

Raiffeisen Bank Albania

Annual Report 2021

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MANAGEMENT BOARD

of Raiffeisen Bank Sh.a



Christian Canacaris
Chief Executive Officer

Alexander Zsolnai

Vice-chairman of the MB



Elona Mullahi (Koçi)

Board Member Corporate



Vilma Baçe

Board Member Retail



Erion Serti

Board Member Operations and IT

Report of the Board of Directors

Ladies and Gentlemen,

The 2021 financial year was the “year of recovery and resilience”. The country’s economy experienced a significant rebound due to the easing of containment measures, an increase in consumption, investments, and exports, leading to a swift improvement from the severe impact of the earthquake in Albania in late 2019 and the global COVID-19 pandemic.

Raiffeisen Bank sh.a. had a very positive performance, showing a significant increase in Net Profit, reaching pre-pandemic level, while outperforming the market as regards YoY asset growth. All business lines contributed to the result and the bank increased its total deposits and lending volumes in the reporting period while maintaining a solid liquidity and capital position. The digitalization of banking products and services has shown significant progress. On behalf of the Board of Directors, I would like to express our appreciation for the results and the progress achieved, which are beyond expectations.

During the 2021 financial year, the members of the Board of Directors held four meetings. The overall attendance rate for the meetings of the Board of Directors meetings was 100 per cent.

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

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

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

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

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

On behalf of the Board of Directors



A handwritten signature in black ink, appearing to be 'P. Lennkh', written over a light blue horizontal line.

Peter Lennkh,
Chairman of the Board of Directors

Message from the Executive Director

The 2021 financial year proved to be a very successful year for Raiffeisen Bank sh.a., with very good results in all performance indicators. Regardless of the COVID-19 pandemic and its impacts on the local and global economy, the bank remained well-capitalized and highly liquid. Due to the contribution of all business lines, net profit after tax (IFRS Standard) reached 3.4 bn Lek (or 28.11 mn euros) by the end of 2021. The volume of deposits increased by almost 17 per cent versus the previous year. Lending activity grew by 21,08 per cent year on year and the bank ranked 2nd in the market with a share of 17.1 per cent. Raiffeisen Bank maintains the market-leading position for Individuals' lending with a market share of 20.9 per cent, the main contribution coming from consumer loan disbursements resuming pre-pandemic levels already in the first months of 2021.

Our mobile banking platform "Raiffeisen ON" continued to have an exceptional performance during this year. The platform is designed for both individual and business users and has been enriched with new features. With 30.2 per cent penetration among the active consumer base, it remained the most downloaded and used financial application in the country.

The corporate segment had very good results with loans outstanding volume reaching 441 mn euros by end of 2021, which is 31.4 per cent higher than the previous year. New lending volumes increased by 136 per cent year on year. ESG Loans as of December 2021 stand at 22.8 mn euros constituting 5 per cent of the total corporate portfolio. I would like to highlight that Raiffeisen Bank was evaluated by corporate customers as the best bank for corporate banking in the country, based on customer experience domestic surveys. It scored significantly better than its main competitors due to the quality of our service, correctness, and innovative products.



In addition, we are proud to serve over 480,762 customers, individuals and businesses all over Albania meeting their banking needs with ease through our digital channels and being present with the widest network of branches and ATMs in the country. In addition, we continue our digital transformation to shape the model of the "bank of the future" through the "cashless branches with a human touch" initiative, multifunctional ATMs and other plans which will reduce cash operations inside the branches and direct customers more toward digital solutions. Our goal is to always offer an excellent service and experience to our customers across all our contact channels.

Raiffeisen Invest sh.a. closed the financial year 2021 with very satisfactory results, despite the difficulties and the high market volatility. It remained the leading company in the Albanian market for investment funds, with a market share of 94 per cent, recording approximately 613 mn euros of assets in both investment funds and the voluntary pension fund. Raiffeisen Invest sh.a. made progress toward digital transformation by introducing the "Investment module" within the Raiffeisen ON digital platform, thus being the first asset management company in the market that provides digital services to its clients.

Furthermore, Raiffeisen Leasing sh.a. continued to be the leader in the domestic market, for the leasing of vehicles and equipment. Most of the new volumes are made with corporate and SME customers contributing 83 per cent to the total volume. The focus of the company is to strengthen long-term partnerships with clients, providing them with the efficient support they need in their business. We expect 2022 to be a very good year as Raiffeisen Bank sh.a. has a strong financial position, and we are ready to stand up to new challenges. We will continue to invest more in digital solutions and release new or improved digital products in all our banking segments, to enhance our customers' value as innovation is part of our mission statement. The quality of customer services in all our segments will continue to remain a priority. Moreover, we will continue focusing on the personal development of our employees, to maintain the highest customer service standards.

Finally, 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 collaboration during 2021. I would also like to express my gratitude to all our employees, for their commitment, teamwork, and efforts towards the achievement of business goals. We remain devoted to carrying on the agile transformation to become an adaptive organization that stands ready for the next bank generation.

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.



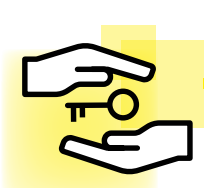
Proactivity

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 2022

Raiffeisen Bank intends to continue in 2022 its development and will further contribute to the country's economy, despite facing successive crises. Striving to improve customer experience and enable our clients to achieve more in their lives and businesses shall be at the centre of the Raiffeisen world. Raiffeisen Bank will be even closer to the customer under these challenging times by attentively evaluating the position of our customers, in these tough times of energy crisis, where EU is caught by soaring global prices of natural gas, which is used to heat homes and generate electricity.

Digital transformation will be the mainstream of all our banking segments, as an opportunity to enhance our customers' value in this disruptive environment. We will further invest in our digital platforms to maintain our leading position representing the most innovative and advanced bank in the country. In this context, we plan to enrich our digital platform 'Raiffeisen ON' with new features and functionalities especially by digitalizing our loan offer. 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 on providing the best customers products and services in the market, like digital banking services, innovative paying methods, loans, etc.

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

Finally, Raiffeisen Bank will enhance its focus on a holistic implementation approach for all customer groups with an aim to contribute significantly toward RBAL's business growth through responsible banking. In this fast-changing world and climate changes with the increase in temperatures that expose to climate disasters, we will do our best to implement environmentally and socially responsible banking operations across RBAL. Raiffeisen Bank will also provide its contribute to this epochal change by sponsoring community projects that go in the same direction and help mitigate temperature changes at manageable levels.

Management Board
Raiffeisen Bank Sh.a



Christian Canacaris

Chief Executive Officer
Chairman of the
Management Board



Alexander Zsolnai

Vice-chairman of
the MB



Elona Mullahi (Koçi)

Board Member
Corporate



Vilma Baçe

Board Member Retail



Erion Serti

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

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

Report of the Management Board

Economic Developments

The economy performed strongly in 2021 recovering very fast from the -3.5% decline in the pandemic year 2020. GDP increased by a robust 8.5% for the full year as eased restrictions on people movement and ongoing vaccination spurred the consumption, and investments, driven by a good tourism season. The expansion of the economy was broad-based in all expenditure components; exports of goods and services marked the largest jump of 46.5% YoY, followed by imports of goods and services with an increase of 31.7% YoY. Other contributors were gross capital formation with +19.9%, public consumption at +8.2% YoY and household consumption with only 4.1%. Looking ahead 2022, the economy is expected to stand on the positive momentum but will be impacted by the risen uncertainties from the war in Ukraine. The indirect consequences of this war on the economy will feed through elevated inflation and consequently discourage private consumption, which will lead to real GDP growth of 3.4% yoYoY based on our latest forecast.

