	1,271,191	1,225,782
Intangible fixed assets	**1,470,260**	**1,305,455**
Software	1,470,260	1,305,455
Total	**4,350,386**	**3,994,089**

The item software comprises internally developed software amounting to Lek 62,847 thousand (2019: 0). The fair value of investment properties carried at cost model as at 31 December 2020 is 60,453 thousand lek, 31 December 2019 is 305,210 thousand lek.

Rental income from investment property of Lek 6,417 thousand (2019: Lek 7,790 thousand) has been recog-nised in other net operating income.

	Cost of acquisition				
in LEK thousand	As at 1/1/2020	Additions	Disposals	Transfers	As at 31/12/2020
Tangible fixed assets	**6,362,911**	**1,087,663**	**-856,039**	**0**	**6,594,535**
Land and buildings used by the Group for own purpose	1,341,050	348,710	-600,982	21,147	1,109,926
Other land and buildings (investment property)	146,785	0	0	20,516	126,269
Office furniture, equipment and other tangible fixed assets	3,377,802	395,182	-220,597	-631	3,551,756
Right of use assets (RoU)	1,497,274	343,771	-34,460	0	1,806,584
Intangible fixed assets	**3,099,307**	**382,539**	**-14,881**	**0**	**3,466,965**
Software and licences	3,099,307	382,539	-14,881	0	3,466,965
Total	**9,462,218**	**1,470,202**	**-870,920**	**0**	**10,061,500**

Fixed assets developed as follows:

	Write-ups, amortization, depreciation, impairment				**Carrying amount**
in LEK thousand	Cumulative	Accumulated deprecia-tion on sales	Depreciation	Reclassi-fication	As at 31/12/2020
Tangible fixed assets	**-3,674,278**	**511,091**	**-551,224**	**-**	**2,880,127**
Land and buildings used by the Group for own purpose	-760,498	290,980	-42,643	-15,006	582,760
Other land and buildings (investment property)	-39,162	0	-6,225	15,006	95,889
Office furniture, equipment and other tangible fixed assets	-2,603,126	210,685	-229,028	-	930,287
Right of use assets (RoU)	-271,492	9,426	-273,328	-	1,271,191
Intangible fixed assets	**-1,793,852**	**13,627**	**-216,479**	**-**	**1,470,261**
Software	-1,793,852	13,627	-216,479	-	1,470,261
Total	**-5,468,130**	**524,718**	**-767,703**	**-**	**4,350,388**

13. DEVELOPMENT OF FIXED ASSETS (CONTINUED)

	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**

14. TAX ASSETS

in LEK thousand	**2020**	**2019**
Current tax assets	193,328	480,533
Total	**193,328**	**480,533**

15. OTHER ASSETS

in LEK thousand	2020	2019
Prepayments and other deferrals	313,941	278,902
Repossessed collaterals	1,054,297	1,344,113
Other assets	507,155	592,442
Total	**1,875,393**	**2,215,457**

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	2020	2019
Repossessed collaterals	1,642,669	1,876,047
Write down of repossessed collateral	-588,372	-531,934
Total	**1,054,297**	**1,344,113**

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

in LEK thousand	2020	2019
Balance at the beginning of the year	531,934	420,621
Additional write down	79,726	138,352
Reversal of write down	-23,288	-27,039
Balance at the end of the year	**588,372**	**531,934**

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	2020	2019
Due to Banks	**4,470,562**	**4,791,034**
Current accounts/overnight deposits/redeemable at notice	1,694,196	20,543
Deposits with agreed maturity	2,776,366	2,896,002
Subordinated financial liabilities	-	1,874,489
Deposits from customers	**200,249,819**	**188,121,303**
Current accounts/overnight deposits/redeemable at notice	156,918,642	141,802,775
Deposits with agreed maturity	43,331,177	46,318,528
Other financial liabilities	**225,073**	**18,920**
Lease liabilities lessee	**1,301,143**	**1,220,555**
Total	**206,246,597**	**194,151,812**

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. (2019: 4.8% p.a) and matured 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	2020	2019
Carrying amount as at 1 January	**1,874,489**	**1,899,629**
Cash flows		
effect of exchange rate changes	38,550	-31,007
Interest expense	46,848	94,516
Interest paid	-94,787	-88,649
Principal paid	-1,865,100	-
Total change	-1,874,489	-25,140
Carrying amount as at 31 December	**-**	**1,874,489**

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

in LEK thousand	2020	2019
General governments	3,310,089	3,959,611
Banks	1,681,086	4,791,034
Other financial corporations	2,789,476	3,636,469
Non-financial corporations	34,144,441	29,196,164
Households	162,795,288	151,329,059
Total	**204,720,380**	**192,912,337**

17. PROVISIONS FOR LIABILITIES AND CHARGES

in LEK thousand	2020	2019
ECL for off-balance-sheet items	**124,930**	**81,898**
ECL for contingent liabilities and commitments	124,930	81,898
Accruals for staff	**131,829**	**179,725**
Bonus payments	63,844	134,959
Overdue vacations	67,985	44,766
Other provisions	**33,792**	**27,747**
Legal issues and tax litigation	33,692	27,647
Other provisions	100	100
Total	**290,551**	**289,370**

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 124,930 LEK thousand are not included. These are shown under (26) Development of impairments.

17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

in LEK thousand	1/1/2020	Allocation	Release	Usage	Transfers, exchange differences	31/12/2020
Accruals for staff	**179,725**	**86,364**	**-56,179**	**-78,081**	**-**	**131,829**
Bonus payments	*134,959*	*51,078*	*-44,112*	*-78,081*	-	*63,844*
Overdue vacations	*44,766*	*35,286*	*-12,067*	*0*	-	*67,985*
Other provisions	**27,747**	**6,045**	**0**	**0**	**-**	**33,792**
Legal issues and tax litigation	27,647	6,045	0	0	-	33,692
Other provisions	100	0	0	0	-	100
Total	**207,472**	**92,409**	**-56,179**	**-78,081**	**-**	**165,621**

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	1/1/2019	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**

18. OTHER LIABILITIES

in LEK thousand	**2020**	**2019**
Deferred income and accrued expenses	199,078	188,060
Due to employees	112,876	109,228
Other tax liabilities	69,652	68,654
Sundry liabilities	185,583	262,428
Total	**567,189**	**628,370**

19. EQUITY

in LEK thousand	2020	2019
Sharecapital	14,178,593	14,178,593
Other reserves	3,306,190	3,306,190
Retained earnings	12,941,589	11,268,568
hereof profit for the year	*1,673,021*	*3,106,817*
Total	**30,426,372**	**28,753,351**

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 (2019: 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 (2019: 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	2020	2019
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.

	2020			2019		
Assets in LEK thousand	Level I	Level II	Level III	Level I	Level II	Level III
Financial assets - fair value through profit or loss			**5,015**			**3,133**
Debt securities			5,015			3,133

Qualitative information for the valuation of financial instruments in Level III

Assets 2020	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	5,015	Discounted cash flow method (DCF)	ALL base rate -last auctions yields -T bills	0.76% - 1.66%
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.

2020 in LEK thousand	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Financial assets - amortized cost			**232,107,641**	**232,107,641**	**231,037,469**	**1,070,172**
Cash and cash equivalents			56,327,181	56,327,181	56,327,181	-
Debt securities			60,241,706	60,241,706	59,171,534	1,070,172
Loans and advances			115,538,754	115,538,754	115,538,754	0
Liabilities						
Financial liabilities - amortized cost			**206,236,047**	**206,236,047**	**206,246,596**	**-10,549**
Deposits			204,709,831	204,709,831	204,720,380	-10,549
Other financial liabilities			1,526,216	1,526,216	1,526,216	0

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.