The inflation rate in 2021 climbed to 2.0% on average compared to 1.6% in 2020, remaining below the target of 3.0% of the Bank of Albania. In the second part of the year inflation rate started to shift upwards due to the jump in food and energy prices in the global markets. In December, inflation reached the highest level of the year, at 3.7%, with the major contribution coming from food and oil prices. In addition, core inflation inched also up to 2.6% in December 2021. The monetary policy continued to be accommodative at a historically low base rate of 0.5%. Inflationary pressures will be present in 2022, with upside risks present following the war in Ukraine. Therefore, the Bank of Albania opted to pre-emptively act in March 2022 starting a tightening cycle of the monetary policy by raising the base rate by 50 basis points, to 1.0% to combat elevated expected inflation pressures and maintain a stable FX exchange rate. However, following the strengthening of the inflationary pressures the tightening cycle is expected to continue in the second part of 2022.

Pandemic effects on the labor market soothed in 2021 considering that the unemployment rate dropped to 11.4% at the end of 2021 after peaking at 11.9% in Q1 2021. However, the unemployment rate slightly rose compared to 11.3% in Q3 2021, which was backed by an excellent touristic season. The annual unemployment figure dropped to the pre-pandemic level of 11.5% down from 11.7% in 2020. Furthermore, the employment rate recovered to 53.5% at the end of 2021 from 52% in 2020 and the gross monthly wage grew by 8.4% YoY in Q4 2021 (versus only 2.8% in 2020) confirming the recovery of the labor market.

The fiscal policy continued to be expansive also in 2021 to support the recovery of the economy from the scars of the pandemic and earthquake. Therefore, the budget deficit was 4.8% of GDP at the end of 2021, which is way above the pre-pandemic level of less than 2.0% of GDP, but significantly lower compared to 6.7% in 2020. The strong rebound of the economy and higher prices in the second part of the year helped revenues which increased by 19.9% YoY in 2021. On the other hand, total expenditures increased by 11.1% YoY. These dynamics, however, were not reflected in the government debt, which declined to 73.2% of GDP from 74.5% in 2020. We expect that the fiscal policy will remain accommodative in 2022 with a budget deficit of 4.2% of GDP with public debt declining faster only in the years to come.

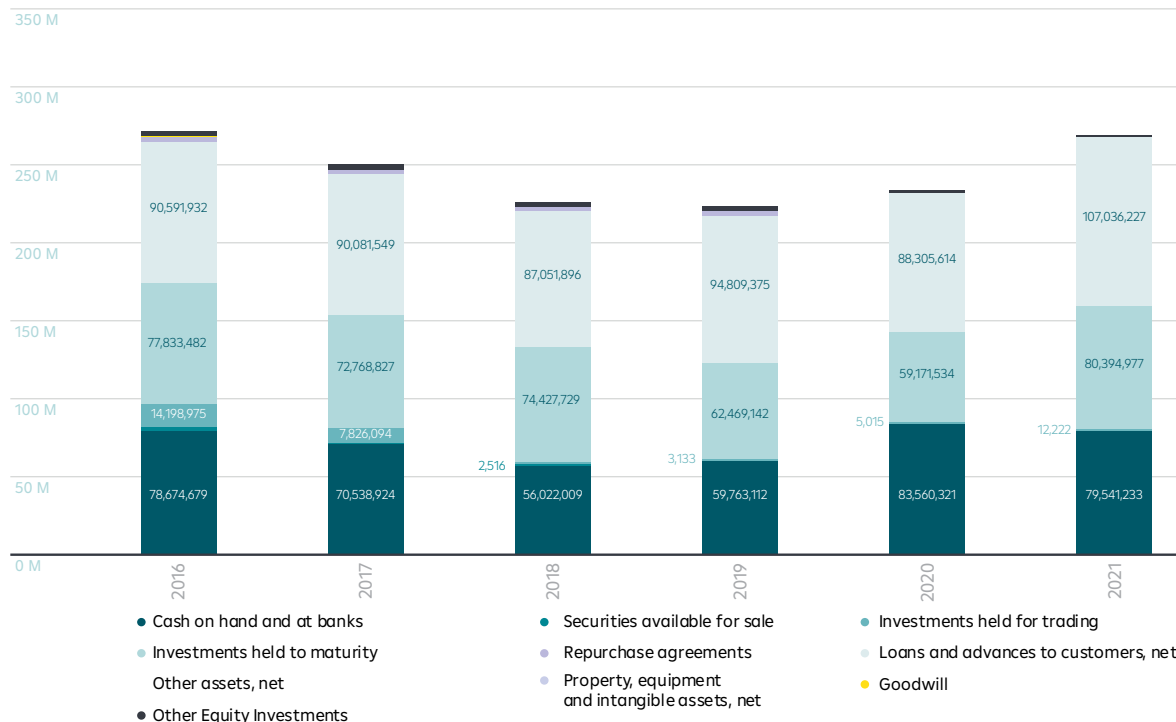
The country's external position deteriorated slightly in 2021, with the current account deficit of EUR 1.2 billion, expanding by only 2.9% compared to the previous year. The services account was boosted by tourism receipts (2.6 times more than in 2020), while the trade deficit deteriorated by 28.4% YoY. In 2021 foreign direct investment reached the level of EUR 1.0 billion, marking an annual increase of 10.2%, while remittances were EUR 761 million, expanding by 13.0% compared to the previous year.

The overall banking sector activity expanded significantly in 2021, with an annual growth rate of assets of 12.1% (7.2% in 2020) mostly due to the interbank activity and investments in securities. Lending activity accelerated in 2021 increasing by 9.4% in 2021 versus 5.8% in 2020, reflecting the expansion of the loan volume in both segments: retail (10.6%) and business (8.9%). The improved confidence levels stimulated a higher demand for loans and together with relaxed lending standards favored the expansion of the lending activity. In addition, the potential remains high with the liquidity position and capital at an optimum level driven together by a low loan-to-deposit ratio (44.5%). However, there are downside risks to the demand for loans (especially mortgage and investment loans) due to increased uncertainties from the war in Ukraine. Hence, the lending activity might be somehow hindered due to the soared expected inflation and decreased private consumption.

Financial Results

Total assets at the end of 2021 were ALL 273,400 million (2020: ALL 237,554 million). The loan book at the end of 2021 represented 39 per cent (2020: 37 per cent) of the Bank's total assets. The investments in securities represented nearly 29 per cent of it in 2021 (2020: 25 per cent). While Cash on hand and balances with banks decreased with 5 per cent year on year.

Structure of Balance Sheet Assets
(in '000 LEK)



Total gross loans and advances to customers at year end 2021 totalled ALL 116,634 million (2020: ALL 99,440 million) representing a 17 per cent increase in lending over the year. Corporate Sector in percentage terms is 51 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 59,040 million (2020: ALL 44,506 million). The SE recorded a 29 per cent decrease and Micro Business recorded a 45 per cent increase in its outstanding loan book amounting to ALL 10,145 million (2020: ALL 13,171 million).