2019 in LEK thousand	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Financial assets - amortized cost			**218,344,077**	**218,344,077**	**217,142,337**	**1,201,740**
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			**194,645,413**	**194,645,413**	**194,657,420**	**-12,007**
Deposits			193,409,892	193,409,892	193,421,899	-12,007
Other financial liabilities			1,235,521	1,235,521	1,235,521	-

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	2020	2019
Loan commitments given	14,687,332	13,315,474
Financial guarantees given and other commitments given	7,128,504	9,539,592
Total	**21,815,836**	**22,855,066**
Provisions for off-balance-sheet items under IFRS 9	-124,930	81,898

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

2019 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	-	-	-	-	-	-
Banks	1,845,787	-	-	3	-	-
Other financial corporations	77,420	-	-	955	-	-
Non-financial corporations	13,845,773	2,339,666	20,414	28,392	24,728	20,218
Households	3,603,767	49,586	33,423	22,014	2,353	26,266
Total	**19,372,747**	**2,389,252**	**53,837**	**51,364**	**27,081**	**46,484**

2019 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
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**

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).
- 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

(22) CREDIT QUALITY ANALYSIS (CONTINUED)

(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:

2020 **in LEK thousand**	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Excellent	1,908,303	22,906	-	1,931,209
Strong	20,902,185	67,213	-	20,969,398
Good	85,476,089	1,565,904	-	87,041,993
Satisfactory	44,837,008	6,189,193	-	51,026,201
Substandard	4,179,392	6,156,768	-	10,336,160
Credit impaired	-	-	12,296,832	12,296,832
Unrated	1,981,382	320,774	78,483	2,380,639
Gross carrying amount	159,284,359	14,322,758	12,375,315	185,982,432
Accumulated impairment	- 829,495	-1,205,809	-9,236,839	-11,272,143
Carrying amount	**158,454,864**	**13,116,949**	**3,138,476**	**174,710,289**

2019 **in LEK thousand**	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 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**

(22) CREDIT QUALITY ANALYSIS (CONTINUED)

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

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

2020 **in LEK thousand**	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Excellent	77,884	43,673	-	121,557
Strong	2,300,140	28,116	-	2,328,256
Good	8,397,904	160,095	-	8,557,998
Satisfactory	6,395,397	1,442,131	-	7,837,528
Substandard	298,035	691,757	-	989,792
Credit impaired	-	-	25,516	25,516
Unrated	1,903,386	23,480	28,321	1,955,187
Total	**19,372,746**	**2,389,252**	**53,837**	**21,815,835**
Provisions for off-balance-sheet items under IFRS 9	-51,364	-27,081	-46,484	-124,929

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.

2019 **in LEK thousand**	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 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

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:

2020 in LEK thousand	Maximum exposure to credit risk	Fair value of collateral	Credit risk exposure net of collateral
Central Banks	6,180,462	-	6,180,462
General governments	51,008,741	-	51,008,741
Banks	29,191,713	-	29,191,713
Other financial corporations	3,312,761	-	3,312,761
Non-financial corporations	49,140,712	21,517,027	27,623,685
Households	39,427,509	16,335,866	23,091,643
Commitments/guarantees issued	22,736,801	3,020,593	19,716,208
Total	**200,998,699**	**40,873,486**	**160,125,213**

2019 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**

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

2020 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	2,522,084	1,988,974	533,110	-7,324,807
Households	795,407	304,506	490,901	-1,912,032
Commitments/ guarantees issued	53,837	398	53,439	-46,484
Total	**3,371,328**	**2,293,878**	**1,077,450**	**-9,283,323**

2019 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**

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. During 2020 the Bank has implemented several changes in the rating models and industry risk clasifications mostly impacted by covid as well recali-bration of macroecomic factors.

Following the Covid-19 pandemic, the circumstances in which payment holidays and similar measures were normally granted have changed significantly. Various payment deferral arrangements and Sovereign Loans been initiated by borrowers, banks and governments which were not necessarily prompted by an assessment of the financial condition of the borrower.

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").

24. EXPECTED CREDIT LOSSES (CONTINUED)

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.

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 Grouppruptcy 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

24. EXPECTED CREDIT LOSSES (CONTINUED)

Basel framework.

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, 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),

24. EXPECTED CREDIT LOSSES (CONTINUED)

- 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 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

24. EXPECTED CREDIT LOSSES (CONTINUED)

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 appropriately captured non-linearity. Expert judgment on idiosyncratic risks has also been applied in this process on the level of Raiffeisen Research in coordination with the Group risk 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.

During 2020 the Group has performed recalibration of macroecomic factors considering the the impact of COVID -19.

Post-model adjustments and collective staging

Post-model adjustments to expected credit loss allowance estimates are adjustments which are used in circumstances where existing inputs, assumptions and model techniques do not capture all relevant risk factors. Existing inputs, assumptions and model techniques might not capture all relevant risk factors due to transient circumstances, insufficient time to appropriately incorporate relevant new information into the rating or re-segmentation of portfolios and when individual lending exposures within a group of lending exposures react to factors or events differently than initially expected. The emergence of new macroeconomic, microeconom-ic or political events, along with expected changes to parameters, models or data that are not incorporated in current parameters, internal risk rating migrations or forward-looking information are examples of such cir-cumstances. In general the Bank uses postmodel adjustments to allowances for expected credit losses only as an interim solution. In order to reduce the potential for bias post-model adjustments are of a temporary nature and in general valid for no longer than one to two years. All material adjustments are authorized by the Group Risk Committee (GRC). From an accounting point of view all post-model adjustments are based on collective assessment, but do not necessarily result in a change in expected credit losses between the stages.

Due to the complexity of the expected credit loss calculation, and the dependency of variables on one anoth-er, the table below represents a best estimate of the included post-model-adjustments in the accumulated expected credit loss amounts in Stage 1 and 2 (balance sheet items and off-balance sheet items).

2020 **Në mijë Lek**	**Modelled ECL**	**Post-model adjustments**						**Total**
		COVID-19 related		Other		Total		
Central banks	280	-	0%	-	0%	0	0%	280
General governments	79,452	65,345	82%	-	0%	65,345	82%	144,797
Banks	-	-	0%	-	0%	-	0%	-
Other financial corporations	1,132	-	0%	-	0%	-	0%	1,132
Non-financial corporations	722,690	189,029	26%	-	0%	189,029	26%	911,719
Households	987,574	308,145	31%	-		308,145	31%	1,295,719
Total	**1,791,128**	**562,519**	**31%**	**-**	**0%**	**562,519**	**31%**	**2,353,647**

The post-model adjustments resulted in additional Stage 1 and 2 provisions of Lek 562,519 thousand, of which Lek 562,519 thousand are COVID-19 related.

24. EXPECTED CREDIT LOSSES (CONTINUED)

The COVID-19 pandemic necessitated post-model adjustments, as the ECL models do not fully capture the speed of the changes and the depth of the economic effects of the virus (COVID-19 related post-model ad-justments reflected the collective impact on the sectors that were especially hard hit by the pandemic: tour-ism, hotels, further related industries as well as automobile, air travel, oil and gas, real estate and some con-sumer goods industries. The effects were due to demand shock, supply chain disruptions and crisis contain-ment measures.

Further model adjustments were made to reduce the procyclicality and unjustified volatility in the retail rating systems caused by COVID-19 and form the public payment moratoria.

The Bank took effort to in-depth analyze all its models on single risk factor basis to understand which of those are affected by the moratorium and to which extend the bias would be (over- or underestimating the risk).

In order to cope with the different timing of the individual risk drivers out of that categories the following general approach was taken:

a. For risk drivers whose evaluation is based on most recent month, the treatment was to the last value before the start of moratorium.

b. For risk drivers whose evaluation is based on a series of months, the treatment was to omit the months from the moratorium period and replace the missing ones with most recent periods from before the start of moratorium.

The adjustments for the calculation of the risk drivers do not represent a change in the design of the model or its components, rather the adjustments are addressed towards the data feed to the model such that the period of history which contains biasing information ("moratorium period") is removed from this information set in order to allow the model to still assess properly the level of risk of accounts/obligors going forward Holistic flag is applied to the high-risk industries of activities (for Micro) and employment industries (for house-holds), qualitative assessment of exposures for expected significant increase in credit risk and their subse-quent transfer from Stage 1 to Stage 2.

The related post-model adjustments involve qualitative assessment of exposures for expected significant increase in credit risk and their subsequent transfer from Stage 1 to Stage 2. The criteria for the identification of such exposures were predominantly based on the above listed industries of activities (for SME) and em-ployment industries (for households) and further refined, where relevant, with information related to the ap-plication of the specific moratorium measures. As the adjustments to the expected credit losses are temporary and designed to adequately reflect the current risk situation of customers, it will take some time before a complete picture of the impact of COVID-19 and subsequent measures on individual customers emerges.

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.

2020 in LEK thousand	31/12/2020 (25/50/25%)	100% Optimist	100% Base	100% Pesimistic
Accumulated impairment (Stage 1 & 2)	1,474,619	1,282,419	1,480,324	1,655,408

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

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 Grouptruptcy, 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:

25. GROSS EXPOSURE BY STAGES (CONTINUED)

	Gross carrying amount			Accumulated impairment			ECL Coverage Ratio		
2020 in LEK thousand	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	6,180,755	-	-	-293	-	-	0.00%	0.00%	0.00%
General governments	51,169,744	-	-	-144,855	-	-	0.28%	0.00%	0.00%
Banks	29,191,990	-	-	-277	-	-	0.00%	0.00%	0.00%
Other financial corporations	7,776	-	-	-2	0	-	0.02%	0.00%	0.00%
Non-financial corporations	36,726,134	11,266,311	9,677,001	-241,882	-649,680	-7,324,807	0.66%	5.77%	75.69%
Households	36,007,959	3,056,447	2,698,314	-442,186	-556,129	-1,912,032	1.23%	18.20%	70.86%
hereof mortgage	15,696,195	1,058,487	495,454	-209,354	-200,792	-314,343	1.33%	18.97%	63.45%
Total	**159,284,358**	**14,322,758**	**12,375,315**	**-829,495**	**-1,205,809**	**-9,236,839**	**0.52%**	**8.42%**	**74.64%**

	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%**

25. GROSS EXPOSURE BY STAGES (CONTINUED)

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		
2020 in LEK thousand	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	-	-	-	-	-	-	0.00%	0.00%	0.00%
Banks	1,845,787	-	-	3	-	-	0.00%	0.00%	0.00%
General governments	-	-	-	-	-	-	0.00%	0.00%	0.00%
Other financial corporations	77,420	-	-	955	-	-	-1.23%	0.00%	0.00%
Non-financial corporations	13,845,773	2,339,667	20,414	28,393	24,728	20,219	-0.21%	-1.06%	-99.04%
Households	3,603,767	49,586	33,423	22,014	2,353	26,266	-0.61%	-4.75%	-78.59%
Total	**19,372,747**	**2,389,253**	**53,837**	**51,365**	**27,081**	**46,485**	**-0.27%**	**-1.13%**	**-86.34%**

	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%**

25. GROSS EXPOSURE BY STAGES (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	
2020 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	-5,935,976	5,935,976	-57,387	340,119	0.97%	5.73%
Households	-2,288,328	2,288,328	-50,063	623,686	2.19%	27.26%
Movement from lifetime ECL to 12 month ECL						
Non-financial corporations	1,019,667	-1,019,667	7,366	-30,220	0.72%	2.96%
Households	1,057,013	-1,057,013	42,082	-220,128	3.98%	20.83%

	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 finan-cial 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 1/1/2020	802,280	675,644	7,143,642	1,800,612	10,422,178
Increases due to origination and acquisition	113,924	43,369	156,302	-	313,595
Decreases due to derecognition	-35,629	-51,871	-600,190	-	-687,690
Changes due to change in credit risk (net)	-50,772	347,754	1,361,233	103,632	1,761,847
Changes due to update in the institution's methodology for estimation	-	201,442	-138,159	-	63,283
Decrease in allowance account due to write-offs	-309	-10,529	-587,588	-2,646	-601,072
As at 31/12/2020	829,494	1,205,809	7,335,240	1,901,598	11,272,141

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

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 1/1/2020	53,736	8,956	19,206	81,898
Increases due to origination and acquisition	43,977	13,483	-	57,460
Decreases due to derecognition	-17,977	-11,795	-	-29,772
Changes due to change in credit risk (net)	-32,637	17,478	28,671	13,512
Decrease in allowance account due to write-offs	4,265	-1,041	-1,392	1,832
As at 31/12/2020	51,364	27,081	46,485	124,930

26. DEVELOPMENT OF IMPAIRMENTS (CONTINUED)

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

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:

2020	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	995,292	-	-	1,704,805	995,324	-	384,398	149,124	1,631,753
Households	557,700	-	-	260,038	197,749	-	119,676	48,129	386,633
Total	**1,552,992**	**-**	**-**	**1,964,843**	**1,193,073**	**-**	**504,074**	**197,253**	**2,018,386**

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**

28. BREAKDOWN OF REMAINING TERMS OF MATURITY

Assets	Current assets			Non-current assets	
2020 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 Bank and other demand deposits	37,754,061	-	-	-	-
Financial assets - amortized cost	16,148	49,022,952	38,875,860	76,759,120	21,161,363
Financial assets - fair value through profit or loss	-	1,278	3,737	-	-
Other assets	-	24,604	-	-	-
Total	**37,770,209**	**49,048,834**	**38,879,597**	**76,759,120**	**21,161,363**

Liabilities	Short-term liabilities			Long-term liabilities	
2020 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	159,716,931	14,642,434	30,439,830	1,231,831	215,571
Other liabilities	21,415	171,138	0	0	0
Total	**159,738,346**	**14,813,572**	**30,439,830**	**1,231,831**	**215,571**

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**

Compulsory reserve has not been included in the maturity analsysis for 2020 and 2019 as it is not a contractual financial instrument.

29. FOREIGN CURRENCY VOLUMES

in LEK thousand	2020	2019
Assets	98,200,885	95,827,280
Liabilities	84,878,975	83,796,021

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 consid-erations and that there are no incentives for taking high risks.

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

31. ORGANIZATION OF RISK MANAGEMENT (CONTINUED)

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

Risk committees

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

The Problem Loan Committee is the most important committee in the evaluation and decision-making process concern-ing problem loans. It primarily comprises decision making authorities; its chairman is the Chief Risk Officer (CRO) of the Group. Further members with voting rights are those members of the Management Board responsible for the custom-er divisions, the Chief Financial Officer (CFO), and the relevant division and departmental managers from risk manage-ment and special exposures management (workout).

The Group Operational Risk Management & Control Committee comprises representatives of the business areas (retail, market and corporate customers) and representatives from Compliance (including financial crime), Internal Control System, Operations, Security and Risk Controlling, under chairmanship of the CRO. This committee is responsible for managing the Group's operational risk (including conduct risk). It derives and sets the operational risk strategy based on the risk profile and the business strategy and also makes decisions regarding actions, controls and risk acceptance.