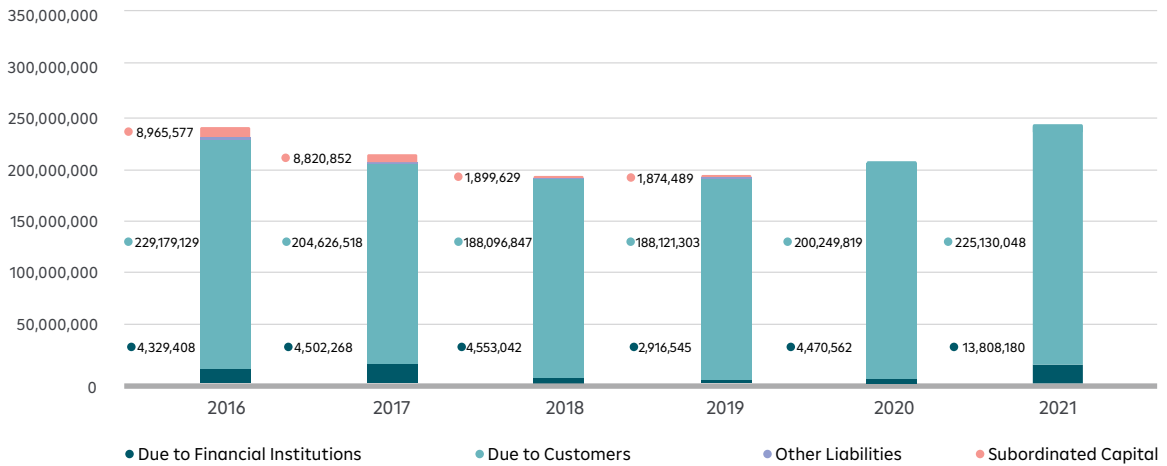
Structure of Loans to Customers
(in '000 LEK)



The total liabilities at the end of 2021 were ALL 243,249 million (2020: ALL 207,128 million). In 2021, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 93 per cent (2020: 97 per cent) of the Bank's total liabilities.

Structure of Balance-Sheet Liabilities

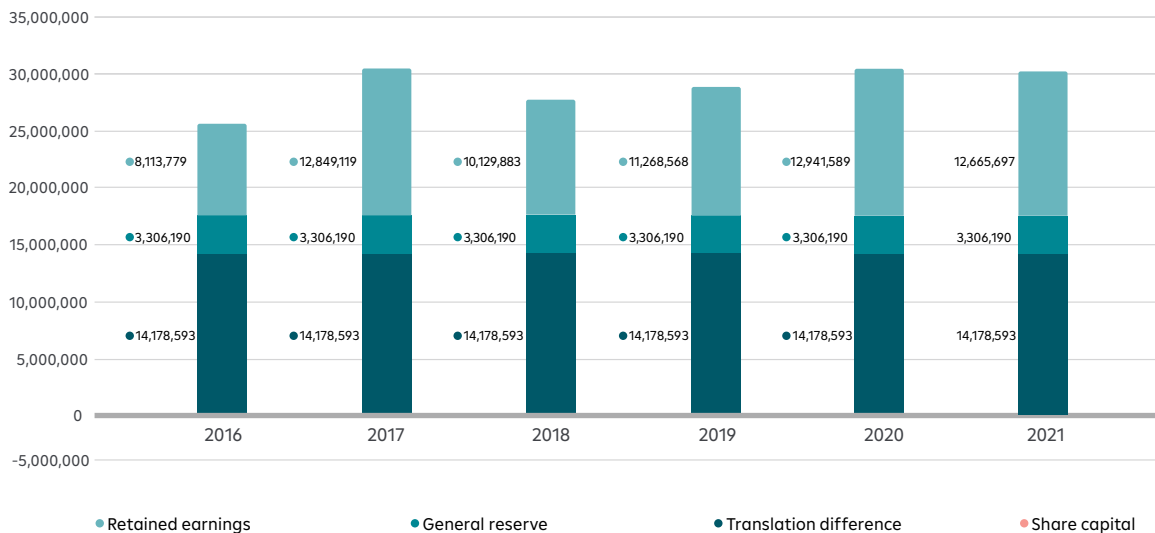
(in '000 LEK)



2021 showed a 104 per cent increase in net profit after tax over 2021 to ALL 3,412 million (2020: ALL 1,673 million). Dividend declared and paid in 2021 is 3,688 million (2020: ALL 0 million). The Group maintains a sound capital profile with Local Capital Adequacy Ratio of 20.30 per cent, well above regulatory minimum requirement of 12 per cent.

Structure of Shareholder's Equity

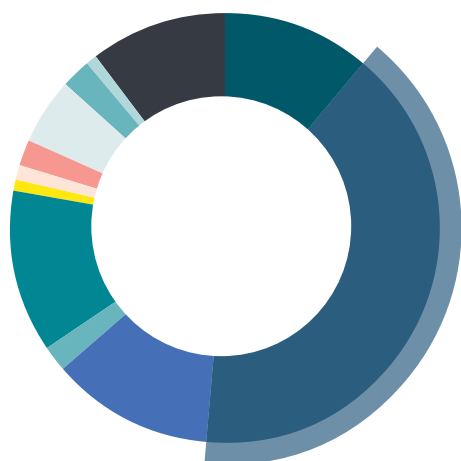
(in '000 LEK)



Total general administrative expenses during 2021 were ALL 2,066 million (2020: ALL 1,839 million). In 2021 the cost/income ratio decreased from 56.59 per cent to 52.5 per cent.

General Administrative Expenses

(in '000 LEK)

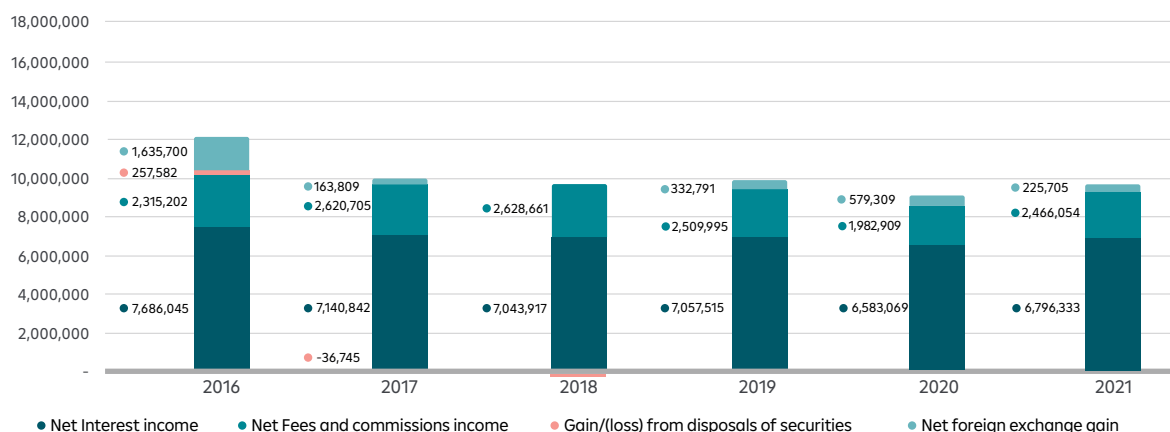


Office space expenses	11%
IT cost	40%
Legal, advisory and consulting expenses	12%
Legal, advisory and consulting expenses	0%
Litigation expenses not covered by provisions	2%
Advertising, PR and promotional expenses	12%
Communication expenses	1%
Office supplies	1%
Car expenses	2%
Security expenses	5%
Traveling expenses	0%
Expenses for leases	0%
Other taxes	2%
Training expenses for staff	1%
Sundry administrative expenses	10%