Quality assurance and internal audit

Quality assurance with respect to risk management refers to ensuring the integrity, soundness, and accuracy of processes, models, calculations, and data sources. This is to ensure that the Group adheres to all legal requirements and that it can achieve the highest standards in risk management-related operations.

All these aspects are coordinated by the Group Compliance division, which analyzes the internal control system on an ongoing basis and – if actions are necessary to address any deficiencies – is also responsible for tracking their imple-mentation.

Two very important functions in assuring independent oversight are performed by the divisions Audit and Compliance: Independent internal auditing is a legal requirement and a central pillar of the internal control system. Internal Audit periodically assesses all business processes and contributes considerably to securing and improving them. It sends its reports directly to the Management Board of the Group, which discusses them on a regular basis in its board meetings.

The Compliance Office is responsible for all issues concerning compliance with legal requirements in addition to and as an integral part of the internal control system. Thus compliance with existing regulations in daily operations is moni-tored.

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 regulatory capital re-quirement pursuant to the CRR	Risk taking capacity (projected earnings plus capital in excess of the regulatory require-ment) may not exceed the Group's value at risk (one-year risk horizon)	95 per cent, reflecting the owners' willingness to inject additional own funds
Sustainability perspective	Risk of falling below a sustainable tier 1 ratio throughout an economic cycle	Capital and earnings pro-jection 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.

Following the emergence of COVID-19 pandemics, the Bank analyzed macroeconomic changes and reflected these changes in the stress tests used to determine the potential impact in the calculation of the Expected Credit Loss.

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):

in LEK thousand	**2020**	**2019**
Corporate customers	52,332,003	62,640,904
Project finance	5,377,549	2,701,404
Retail customers	61,615,243	60,338,043
Banks	41,464,582	44,869,909
Sovereigns	103,336,072	79,768,613
Total	**264,125,449**	**250,318,873**

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 in-dustries and countries. In addition, the model for smaller corporates also includes an account behavior component.

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

in LEK thousand		**2020**	**Share**	**2019**	**Share**
1	Minimal risk	-	0.00%	-	0.00%
2	Excellent credit standing	-	0.00%	-	0.00%
3	Very good credit standing	61,206	0.12%	1,415,232	2.26%
4	Good credit standing	805,149	1.54%	5,008,803	8.00%
5	Sound credit standing	14,817,290	28.31%	10,524,423	16.80%
6	Acceptable credit standing	14,830,148	28.34%	11,130,358	17.77%
7	Marginal credit standing	9,655,244	18.45%	24,305,424	38.80%
8	Weak credit standing / sub-standard	3,074,929	5.88%	1,082,793	1.73%
9	Very weak credit standing / doubtful	1,076,900	2.06%	869,951	1.39%
10	Default	8,010,355	15.31%	8,292,060	13.24%
NR	Not rated	781	0.00%	11,860	0.02%
Total		**52,332,002**	**100.00%**	**62,640,904**	**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		2020	Share	2019	Share
6.1	Excellent project risk profile – very low risk	1,194,951	22.22%	0	0.00%
6.2	Good project risk profile – low risk	3,591,597	66.79%	2,038,668	75.47%
6.3	Acceptable project risk profile – average risk	125,498	2.33%	137,002	5.07%
6.4	Poor project risk profile – high risk	-	0.00%	0	0.00%
6.5	Default	465,503	8.66%	525,734	19.46%
NR	Not rated	-	0.00%	0	0.00%
Total		**5,377,549**	**100.00%**	**2,701,404**	**100.00%**

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

in LEK thousand	2020	Share	2019	Share
Manufacturing	13,152,491	22.79%	11,412,923	17.47%
Wholesale and retail trade	18,034,294	31.25%	15,423,671	23.60%
Financial intermediation	35	0.00%	4,639,011	7.10%
Real estate	2,385,024	4.13%	1,186,928	1.82%
Construction	7,465,556	12.94%	6,409,209	9.81%
Freelance/technical services	47,937	0.08%	23,572	0.04%
Transport, storage and communication	3,566,463	6.18%	3,355,500	5.14%
Electricity, gas, steam and hot water supply	8,518,269	14.76%	19,026,132	29.12%
Other industries	4,539,483	7.87%	3,865,362	5.92%
Total	**57,709,552**	**100.00%**	**65,342,308**	**100%**

Credit portfolio – Retail customers

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

in LEK thousand	2020	Share	2019	Share
Retail customers – private individuals	45,449,495	74%	44,863,010	74%
Retail customers – small and medium-sized entities	16,165,749	26%	15,475,033	26%
Total	**61,615,244**	**100%**	**60,338,043**	**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		2020	Share	2019	Share
0.5	Minimal risk	1,074,072	2.30%	1,052,884	2.25%
1.0	Excellent credit standing	974,658	2.08%	850,235	1.82%
1.5	Very good credit standing	2,949,757	6.31%	3,156,993	6.76%
2.0	Good credit standing	11,211,241	23.97%	12,894,938	27.60%
2.5	Sound credit standing	12,567,469	26.87%	12,655,151	27.08%
3.0	Acceptable credit standing	5,241,973	11.21%	5,987,271	12.81%
3.5	Marginal credit standing	2,041,402	4.36%	2,101,686	4.50%
4.0	Weak credit standing / sub-standard	1,314,321	2.81%	561,986	1.20%
4.5	Very weak credit standing / doubtful	1,244,445	2.66%	517,857	1.11%
5.0	Default	2,548,352	5.45%	2,633,258	5.64%
NR	Not rated	5,602,300	11.98%	4,316,306	9.24%
Total		**46,769,990**	**100%**	**46,728,565**	**100%**

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

in LEK thousand		2020	Share	2019	Share
1	Minimal risk	198,222	1.28%	100,412	0.74%
2	Excellent credit standing	401,168	2.77%	124,913	0.92%
3	Very good credit standing	550,975	3.58%	620,843	4.56%
4	Good credit standing	884,175	5.91%	2,169,607	15.94%
5	Sound credit standing	3,297,956	22.86%	3,414,145	25.09%
6	Acceptable credit standing	2,883,418	19.63%	3,230,857	23.74%
7	Marginal credit standing	3,039,315	20.54%	1,767,219	12.99%
8	Weak credit standing / sub-standard	1,589,566	10.22%	701,103	5.15%
9	Very weak credit standing / doubtful	909,412	5.92%	583,305	4.29%
10	Default	1,088,512	7.27%	896,591	6.59%
NR	Not rated	2,535	0.02%	483	0.00%
Total		**14,845,254**	**100.00%**	**13,609,478**	**100.00%**

33. CREDIT RISK (CONTINUED)

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

in LEK thousand	2020	Share	2019	Share
Mortgage loans	20,469,686	33.22%	19,167,219	31.77%
Personal loans	18,241,566	29.61%	18,526,398	30.70%
Credit cards	2,432,437	3.95%	2,465,910	4.09%
SME financing	14,380,902	23.34%	14,315,489	23.73%
Overdraft	4,488,349	7.28%	4,162,824	6.90%
Car loans	1,602,303	2.60%	1,700,203	2.82%
Total	**61,615,243**	**100%**	**60,338,043**	**100%**