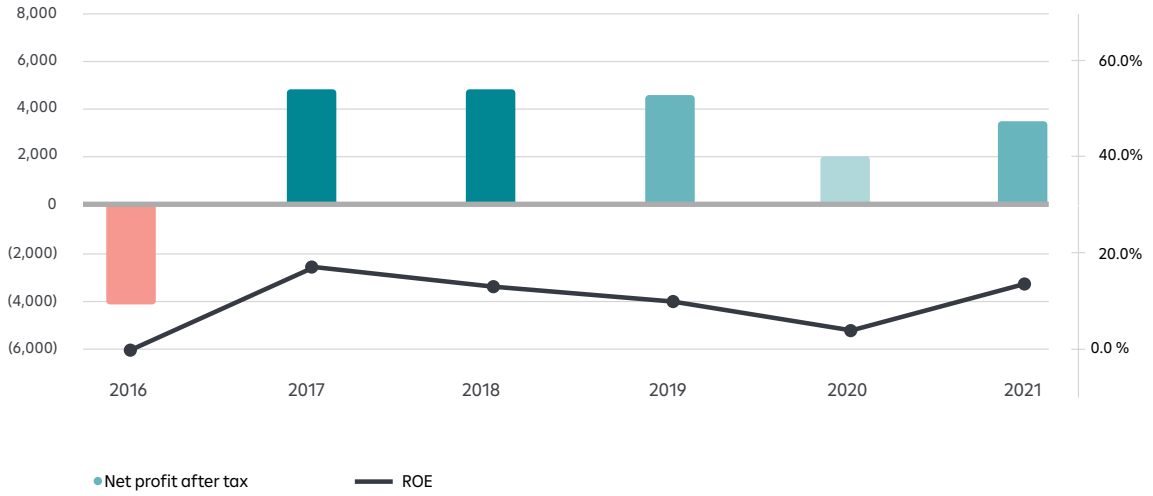
Despite that Group net interest income increased with 3.24 per cent in 2021 and Bank's total balance sheet increased (15.1 per cent) due to surplus liquidity, net interest margin (calculated in relation to average balance sheet – total) result in decrease which is 2.66 per cent in 2021 from 2.85 per cent in 2020.

Net Income

(in '000 LEK)



Profit & ROE (in '000,000 ALL)



Risk Appetite / Tolerance Statement

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

Regulatory RWA (in EUR tsd)	2022	2023	2024
Credit Risk	892,205.97	958,742.03	1005,244.72
Market Risks	10,142.00	10,166.06	10,174.10
Operational Risk	143,007.52	147,171.90	158,295.46

	Dhjetor 2021
Regulatory Total Capital Adequacy Ratio	20,30%
Capital Adequacy Ratio in line with local ICAAP methodology	19,31%

Segment Report

Corporate Products Division

During the year 2021 Corporate segment continued to strengthen its position in the local market. At segment level, the asset portfolio recorded an increase of 31.4% compared to the previous year marking one of the most successful years since the establishment.

Net profit after tax recorded an increase of 113% year on year generated from high lending volumes above budget and in combination with the volumes of transactions from cash management products in the corporate segment.

Many initiatives and campaigns were run to reach operational excellence of services, especially in the lending activity by increasing 10% the base of the borrowing customers.

With the goal to improve customers' journey, Y 2021 marked an important milestone through the introduction of the lending speedboat concept in the corporate area.

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

Together with this re-organization Y 2021 marked a change in the segmentation criteria based on the annual turnover of the corporate customers, to better serve the customer's needs. Currently, the customers are served by two segments:

- Large Corporates
- Mid-Market

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

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

Testimonial

Energy Financing Team (Switzerland) AG, part of the EFT Group, started cooperation with RB Albania in 2021 on a financing facility. We successfully concluded a major factoring transaction in 2021/2022 which we hope will mark just the first deal of a long-term partnership.

We have been consistently impressed by the professionalism and support that the RB Albania team has provided. They have demonstrated deep market knowledge and a clear understanding of the energy market in Albania. The expertise of the RB Albania team has allowed us to jointly develop innovative ideas for cooperation.

Contact person:

Ivan Jennings

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Project Finance and Agri financing Unit

The Project Finance unit is committed to assess the financing needs and helps to facilitate financial services for long-term Industrial and Real Estate Projects as well as structured long-term transactions, like mergers and acquisitions. During 2021, the project finance portfolio increased significantly. We at RBAL, are eager to finance projects in all sectors, subject of the project being feasible and in line to our lending criteria.

Since 2021 and in the future, the focus is to finance social and green projects, in order to act synchronized with worldwide sustainable transformation.

We remain focused in financing the renewable energy sector, which for the moment includes Hydropower Plant Projects and Solar Power Plants.

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

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

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

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

Liquidity Products Management Unit

Cash Management Products

1- **Scan QR payment for electronic invoices**

As a continuous effort to digitize products and processes for Business Customers, RBAL has emerged as a necessity to facilitate our customer's life due to the government regulatory law for fiscalization that has obliged all business to issue an e-invoice, containing beside all financial data also a QR code.

By scanning the QR code via the RON mobile application camera, all the data are entered automatically. This is a new feature launched by Raiffeisen bank, ranking us as the first Bank in Albanian market to pay electronic invoices with just one click.

2- **Online account opening**

For the first time in the Albanian market, companies may open new current accounts and additional accounts without the need to visit our branch network. All this process is now possible online. Our digital platform RON has been enriched with these features to facilitate client's daily business. Every company that uses RON can easily benefit from this online service. Save time, traffic, queues, and work from the comfort of your office.

3- **Financing Limits and Disbursement Request**

During year 2021, we have enriched our platform with new services for Lending Products for our Business Customers. We are the first Bank in Albania that now offers our Business Customers the possibility to view through our Digital Platform, an overview of all the Financing Limits approved by the Bank, respective details, products disbursed for each Contract, and available limits for utilization. Through this new feature, customers can now Request a Disbursement for the unused balance of the existing limit by filling two New Product Disburse and Increase Amount of Existing Product Forms.

Trade Finance Products

During 2021, Trade Finance and Short-Term Financing Unit continued to support Corporate customers in all matters related to utilization of Trade Finance and Short-Term Financing Products.

We have preserved our market share in Trade Finance Products during 2021, thanks to our dedicated team that closely supports and advises our customers in better understanding and structuring their needs for such products aiming to mitigate their risk in international trade.

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

During 2021, Trade Finance and Short-Term Financing Unit, in collaboration with the Sales staff and through intensive communication with Corporate segment customers, has helped to increase usage of Factoring product compared to previous periods. The Unit continued to work towards increasing customer awareness and knowledge of the Factoring Product and advantages related to its utilization.

Retail Banking

Customer Segment Development

Private Individuals Customers

2021 continued to mark a challenging year. The prolonged pandemic situation followed an elevated level of uncertainty in both social & economic life, facing us with new challenges, new customer's needs; new ways of providing our products and services, and consequently other customers' expectations of the banking service. Despite this, we managed to increase our customer base by 13%, thus strengthening the relationship and increasing their activity with the bank.

It is particularly important that our payroll customers increased by 5%, with a positive performance in both the public and private sectors, showing our sustainability and leading position in this market.

Premium Segment

Raiffeisen Bank has been leading the banking market in the advanced service of the best customers since 2010. There are currently approximately 12,000 customers in the Premium segment with various banking requirements, ranging from primary requirements to more complex ones, which require detailed financial advisory. Our Dedicated Premium Relationship Managers are located in 15 branches in the largest cities of the country, and not only offer a tailored service but are also trained in financial consulting.

To better meet the needs of this segment, by the end of 2020, we launched Premium Direct remote service, being the first bank in the country to offer an advanced communication platform that also provides support in the daily activities of the most elite category of our customers.

Small Enterprises segment (SE)

In 2021 SE segment attained a very good performance. Asset Outstanding recorded a YOY increase of 15.3%, and all budgeted parameters have been achieved or even surpassed while still maintaining a good portfolio quality.

With the efforts of all the team, the customer number increased and especially the borrowing customer base by 9%.

Our focus for 2022 will be further simplification of products & services and launching the pre-approved/pre-selected campaigns to be more flexible and fulfill the customers' needs with fewer efforts.

As part of Raiffeisen Bank International, responsible banking became part of our strategy and it stands as a key priority for Retail. We are committed to a sustainable future by starting to provide ESG-compliant loans for our SME customers. Green Loans Offering with favourable conditions shall be a focus for us.

Micro Segment

The year 2021 was the first year where the new Micro Sales and Service Model was fully operative, and this was reflected in the successful results achieved during this year. New product features and especially the focus on Pre-Approved and Pre-selected campaigns were launched in 2021. These initiatives enabled in more than doubling of the Assets Outstanding volumes in the Micro segment and achieve a 4-times higher level of New Volume of Disbursements.

Not only in lending but also in daily banking the new account packages were launched that were specifically designed with the aim of meeting customer's needs. Through the new packages, new customers acquired during the year and the increase of our digitization of Micro Customer base, also in Micro, resulted in the net interest income overshooting the budgeted level.

For 2022, our key focus shall remain on the lending activity. We aim to bring new products to our customers, especially in other industries where we are not active, such as Agri and most importantly we will work toward digitalizing the lending products. Our aim is to continue to be present and near our customers physically and digitally – based on their needs and their nature of the activity. Improvement of our internal processes to increase efficiency and ease our customer life, promote Green Business, and keep our promise to be a responsible bank shall be our main drivers during 2022.

Product Management Division

Savings Products

In 2021, retail deposits remained the largest funder of the bank balance sheet. Market Interest Rates continued to be on record low levels during 2021, also due to excess liquidity in the banking system. Consequently, Term Deposits Rates continued to be at the lowest possible levels.

Raiffeisen Bank managed to offer clients alternative wealth management options through our subsidiary asset management company, Raiffeisen Invest, the biggest company in the market to offer investment funds to the public. The vast majority of our clients continued to place their trust in our bank by keeping their deposits with us despite low-interest rates. However, a sizable portion of our customer base opted for Raiffeisen Invest Funds gaining better-annualized returns, well above the Term Deposits market rates.

Raiffeisen Funds, offered throughout our branch network, also attracted new clients and funds from other sources. The combination of traditional banking savings products and Raiffeisen Invest Funds gave individuals more choice and possibilities to grow their savings.

Individual Loans

2021 was the year that reshaped the banking industry and transformed every aspect of doing business. After closing a difficult year, where the pandemic changed both our lives and our business, we started the year with more expectations and clear goals to achieve.

In 2021 lending to the individual segment increased significantly. New volumes increased by 184% compared to 2020. This increase was observed in all retail loan products, confirming us once again as a leader in unsecured lending and a very favorable position for the secured ones in the Albanian market.

At the end of December, the market share for new unsecured loans reached the level of 41.28% (29.32% at the end of 2020), while in secured loans we managed to have 15.47% (7.97% at the end of 2020).

The pandemic taught us to adapt to the new needs of our customers. To meet these, we focused on process automation and digitalization of lending.

Customer experience and fulfillment of customer expectations remain our primary focus and we are constantly looking for new ways to improve the loan application process. In 2021, we again face uncertainty due to COVID-19 and a series of challenges to face, but we continued to work constantly on process automation and digitalization to provide our customers with the right products for them, even in difficult conditions of a global pandemic.

The new way of working in the organization has already shown its benefits. With the agile methodology, we can collect the customer's voice, propose a solution and what is most important, validate it again with our customers.

The unsecured loans team this year focused on facilitating the customer's journey to get this product. With the introduction last year of the automatic decision on personal loans, where the loan is approved directly at the branch and customers can get their loan with just one visit to the branch, today we can say with full conviction that we have fulfilled a promise to our customers. We provide loans in 30 minutes. Today about 60% of our loans are automatically approved and customers can access their funds in 30 minutes.

Digital lending has also been the focus of the team this year. The electronic signature was a decisive factor in digital lending. During this year we launched on the market four, completely digital, products for personal loans. In December 2021 about 29% of new loans came from digital channels. We are committed to improving the experience of our customers by providing them with the opportunity to get a personal loan directly from our digital application, without the need to come to our branches.

The year 2021 has been a challenging year from the point of view of mortgage lending, especially housing loans. Financing home equity loans has also been difficult due to the uncertainty created in each sector. After 2 exceedingly difficult years, the pandemic of Covid19 immediately after the earthquake brought a not at all favorable climate for results in secured lending. Despite the situation, the Bank continued to lend to clients for home purchases, mainly by financing loans from programs in cooperation with several municipalities in the country, described as "Loans for young families", trying to finance interested beneficiaries. In 2021, the project for soft loans with the Ministry of Finance continued, bringing a satisfactory inflow of loans from this program in the first months, giving the green light for the following year. In parallel, the secured lending team continued discussions to turn the situation of credit restrictions back into the same as before the pandemic.

The focus during 2021 regarding mortgage lending has been the improvement of the process, focusing on customer satisfaction. Automation of internal processes, provision of facilities for the client, receipt of documents through approved electronic channels, standardization of documentation have been the main activities of the team. At the end of 2021, we managed to process the offer to the client credit in record time for the bank's standards. We manage to make the loan approval in 13 days and disburse the money to the client in 16 days.

Measuring customer satisfaction and initiatives related to transparency from the customer's point of view, promotion and awareness related to mortgage loans have been the permanent approaches of the secured loan team.

By offering the market a completely innovative approach to these products, customer satisfaction for these products is at maximum levels. The index of NPS for secured loans, at the end of 2021, marks the level of 91 out of 100, while the satisfaction of our clients marks the level of 4.86 out of 5.

Nowadays the world needs sustainable change for a greener future. Companies need to stand together to achieve this. Raiffeisen Bank Albania is committed to responsible banking for a sustainable future. That is why we are a proud pioneer of #responsiblebanking.

As responsible bankers, we support our customers in Albania with sustainable financial products and comprehensive know-how.

Our green product portfolio includes four ESG-compliant products successfully launched: RSF Loan; Mortgage; Home equity Loan; Unsecured Loan

We strive to offer the most beneficial lending products, aligned with the best industry practice and benchmarked to the regulatory requirements for carbon-neutral, EU-Taxonomy eligible industry activity. Our sustainable lending policy is linked to climate change.

We support our customers to finance activities contributing to:

- sustainable cities and communities
- green energy
- green buildings
- education, etc.

We see our customers as the best partners in this journey, by providing ESG literacy and raising social awareness, we commit together to a sustainable future!

Cards Business and E-Banking Division

Cards

Card Business faced a significant improvement during 2021 compared with the previous year, although still the restrictions of pandemic Covid 19 were present. The digitalization of card products, debit and credit ones was one of the main strategies that Raiffeisen Bank Albania is continuously focused on to provide the best user experience for our customers. Therefore, in 2021 we launched Online Application for Debit Card and Credit Products. This new digital channel is so much easy, convenient and user-friendly for our customers.

RBAL Cardholders kept asking and applying for the Smart contactless wearable payment tool and we faced a significant increase in sales by almost 4 times more versus 2020 for credit card products. Higher is the usage of these smart devices with almost 7 times more for this product and this performance re-confirmed that RBAL is still the market leader in innovation and our new products are very well accepted by our customers.