Credit portfolio – Banks

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

in LEK thousand		2020	Share	2019	Share
1	Minimal risk	2,126,202	5%	791,098	1.76%
2	Excellent credit standing	16,398,349	40%	20,308,747	45.26%
3	Very good credit standing	5,150,408	12%	13,531,914	30.16%
4	Good credit standing	4,109,715	10%	1,268,537	2.83%
5	Sound credit standing	4,048,211	10%	4,048,018	9.02%
6	Acceptable credit standing	23,514	0%	116,561	0.26%
7	Marginal credit standing	107,748	0%	-	0.00%
8	Weak credit standing / sub-standard	120,001	0%	-	0.00%
9	Very weak credit standing / doubtful	-	0%	-	0.00%
10	Default	-	0%	-	0.00%
NR	Not rated	9,380,434	23%	4,805,034	10.71%
Total		**41,464,582**	**100.00%**	**44,869,909**	**100.00%**

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

in LEK thousand	2020	Share	2019	Share
Loans and advances	966,747	2%	1,136,653	3%
Bonds	8,147,020	20%	8,014,463	18%
Repo	1,184,562	3%	1,176,474	3%
Money market	19,860,408	48%	29,734,643	66%
Other	11,305,845	27%	4,807,676	10%
Total	**41,464,582**	**100%**	**44,869,909**	**100%**

33. CREDIT RISK (CONTINUED)

Credit portfolio – Sovereigns

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

in LEK thousand		2020	Share	2019	Share
A1	Excellent credit standing	-	0.00%	-	-
A2	Very good credit standing	-	0.00%	-	-
A3	Good credit standing	-	0.00%	-	-
B1	Sound credit standing	16,148	0.02%	-	-
B2	Average credit standing	1	0.00%	1	-
B3	Mediocre credit standing	-	0.00%	-	-
B4	Weak credit standing	103,153,600	99.82%	79,768,604	99%
B5	Very weak credit standing	-	0.00%	-	-
C	Doubtful/high default risk	-	0.00%	-	-
D	Default	-	0.00%	-	-
NR	Not rated	166,323	0.16%	8	1%
Total		**103,336,072**	**100%**	**79,768,613**	**100.00%**

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

in LEK thousand	2020	Share	2019	Share
Loans and advances	45,985,740	44.50%	19,133,098	23.99%
Bonds	51,169,577	49.52%	54,538,285	68.37%
Money market	6,180,755	5.98%	6,097,230	7.64%
Other	103,336,072	100.00%	79,768,613	100.00%
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	2020	2019	2020	2019	2020	2019
Non-financial corporations	9,751,207	10,236,377	16.91%	15.99%	75.61%	71.84%
Households	2,718,253	2,427,947	6.48%	5.90%	73.16%	64.99%
Loans and advances	12,469,460	12,664,324	5.28%	5.51%	74.08%	70.76%
Total	**12,469,460**	**12,664,324**	**5.28%**	**5.51%**	**74.08%**	**70.76%**

33. CREDIT RISK (CONTINUED)

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	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Non-financial corporations	9,751,014	10,101,172	16.66%	15.78%	76.13%	73.22%
Households	2,718,253	2,427,948	6.48%	5.90%	75.10%	66.22%
Total non-Banks	12,469,267	12,529,120	12.23%	5.45%	74.70%	71.55%
Total	**12,469,267**	**12,529,120**	**12.23%**	**5.45%**	**74.70%**	**71.55%**

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 1/1/2020	Additions	Decrease	As at 31/12/2020
Non-financial corporations	10,101,172	1,133,819	-1,483,977	9,751,014
Households	2,427,948	858,570	-568,264	2,718,254
Total non-Banks	12,529,120	1,992,389	-2,052,241	12,469,268
Banks	0	0	0	0
Total	**12,529,120**	**1,992,389**	**-2,052,241**	**12,469,268**

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

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**

33. CREDIT RISK (CONTINUED)

Concentration risk

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

in LEK thousand	2020	Share	2019	Share
Czech Republic	4,434,178	1.71%	4,364,995	1.77%
Poland	3,713,794	1.43%	3,655,858	1.48%
Austria	7,496,405	2.89%	11,311,599	4.58%
Other European Union	1,864,591	0.72%	25,087	0.01%
Germany	8,990,972	3.47%	10,832,666	4.39%
Great Britain	682	0.00%	4	0.00%
France	162,178	0.06%	4,261,626	1.73%
Netherlands	0	0.00%	204,795	0.08%
Italy	1,810	0.00%	2,868	0.00%
Romania	249	0.00%	244	0.00%
Bulgaria	3	0.00%	365	0.00%
Albania	230,693,320	88.94%	209,640,220	85.44%
Other	1,676,513	0.65%	480,701	0.19%
Switzerland	123,707	0.05%	550,024	0.22%
North America	208,995	0.08%	259,724	0.11%
Rest of World	2,813	0.00%	2,636	0.00%
Total	**259,370,210**	**100.00%**	**245,593,412**	**100.00%**

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

in LEK thousand	2020	Share	2019	Share
Euro (EUR)	95,242,580	36.72%	88,147,607	35.89%
US-Dollar (USD)	12,990,647	5.01%	17,264,651	7.03%
Swiss franc (CHF)	465,830	0.18%	354,651	0.14%
Albanian lek (ALL)	146,130,390	56.34%	135,420,026	55.14%
Other foreign currencies	4,540,763	1.75%	4,406,477	1.79%
Total	**259,370,210**	**100.00%**	**245,593,412**	**100.00%**

33. CREDIT RISK (CONTINUED)

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

in LEK thousand	2020	Share	2019	Share
Banking and insurance	34,925,623	13.47%	63,119,402	25.70%
Private households	46,652,699	17.99%	46,077,156	18.76%
Public administration and defense and social insurance institutions	52,770,797	20.35%	57,360,915	23.36%
Wholesale trade and commission trade (except car trading)	574,639	0.22%	733,096	0.30%
Other manufacturing	-	0.00%	81,484	0.03%
Real estate activities	2,519,497	0.97%	1,263,468	0.51%
Construction	9,610,423	3.71%	8,985,976	3.66%
Other business activities	54,407,667	20.98%	4,434,101	1.81%
Retail trade except repair of motor vehicles	24,896,375	9.60%	23,875,898	9.72%
Electricity, gas, steam and hot water supply	8,632,510	3.33%	18,804,647	7.66%
Manufacture of basic metals	14,349,571	5.53%	11,985,458	4.88%
Other transport	4,365,965	1.68%	4,222,013	1.72%
Land transport, transport via pipe-lines	386,456	0.15%	165,628	0.07%
Manufacture of food products and beverages	-	0.00%	200,386	0.08%
Manufacture of machinery and equipment	225,177	0.09%	4,268	0.00%
Sale of motor vehicles	35,690	0.01%	191,471	0.08%
Extraction of crude petroleum and natural gas	2,997,509	1.16%	3,108,438	1.27%
Other industries	2,019,612	0.78%	979,607	0.40%
Total	**259,370,210**	**100%**	**245,593,412**	**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 invest-ment 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. Treas-ury 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.

34. MARKET RISK (CONTINUED)

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 meas-ured 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 accumu-late 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.

Trading book VaR 99% 1d in LEK thousand	VaR as at 31/12/2020	VaR as at 31/12/2019
Currency risk	100%	100%
Interest rate risk	0%	0%
Credit spread risk	0%	0%
Share price risk	0%	0%
Vega risk	0%	0%
Basis risk	0%	0%
Total	**-6,347**	**-990**

34. MARKET RISK (CONTINUED)

Banking book VaR 99% 1d in LEK thousand	VaR as at 31/12/2020	VaR as at 31/12/2019
Currency risk	0%	0%
Interest rate risk	22.2%	88 %
Credit spread risk	76.7%	9.3%
Vega risk	0%	0%
Basis risk	1.1%	2.7 %
Total	**-431,463**	**-78,466**

Total VaR 99% 1d in LEK thousand	VaR as at 31/12/2020	VaR as at 31/12/2019
Currency risk	17.6%	25.8%
Interest rate risk	18.0%	64.5%
Credit spread risk	63.4%	7.4%
Share price risk	0%	0%
Vega risk	0%	0%
Basis risk	2.3%	2.3%
Total	**-470,295**	**97,850**

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 2020 and the corresponding values for the previous year.

in LEK thousand	**2020**	**2019**
ALL	-13,470,350	-12,031,260
AUD	-13,340	-12,852
CAD	-27,017	4,478
CHF	28,679	7,551
DKK	1,186	1,162
EUR	13,339,309	12,116,896
GBP	140,274	4,877
JPY	5,972	6,733
NOK	165	172
SEK	1,236	1,149
USD	-6,113	-98,904

34. MARKET RISK (CONTINUED)

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 2020 and 31 De-cember 2019.

2020 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	-0.25			-0.25								

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								

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 in-terest rate sensitivities, rate adjustments, and other optionality of expected cash flows. Interest rate risk in the Banking book is material for the EUR and US dollar as major currencies.

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

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

The following table shows the change in the present value of the Group's Banking book given a one-basis-point interest rate increase for the whole yield curve in LEK thousand for reporting dates 31 December 2020 and 31 December 2019.

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	**3,964**	-46	-103	-700	1,091	2,011	1,659	119	741	72	-464	-416
CHF	**-30**	-	-	-	-7	-6	-7	-5	-4	-2	-	-
EUR	**2,725**	42	-216	-37	-138	1,170	3,866	-766	-514	-420	-204	-59
GBP	**32**	2	3	28	-	-	-	-	-	-	-	-
USD	**879**	24	2	225	181	250	198	-	-	-	-	-

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	-	-	-	-	-

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 Super-visory 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 Of-ficer/Chief Financial Officer. Consequently, the processes related to liquidity risk are mainly carried out by two areas within the Group. Firstly, Treasury/Dealing Room department manage the liquidity risk positions within the strategy, guidelines and parameters set by decisions taken in Asset/Liability Committee (ALCO) meetings which reflect all regu-latory constraints. Secondly, these are monitored and supported by independent Integrated Risk division (Market Risk department). 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 stabili-zation 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 pru-dent 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.

35. LIQUIDITY MANAGEMENT (CONTINUED)

Whereas the regulatory reports are calculated on specifications given by authorities, the internal reports are modelled with as-sumptions 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 compre-hensive limit system. Limits are defined both under a business as usual as well as under a stress perspective. In accord-ance 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 regu-lated 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:

- 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 Manage-ment Board and senior management with timely and forward-looking information. The limit framework ensures that the Group can continue to operate in a period of severe stress.

Monitoring of limits and reporting limit compliance is performed regularly and effectively. Any breach by different Group business lines is reported to the Group ALCO and escalated. In such cases, appropriate steps are undertaken in consultation with the relevant unit or contentious matters are escalated to the next highest responsible body.

- 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 simul-taneously subject to a pronounced combined crisis for all their major products. The results of the stress tests are reported to the Chief Risk Officer and the Chief Financial Officer as well as other 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 cus-tomers. Furthermore, stress assumptions are formulated for the drawdown of guarantees and credit obligations. In addi-tion, the liquidity buffer positions are adapted by haircuts in order to cover the

35. LIQUIDITY MANAGEMENT (CONTINUED)

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 transac-tions 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 re-gards 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 liquidi-ty buffer, the Central Bank haircut represents an addi-tional haircut by the Central Bank that may be offered as collat-eral. The eligibility criteria on group level further considers intra-group lending restrictions such as the legal lending limit.

Intraday Liquidity Management

In compliance with regulatory requirements for intraday liquidity management, Dealing Room 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.

35. LIQUIDITY MANAGEMENT (CONTINUED)

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 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 incor-porates estimates of the stability of the customer deposit base, outflows from items off the statement of financial position and downward market movements in relation to positions which influence the liquidity counterbalancing capacity.

in LEK thousand	2020		2019	
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	86,222,692	75,421,907	83,226,992	108,505,744

Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets (HQLAs) held by the Group, to meet po-tential liability run offs (short-term obligations). HQLAs can be converted into cash to meet liquidity needs for a mini-mum of 30 calendar days in a liquidity stress scenario.

The calculation of expected inflows and outflows of funds and the HQLAs is based on regulatory specifications. In 2019 and 2020, the regulatory limit for the LCR stood at 100 per cent.

in LEK thousand	2020	2019
Average liquid assets	81,262,024	60,546,699
Net outflows	7,444,771	6,996,354
Inflows	38,201,186	44,207,579
Outflows	29,779,083	27,985,418
Liquidity Coverage Ratio	1,098%	865%

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	2020	2019
Required stable funding	95,460,162	198,034,542
Available stable funding	202,358,832	263,841,692
Net Stable Funding Ratio	212%	133%

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.

35. LIQUIDITY MANAGEMENT (CONTINUED)

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 fund-ing. In the Group's funding plans, special attention is paid to a diversi-fied structure of funding to mitigate funding liquidity risk. Wholesale funding measures in the Group are responsibility of Treasury Sales and IB Department, where Funding Manager is Mr. Christian Canacaris, the CEO of the Group. During this process we check the gap between as-sets and liabilities and check if we do have any funding needs. However, due to the fact that our Group has been always over-liquid, the Group has shown minimal needs for intra-network funding. 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.

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

35. LIQUIDITY MANAGEMENT (CONTINUED)

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

2020 **Në mijë Lek**	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	231,042,484	244,481,515	97,416,694	43,536,539	79,445,780	24,082,501
Cash, cash balances at central Banks and other demand deposits	56,327,181	56,327,181	56,327,181	0	0	0
Loans and advances	115,538,754	126,023,423	34,720,093	29,923,967	37,435,104	23,944,258
Central Banks	6,180,462	6,180,462	6,180,462	0	0	0
General governments	164	164	164	0	0	0
Banks	21,044,904	21,044,904	21,044,904	0	0	0
Other financial corporations	7,774	7,774	112	0	0	7,663
Non-financial corporations	49,453,077	51,937,800	5,909,613	22,295,501	18,707,025	5,025,660
Households	38,852,373	46,852,318	1,584,838	7,628,465	18,728,079	18,910,935
Debt securities	59,176,549	62,130,911	6,369,420	13,612,572	42,010,676	138,243
General governments	51,029,739	53,952,053	1,936,223	13,595,242	38,282,345	138,243
Banks	8,146,810	8,178,858	4,433,198	17,330	3,728,330	0

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

35. LIQUIDITY MANAGEMENT (CONTINUED)

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

2020 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	228,062,431	228,066,282	176,653,622	39,213,826	9,456,887	2,741,947
Deposits	206,021,523	206,025,374	174,015,252	30,560,833	1,233,718	215,571
Central Banks	-	-	-	-	-	-
General governments	3,310,089	3,310,089	3,310,089	-	-	-
Banks	1,681,086	1,681,086	1,681,086	-	-	-
Other financial corporations	2,790,585	2,791,629	2,326,554	411,884	53,191	-
Non-financial corporations	34,701,575	34,701,818	34,232,806	49,565	385,222	34,225
Households	163,538,188	163,540,752	132,464,717	30,099,384	795,305	181,346
Other financial liabilies	225,072	225,072	225,072	-	-	-
Issued financial guarantee con-tracts	7,128,504	7,128,504	1,276,310	3,617,560	2,234,634	-
Issued loan commitment	14,687,332	14,687,332	1,136,988	5,035,433	5,988,535	2,526,376

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 con-tracts	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 im-probable) and areas where losses are more likely to arise more frequently (but have only limited impact) are important aspects of operational risk management.