The 2021 card business results clearly show the growing trend of last years, especially for Debit Card products performing transactions through POSs. Almost 20% more DC volume transactions performed during 2021 versus 2020m but this increase is +55% in POS transactions which shows the good results of bank strategy for digitalization of the services and shifting cash transactions to POSs ones. Very good results were recorded for credit card portfolio as well. +41% more volume transactions were performed through 2021 compared to 2020 with a credit card and mainly through POSs devices.

Offering the best customer experience for our cardholders was in focus of the bank. The implementation of a new, fast, convenient, and safe way of PIN delivery through SMS for the cardholders was one of the successful investments completed in 2021 and launched for the cardholders of debit and credit cards.

POS Network

In 2021, Raiffeisen Bank kept focused on enlarging the POS footprint and its profitability, mainly strengthening the presence in the large and medium merchant category but expanding the micro-segment portfolio as well. +80% newer merchant onboarded during 2021 compared to 2020 reaching so +32% POS merchant portfolio increase.

The POS transactional data results for 2021 confirmed a significant double-digit growth of 53% in the volumes performed through our POS network. It is important to mention that pandemic restrictions have impacted the POS usage behavior of the customers compared to cash transactions.

E-commerce

Having a digitalization strategy in focus for Raiffeisen Bank Albania means offering digital channels for customer payment transactions. That is why we expand the E-Commerce portfolio by +64% in 2021 versus 2020. Raiffeisen Bank makes substantial investments to offer the most advanced standard of payment security for the internet purchasing process through 3-D Secure Technology. Raiffeisen Bank remains the market leader for E-Commerce services in the Albanian market with an increase of 52% in the transactional volume versus 2020.

ATM Network

Raiffeisen Bank still 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 into account the high customer demand, especially in higher traffic locations. ATM service is offered for all the cards issued globally under VISA, VISA Electron, PLUS, MasterCard, Maestro and Cirrus brands.

The Cash-In functionality has been a great success service during 2021 with strong growth of +158% of transactions volume year over year and more than double on transaction numbers. There are now 96 ATMs throughout the country that enable our customers to deposit 24/7 in their accounts without needing to visit a branch.

Enhancement of ATM digital functionalities is part of Raiffeisen Bank's multi-channel banking ecosystem, aiming to increase the availability and use of digital banking channels 24/7 in our ATM network and Self-Service Centers. Contactless Transactions performed through RBAL ATMs are an advantage in the Albanian market implemented during 2021 and very well accepted by our customers.

Digital Banking

Raiffeisen Bank Albania has made digitalization its top priority and has designed an ambitious strategy to transform customers' banking experience by providing it through an omnichannel dimension.

As technology is gaining prominence in practically every aspect of our customers' lives, Raiffeisen Bank was a pioneer 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.

The year 2021 continued to be a tough year due to COVID's new cases, while many people were increasing the demand for online servicing & remote services for advice and counseling.

In 2021, Raiffeisen Albania was the first bank in Albania to provide Premium Direct service via RaiConnect platform. Unique in our market, RaiConnect represents a new and secure way to communicate online. Our Premium customers can: talk, exchange documents, make appointments with the bank employee, creating an interactive communication. Furthermore, through RaiConnect, Premium clients can get advice on their financial plans and investments, whenever they are in a remote way. The aim is to expand this service to more clients and, at the same time, develop best client experience by offering end-to-end products promptly.

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 a service. All these challenges served as starting points to encourage the digital team to undertake this path.

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, by 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

In Raiffeisen On platform:

- Application for pre-approved Credit Card
- Application for Personal Loans for salary and non-salary category
- Request for money Kuik
- Fingerprint & Face recognition
- Buy investment funds for existing investors
- Preferential forex exchange transactions with new and friendly design
- RaiCare for more control and details for your expenses

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

During 2021 the number of customers that subscribed to Raiffeisen ON reached 58% of total active individuals. It is important to mention the mobile banking penetration reached by 30.2% of total active individuals. For the first time the percentage of digital loans was 13% in Raiffeisen On platform and website, which was another success story that just began.

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

Payments

Payment transaction numbers through the digital platform Raiffeisen ON continued to increase rapidly during the year. The covid-19 pandemic directed our customers toward online transactions, thus avoiding queues in Branches. Private Individual's payments through Raiffeisen ON increased by 135% during 2021. We also did further improvements on processes to adapt to fast changes due to the Covid-19 situation and to provide more ease and comfort to all our customers.

Bancassurance

On the meeting of October 31, 2016, the Board of Albanian Financial Supervisory Authority licensed Raiffeisen Bank as a Broker in insurance products for both life and non-life categories. Raiffeisen Bank was the first bank in the market licensed as a Broker. Brokerage activity in Raiffeisen Bank is conducted through our internal staff licensed as private brokers.

Further utilizing the existing branch network and front-office staff, the brokerage activity conducted through this license contributed significantly to lowering the risk for secured and unsecured loans portfolio, also contributing over 12% of Retail fee income business during 2021. Bancassurance commission income during 2021 increased by 161% versus 2020 or 20% versus 2019 since during 2020, there was also the pandemic Covid-19 negative impact.

Customer Experience

The bank has been transforming continuously last years, focusing on innovating our products and services as well as introducing new service channels.

Paying attention to customers' voices and taking action to address their challenges, is essential for the Customer Experience Team. Throughout 2021, all customers' concerns and suggestions were regularly collected through 3 main pillars: Transactional NPS, Customer Suggestions and Complaints), which were proactively shared within the organization to increase awareness.

We are one of the few banks in the market offering 24/7 online support to our customers through the **Virtual Assistant RONA**, thus replacing the traditional communication channels with innovative ones. In 2021, RONA had over **268,000** interactions with various customers in channels such as Web, Messenger, WhatsApp, and Viber.

Building a **customer-centric culture** is essential to achieving our mission. For this purpose, during 2021, about **21% of the bank's employees** in Branches and Head Quarters have participated in the new Customer Experience training module, adapted specifically for the RBI Group.

Customer Relationship Management – CRM

CRM developments, during 2021, marked a milestone in the construction of contemporary platforms, integrated with many digital channels of communication. Our customers should not seek which ways to reach the bank, we make sure to reach them over digital channels they use most in their daily lives.

Our goal over the years has been to focus on customer needs, to provide the right services at the right time. Our newest services enable customers, through digital communications, to be aware of how they are behaving financially, and give pointers on how they could achieve their financial goals, or make better banking decisions.

Contact Center

Raiffeisen Bank Contact Center conducts its activity focused on two main directions: - reviewing customer requests through incoming calls and other alternative channels such as email, Chatbot, social media, Evrotrust and the electronic channel Raiffeisen ON. - development of telemarketing / information / questionnaires campaigns for the bank's products and services The Contact Center provides service 24 hours a day, 7 days a week, providing information on the bank's products and services, according to the needs of customers identified through telephone calls and other alternative channels. communication. This unit offers assistance for all banking products and services, such as debit and credit cards, loans, POS & Ecommerce services, ATMs, electronic channels Mobile & Internet Banking and customer authentication for the electronic signature through the Evrotrust application and the online service for new customers through MyRaiffeisen.al. Contact Center plays a particularly significant role in monitoring activity for cards and digital banking products, helping to prevent fraud cases. In 2021, Contact Center has provided 24/7 service to all bank customers, mainly individuals also small and medium businesses, being a crucial point of contact in all communication channels phone, e-mail, and chat. Contact Center staff has managed about 156,000 customer requests and provided them with an exceptionally good service regarding cards, digital channels and new bank products and services. Also, based on the CRM strategy, the Telemarketing unit, contacts the selected customers by phone, for dedicated offers that are part of the customer relationship management of the bank. By 2021, about 124 campaigns were developed with a total of 176,161 target customers, or about 13 percent more compared to 2020. The main objectives of the Contact Center are to provide short-term solutions to the needs of our customers, improve service quality and provide new sales and revenue while increasing our customer base!