Operational risk assessment is executed in a structured and Group-wide uniform manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well. All Group units grade the impact of high probability/low impact events and low probability/high impact incidents 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 minimiza-tion of losses.

Loss data is collected in a central database called ORCA (Operational Risk Controlling Application) in a structured manner and on a Group-wide basis according to the event type and the business line. In addition to the requirements for internal and external reporting, information on loss events is exchanged with international data pools to further develop operational risk management tools as well as to track measures and control effectiveness. Since 2010, The Group has been a participant in the ORX data pool (Operational Risk Data Exchange Association), whose data are currently used for internal benchmark purposes and analyses and as part of the operational risk model. The ORX data consortium is an association of Groups and insurance Groups for statistical purposes. The results of the analyses as well as events result-ing from operational risks are reported in a comprehensive manner to the relevant Operational Risk Management & Control Committee and RBI Group Operational Risk Controller Committee on a regular basis.

Quantification and mitigation

Since October 2016, the operational risk activities is taken on by Financial Crime Management. Financial Crime Man-agement 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.

an-agement 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	2020	2019
Up to 1 year	3,420	14,780
More than 1 year, up to 5 years	7,274	0
Total	**10,694**	**14,780**

Operating leases from view of lessee

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

in LEK thousand	2020	2019
Up to 1 year	280,990	278,354
More than 1 year, up to 5 years	845,279	698,008
More than 5 year	250,150	333,926
Total	**1,376,419**	**1,310,288**

38. RELATED PARTIES

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

in LEK thousand	2020	2019
Selected financial assets		
Equity instruments	-	-
Debt securities	4,433,226	4,358,605
Loans and advances	7,953,551	7,846,769
Other assets	81,283	85,225
Selected financial liabilities		
Deposits	7,359	1,875,236
Provisions & Other liabilities	70,749	60,383
Loan commitments, financial guarantees and other commitments given	1,468,074	1,485,036

in LEK thousand	2020	2019
Interest income	48,584	149,197
Interest expenses	-77,767	-114,918
Dividend income	221	673
Fee and commission income	-190,944	-181,675
Fee and commission expenses	-181,675	-158,694

39. AVERAGE NUMBER OF STAFF

Full-time equivalents	**2020**	**2019**
Salaried employees	1,233	1,215
Wage earners	40	40
Total	**1,273**	**1,255**

40. RELATIONS TO KEY MANAGEMENT

Group relationship with key management

in LEK thousand	**2020**	**2019**
Assets	238,442	212,318
Liabilities	177,460	121,647

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	**2020**	**2019**
Short-term employee benefits	191,128	242,486
Other long-term benefits	51,157	53,518
Total	**242,285**	**296,004**

Remuneration of members of the Supervisory Board

in LEK thousand	**2020**	**2019**
Remuneration Supervisory Board	1,128	15,681

41. MANAGEMENT BOARD

The Management Board as at 31 December 2020 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

35. LIQUIDITY MANAGEMENT (CONTINUED)

Supervisory Board

The Supervisory Board as at 31 December 2020 was as follows:

Members of the Supervisory Board	First assignment	End of period
Peter Lennkh	07/07/2017	09/03/2021
Heinz Wiedner	24/01/2019	24/01/2023
Slavoljub Dordevic	24/01/2019	24/01/2023
Harald Kreuzmair	08/08/2014	08/08/2022
Thomas Matejka	11/08/2020	11/08/2024

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	2020	2019
Total risk weighted assets	115,825,796	120,195,660
Regulatory capital	27,876,687	23,247,305
Capital adequacy ratio	24.07 %	19.34 %

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 subse-quent 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 follow-ing 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 prin-cipal 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 ad-vances, 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 sub-sequently 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 dis-count 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 sub-stantially. 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 reclassifica-tion 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 instru-ments 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 de-termine 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 de-pends 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 borrow-ings 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

Contingent liabilities and commitments

This item mainly includes contingent liabilities from guarantees, credit guarantees, letters of credit and loan commit-ments 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, impair-ment losses for all debt instruments which are not measured at fair value and for loan commitments and financial guaran-tees (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 report-ing 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 recogni-tion 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 require-ments for collective measurement are set out in (24) Expected credit losses in the section shared credit risk characteris-tics.

Determination of expected credit losses

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 fol-lowing 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 obli-gations 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 de-faulted 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 for-ward-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 fore-casting 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 collat-eral 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.

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 business combination, are capitalized at acquisition cost less accumulated amortization and impairment. Amortization is accrued in a straight line over the expected useful life and reported as an expense in the income statement. The expected useful life and the 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	**Years**
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 contin-ued 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 retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

Paid annual leave

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

Short-term benefits

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

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

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possi-bility 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 Groupruptcy, they can only be met after the claims of depositors and all other not subordinated credi-tors 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 2020 and 2019.

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 finan-cial 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 liabil-ity 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 ex-pected 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 carry-ing 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 amortisa-tion of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is cal-culated 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 in-cludes:

- 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 recog-nised 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

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

Tirana, 3 June 2021

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 as-sets, 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
responsible for Retail Business

Elona Mullahi
Member of the Management Board
responsible for Corporate Business

Raiffeisen Leasing

Raiffeisen Leasing Sh.a. (the "Company") is an Albanian joint stock Company, registered in the Albanian Commercial Register by Tirana District Court, decision No. 35733, dated 15 May 2006. The Company started the activity in May 2006.

The Company's principal activity is providing financial leasing to companies and individuals.

The share capital is registered in Albanian Lek. From October 10, 2016, Raiffeisen Bank Sh.a. is the sole primary parent of Raiffeisen Leasing Sh.a. The registered office of the Company is at Blv. Bajram Curri, ETC building, 10th floor, Tirana.

The Company's main shareholder is registered in Tirana. The ultimate controlling party is Raiffeisen Bank International AG.

The financial statements for the year ended 31 December 2020 were authorized for issuance by the Board of Directors on 29 March 2021. The financial statements are subject to final approval by the Shareholders in the Annual General Meeting. The Shareholders are entitled to amend the financial statements after issuance.

Composition of Board of Directors and Managing Board as of as 31 December 2020 is as follows:

Board of Directors (Supervisory Board)

Dieter Schiedl	Chairman of the Supervisory Board
Erion Balli	Supervisory Board Member
Migena Arkaxhiu	Supervisory Board Member

Managing Board

Ankleida Shehu	Front Office Managing Director
Estela Themeli	Back Office Managing Director

On 12 March 2020, the World Health Organization classified the COVID19 epidemic as a pandemic due to the massive and rapid spread.. In response to the situation, on 24 March 2020, with the Decision of the Council of Ministers, on the preservation of public health, measures were taken to restrain movements, suspend activities that cause gatherings, etc. The Bank of Albania has also adopted moratoriums for delaying creditor stakes that will face liquidity problems during this period until June 2021. While the epidemiological situation came throughout the year, during which movement restriction measures have changed, the Company has not interrupted its operational activity, as well as has not taken drastic measures to reduce spending, cover possible losses, reduce personnel, etc. The duration as well as the impact of the COVID-19 pandemic, as well as the effect of measures undertaken by the Ministry of Health and the Central Bank, remain unclear at this time, so it is not possible to assess with credibility the duration and possible effects, as well as their impact on the financial position and results of the Company for future periods.