Sales & Distribution Channels

Raiffeisen Bank continues to be the market leader with the largest branch network in Albania, with 74 branches and agencies distributed in 43 cities, covering most of the country. The branch network is supported by 24 Self Service Zones attached to the key branches equipped with cash in/cash out ATM-s, 5 more compared to the previous year.

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

Maintaining the high standards in all banking outlets through investments has continued to be one major pillar for the bank to provide comfortable service space and privacy to customers. There are a number of branch development projects completed during 2021. Raiffeisen Bank continuously invests in the branch's network to bring a superior customer experience.

In 2021, Raiffeisen Bank has expanded the digital (cashless) banking concept to an additional 6 branches, growing the number from 2 to 8. The digital branches, equipped with tablets, offer a variety of bank products and services, excluding cash service which is offered through cash in/cash out ATM-s. The staff is focused on customer digital education and strongly pushes the customers through the digital platforms, showing them the usage and how to perform transactions in digital channels and ATM-s.

The hybrid branch concept has been introduced in 2021, being a combination of the standard and digital branches, with reduced cash servicing hours and increased focus on sales and digital education of the customers.

All our branches are equipped with Free Wi-Fi service for customers in the framework of digitalization of banking processes, serving customers to use bank digital channels. Customers can download Raiffeisen ON platform for a faster banking experience as well as the My Raiffeisen app for new-to-bank account opening.

Raiffeisen Bank Albania continues successful cooperation with Albanian Post Office for cash deposit transactions. A new location has been added to the list of post offices that offer RBAL bank cash deposits to our bank customers, reaching the number of 31 postal offices throughout the country where the bank is not present.

Training of branch staff has been the focus in 2021, based on Skill Matrix needs identification, bank priority on digitalization and lending. Digital Training Package has been introduced to increase awareness of new digital developments and innovation.

Salesforce has been trained in lending to Micro Customers, also Premium Relationship Managers started approaching Micro Customer in daily banking.

Agile Working in Branches has been piloted as an innovation in Albania, with particularly good results and staff feedback.

Raiffeisen Bank is the biggest bank that provides fast financing onsite in Retail Shops, counting 33 locations as the end of 2021. 5 new Retailers and 4 new points of sales with existing retailers (especially furniture & services) were introduced to our customers, enhancing the benefits they receive, combined with very high service standards.

Treasury and Investment Banking

Fixed Income

The year 2021 was a year of uncertainty and anticipation, with hopes for a return to normality following the onset of the COVID-19 pandemic in 2020. It also was a year that once again showed how hard it is to make investment decisions based on predictions of where markets are headed.

Coming out of a volatile 2020, investors sought signals as to which way the global economy was oriented. The distribution of vaccines and the easing of lockdowns followed an economic rebound, but the emergence of new variants was a setback for the recovery. Despite these challenges, the Albanian economy rebounded in 2021, showing signs of transition from recovery to surpassing its pre-pandemic figures. Still, the recovery followed labor shortages, supply chain issues, and rising inflation. The annual inflation rate rose to 3.7 percent at the end of the year, reaching its highest level in the last decade.

The monetary policy remained accommodative throughout the entire year, transmitted through a low policy rate, which remained unchanged at the level of 0.50 percent and through a high injection of liquidity into the system, in an attempt to provide the necessary stimulus for fuelling economic growth and to contain inflation.

As a result, the year 2021 featured declining yields for securities in each maturity, which had an impact on our portfolio performance and on our investment strategy for this period.

Despite all challenges faced during this year, our investment portfolio has been in line with the overall group strategy to be compliant with the European Union financial regulators and their requirements. Addressing risk-weighted assets has been on focus by impacting our investment's objectives. Our main purpose was to keep the investment level stable by always acting in line with every local and European regulator. The portfolio structure followed some changes during 2021, as we were able to increase investments in Foreign Currency Bonds, taking advantage of the opportunities created from the EBRD guarantee, and in addition, we concentrated on securities with maturity between 2 and 3 years.

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

This year featured high volatility in the interest rate for all types of securities. They started to decline in the third quarter of the year to then hit the floor in the last quarter of 2021. The considerable fluctuations in interest rates and the downward trend of the second half of the year in all maturities were triggered by the high liquidity level in the local market and the overall lack of investment alternatives for local currency excess. Throughout the entire 2021, 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 market trading. During this year, RBAL continued to offer custody activity for its clients.

Money Market

Money Market Unit, as an important part of the Dealing Room in the Treasury Department has played an active role in the Bank's RWA target for 2021 by using different instruments on maintaining the minimum reserve requirement at the Central Bank. The unit has continuously contributed to keeping the liquidity ratio at the required level as per the Bank of Albania's regulation.

The money market portfolio throughout the entire year 2021 has been well managed and expanded in such maturities that respected all limits and constraints in place by assuring and fulfilling at any moment banks and bank clients' liquidity needs in each currency.

This unit has contributed to short-term liquidity management by increasing the number of interbank transactions, in the domestic and international markets, and by further developing the interbank activity using different instruments.

Regardless of the market's little attempts for recovery during 2021, in an ongoing low-interest-rate environment, the Money Market Unit has put its maximum efforts into successfully managing the short-term liquidity and achieving a satisfactory performance.

In addition to its usual lending activity, during 2021, part of our liquidity has been invested in government papers in the international markets, as being an attractive investment alternative at the best return rate.

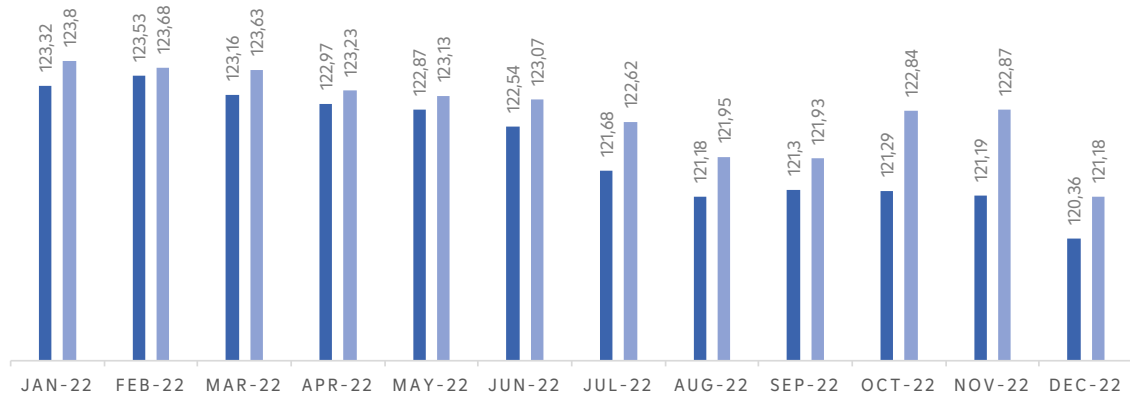
As an active and necessary part of a still-developing local market, the Money Market unit continued to contribute daily to the TRIBID/TRIBOR publications. These quotations are an especially important aspect of the local market development, reflecting its activity and TRIBID/TRIBOR are also a relevant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

The Money Market unit continuously gives its contribution, in a way to further impact the development of the market, instruments and investment possibilities in short term.