Company continues to maintain a satisfactory level of liquidity while the total active covers the total liabilities by about 114% on December 31, 2020 compared to 112% of the previous year, for which the receivables from financial leasing cover about 100.7% long-term debt versus 96% of the previous year. Profitability reaches the 24% level of total annual revenues while return on shareholder capital is about 8.7% for 2020. Payments of short-term liabilities against suppliers have not been influenced and company has not reduced operational activity with suppliers. Raiffeisen Leasing does not anticipate sale of financial rent portfolio.

This situation was successfully confronted by being close to customers through the perseverance of our extraordinary staff, who have taken care of the going concern. The well-being of the staff has been and remains the priority of the company by strictly following the protocols and necessary measures to preserve their health, of their colleagues and customers by the necessary means and amenities such as distance work, disinfection of work environments, keeping safeguards, etc. Remote work was made feasible in record time at some additional costs, representing a long-term investment and a part of our strategy to transform the way of working.

Even during year 2020, Raiffeisen Leasing Albania continued to be the leader in the Albanian leasing market.

The value of new business in 2020 amounted to € 10 million, of which € 7,8 million were used for vehicle financing, and € 2,2 million for equipment.

The basic products of Raiffeisen Leasing consist of vehicle leasing and equipment leasing. All leasing products were provided to business segments, both corporate and medium sized businesses, while individuals used these leasing products mainly for personal cars.

Main new business during Year 2020 is performed with corporate customers by 45 percent, with SE customers 12 percent, and with Micro customers consisting of 21 percent of the business, and the remaining 22 percent is carried out with Individual customers.

Our goal was mainly focusing on strengthening long-term partnership with clients of Raiffeisen Banking Group, providing them with efficient support they needed in their business. 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. 2020 was a unique year in terms of the challenges faced by the Albanian automotive market, in view of the Covid-19 pandemic, where the large number of movement restrictions was reflected in low figures in the sale of new vehicles 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 scope activity consists of 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 2020, 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 2020, Raiffeisen Leasing been very active and has launched different marketing campaigns, mainly focused on policies and marketing activities of local concessionaires as our key business partners.

We avail of this opportunity to thank our clients and business partners for the excellent cooperation in 2020 and especially for the trust they put on us. We are also especially grateful to our employees for their commitment and efforts, thus confirming our deep conviction that Raiffeisen Leasing team will be able to keep its strong market position in 2021 as well.

Prospect 2021

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 2021 as well, by providing 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 the increase of new business opportunities, 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 the support by 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

The year 2020 proved to be one of the most turbulent in modern history, marked by a number of developments that were historically unprecedented. But the year also demonstrated the resilience of people, institutions, and financial markets.

Without a doubt the COVID-19 pandemic has been the word of the year in every country in the world. Infections multiplied through February and by early March, followed by sharp swings in the financial markets which initially suffered significant declines.

In spite of the challenges, Raiffeisen Invest managed to deliver to its client's business as usual and remained the leading company in the Albanian market for investment funds, with 94.84 percent of the market share. The assets under the management of Raiffeisen Invest recognized a slight increase compared to 2019 (+ 1.87%), recording approximately ALL 64.82 billion or EUR 524 million of assets in both investment funds and voluntary pension fund (517 million Euros in investment funds, and 7 million Euros in the pension fund). The number of investors who entrusted the management of their assets to Raiffeisen Invest was 31,531 investors for investment funds and 3,118 investors for voluntary pension fund.

During 2020, Raiffeisen Invest team has constantly been focused on the implementation of best asset management practices, being fully transparent with the customers. Moreover, the company mobilised all its resources and expertise to support its customers during the lockdown and to respond to their specific needs.

2020 evidenced the launch of several strategic initiatives that will support the future growth of the company.

First, aiming to expand its product range and investment alternatives for its customers, Raiffeisen Invest sh.a launched in November 2020 the fourth investment fund, Raiffeisen Mix in Euro. Through this fund, with slightly higher risk profile than other funds from Raiffeisen Invest, Albanian investors may diversify their financial portfolio through different asset classes, such as bonds and equities.

Second, a further step was made toward the digital transformation of the business: all existing customers of Raiffeisen Invest were provided with the possibility to buy funds' units through Raiffeisen ON. This development makes the investment process simple, transparent and convenient and Raiffeisen Invest to be the first asset management company in Albania providing digital services.

2020 also evidenced a great progress on some previous strategic initiatives, such as investment plans growth, reaching 3,287 plans (mainly in LCY), or +934% versus 2019.

Fund Performance

During 2020, the funds under management provided the following net return on investment to the customers:

- Raiffeisen Voluntary Pension Fund: +4.35 percent on an annual basis
- Raiffeisen Prestige Fund: +0.83 percent on an annual basis
- Raiffeisen Invest Euro Fund: -1.41 percent on an annual basis
- Raiffeisen Vision Fund: +1.72 percent on an annual basis

2020 has been a year of high volatility in financial markets, dominated by increased risks due to the global pandemic. Financial markets declined sharply in the first months after the pandemic was announced, but monetary and fiscal stimulus interventions by governments and central banks have improved the global economic situation and made markets react positively in the 2nd half of the year.

Raiffeisen Invest Euro fund was the fund directly impacted by the Covid-19 pandemic as its assets are invested in bonds traded in international markets. The sovereign and corporate bonds included in the fund's portfolio suffered a decline, consequently causing Fund's unit price to fall and to record the highest decline in its history: 7.4% during March - April 2020. During the second half of the year, the fund managed to recover most of the losses thanks to the diligence shown in the selection of high-quality bonds and the implementation of a prudent investment policy.

The domestic market was characterised by a high volatility of interest rates of the securities issued by the Albanian Government, which increased with the announcement of the pandemic and then declined with the Government's tapping the international markets through new Eurobond issue. At the end of the year, securities interest rates

encountered again an upward trend. Despite the volatility reflected in the performance of funds in Lek, Raiffeisen Invest managed to provide a satisfactory performance to its clients.

Raiffeisen Voluntary Pension Fund recorded the highest annual return during 2020 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 efficient risk management with effective asset allocation, in accordance with the respective investor risk profile of each fund under management.

2021 Outlook

At a global level, the economy is expected to recover from the recession suffered during 2020 and in this context, the Albanian economy will not be an exception. Challenges for the Albanian economy have increased given the high financial burden, left as a result of the pandemic and as a result of the 2019 Earthquake. 2021 is another electoral year that could bring increased political risks to the country. On the other hand, the opening of the negotiation process with the EU and the continuation of further reforms, mainly in the field of justice, can improve the business climate in the country and ensure the attraction of foreign investments.

Interest rates are projected to increase moderately at the beginning of the year, taking into account the increased demand for domestic debt by the Albanian Government, but in the long run the government plans to improve the debt ratio by reducing debt relative to Gross Domestic Product (GDP).

For the euro area, the interest rates will continue to be low, and the European Central Bank is projected to pursue with accommodative monetary policy. The program of bond purchases and injection of liquidity in international markets will continue during 2021. Rapid vaccination of the population and the full opening of the global economy are expected to support economic growth mainly in the second half of the year, increasing the chances for higher inflation rates.

In an improved economic environment, Raiffeisen Invest expects to further grow the assets under management and continue its digital transformation. Collaboration with Fintechs will contribute to explore interesting opportunities related to digital customer acquisition and increase of digital services. Raiffeisen Invest vision for 2021 is to continue being a digital transformation pioneer in the Albanian investment fund market, providing a high-quality service to the customers by being the most recommended asset management company in the market.

Raiffeisen Bank International at a glance

RBI headquartered in 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, around 45,000 RBI employees serve 17.2 million customers from more than 1,800 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 2020, RBI's total assets stood at around € 166 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.

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