Foreign Exchange

It was a year of uncertainty and anticipation, of hopes for a return to a degree of normalcy following the onset of the COVID-19 pandemic in 2020. And it was a year that showed, again, the difficulty of making investment decisions based on predictions of where markets will go—as well as the enduring benefits of diversification and flexibility. Coming out of a volatile 2020, even this year had difficulty identifying which way the global economy was headed. The distribution of vaccines and the easing of lockdowns followed by an economic rebound, but the emergence of new variants would be a setback for the recovery. Despite these challenges, the global gross domestic product grew, completing the transition from recovery to expansion and eventually surpassing its pre-pandemic peak.

The situation in the domestic market has been more stable in the first half of 2021. The fluctuations marked very slight levels as a result of a balanced supply-demand for the European currency. Meanwhile, during the second half of the year, we can easily notice the weakness of ALL against the European currency. The weakening of the ALL is a result of the above-mentioned reasons, 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. However, the second half of the year has been more stable. Markets showed to be optimistic about a period of stronger growth as vaccines were widely distributed and the economy is now fully operational.



Despite all fluctuations in the local market, the Forex Exchange Unit has managed the bank's Fx Open Position very carefully, together with all related. This was achieved based on a very professional analysis of financial markets and closed the year with an outstanding result.

US dollar followed the same trend as in the international market but has been affected more by the excess of liquidity in the local market. The foreign exchange unit provided its maximum support in the local market, by maintaining a small spread in the supply/demand and quoting at extremely competitive prices with clients and the interbank market.

Volumes of foreign exchange transactions continued to be significant, especially for EUR/USD transactions, running at EUR 190 million per month. The digital platform had a significant impact on this success, indicating 80% usage of exchange transactions from customers during the pandemic.

Treasure Sales

Based on the success of online services for Treasury products and the growing customers' demand, we managed to increase the services offered through the digital platform and increase the quality of these services. Almost 85% of Treasury services are executed via this platform, making this service more time-efficient and cost-beneficiary. Although 2021 was still a pandemic year, the Treasury Sales Unit recorded high closure results. Their focus is always to fulfill the needs of the customers in line with the banks' policies and strategies. This challenging year demonstrated in the best viable way our orientation toward our client's requirements to offer them all the possible channels to meet their requests with the best market prices. Our oblate, professional and cooperative staff, together with all the business channels of Raiffeisen Bank, played a key role in achieving this goal.

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

Corporate Social Responsibilities

Raiffeisen Bank in Albania has a long history and solid corporate culture in support of sustainable development. In 2021 we continued to show our commitment and dedication to supporting social issues, promoting cultural life and protecting the environment. We strongly believe that by combining business with investing in society with the desire to make a positive impact thus we are contributing to the long-term well-being of the community and to building a prosperous future for all.

Throughout 2021 we have supported over 65 projects in various areas. The education of the younger generations, especially the financial one, was an area where our attention was especially dedicated during the year we left behind. We implemented 11 projects for education, inclusion and equal education. Among the projects, we would single out the support of two daily social centers in cooperation with the foundation "H. Stepic CEE Charity ", where over 200 children from the marginalized classes study. For the second year in a row, we supported the Blind Students Institute with computer hardware. We awarded 150 scholarships at the 'Tumo Innovation Centre' for children in need. "Financial Education in the Digital Area" and "Get Introduced to Money" were the two projects where we trained over 400 students from several schools in Tirana.

We paid special attention to the health sector, as one of the most important sectors supporting several projects, such as equipping Shkodra hospital with an ultrasound device, installing a heating system in Saranda hospital and equipping the Maternity Department of Lezha hospital with equipment.

Raiffeisen Bank's contribution to the rehabilitation of the environment where we live and the improvement of the quality of life has been considerable and consistent. Therefore, we emphasize 19 projects, highlighting the rehabilitation of a recreational corner in neighborhood no. 4 in the city of Saranda, equipping kindergarten No. 1 in the city of Kukës with 165 beds and donating 250 packages of food to families in need on the occasion of end-of-year holidays.

Protecting the environment and raising awareness in this regard has been another area where we made our contribution. Over 10 km of coastline has been cleaned in 4 coastal areas, Durrës, Vlora, Lezha and Shkodra thanks to the contribution of over 200 volunteers and the bank's staff in order not only to clean but also to promote volunteerism as a form of action and civic and environmental education.

Art and culture as an essential part of the emancipation of 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 single out the support of the National Theater in the artistic calendar of the year, the support of the artistic calendar of the Puppet Theater, the sponsorship of the 10th edition of the concert "Three Tenors", Zâ Fest, etc.

Other important projects that support tourism or healthy living through sports were "South Outdoor Festival", Tirana Marathon, Voskopoja Trails, etc.

Raiffeisen Bank considers Corporate Social Responsibility of utmost importance and as such shall remain committed to providing its contribution to be a pioneer of sustainable development of society in Albania.

Sustainable Development Goals

68%

of projects fit under SDG



Main goals achieved from projects 2021



GOAL 3
Good Health and Well-Being
5 projects



GOAL 4
Quality Education
14 projects



GOAL 11
Sustainable Cities and Communities
20 projects

Human Resources

With a staff of 1,265 employees, Raiffeisen Bank is one of the biggest and best employers in Albania, offering a competitive environment in terms of staff compensation, development and motivation.

Recruitment and Selection

In 2021, the staff recruitment and selection process aimed to ensure the selection of qualified, experienced personnel, with high service level professional skills, by being in frequent and direct communication with line managers to better understand the operational requirements and necessities, also being familiar with their goals that would focus the acquisition of talents in types of individuals that have the required skills and competences. To support all the business needs in all the areas where we operate, a total of 124 new employees were hired.

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

The promotion and development of its staff remain the primary focus for Raiffeisen Bank. The internal candidates, based on their performance, are considered the main potential for the vacant positions announced in the Bank. In 2021, 35 per cent of the candidates selected as winners for the vacant positions were the internal staff. This gives them the opportunity to build a successful career within the Bank and increases 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 internal vacancies. In addition, the students part of the Internship Program and those part of the Direct Sales Agents (DSA) program, were the primary source for filling these vacancies.

Internship Program

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

Direct Sales Agents Student Program

In 2021, DSA Student Program consolidated its cooperation with many universities in the country, with a number of 196 students who joined this program. The focus of this program, launched by the Direct & Relationship Sales Department, is to increase business sales of various products in branches. The selected students, who serve as Direct Sales Agents, are offered training and coaching by experienced sales teams through this one-year program. At the end of the program, they acquire knowledge of Bank products and processes and are qualified for vacant positions in the Bank.

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

Key Academy Program

The aim of the Key Academy Program is to create a Talent Pool, by having qualified candidates for possible vacancies in the IT Division. A number of 18 students were selected and started the program – 100 % of the selected candidates filled the vacancy needs in the IT Division.

Employees with leased contract

In 2021, we continued our cooperation with an outsourced company, hiring 63 contract employees, according to the needs for staff in Head Office and Network Branches.

The leased staff were provided with online training and on-job training to efficiently perform the required tasks. The best performers are encouraged to apply for vacancies announced for internal staff.

Training

At our Bank, learning and development activities in 2021 followed a hybrid modality between online and classroom training. The pandemic continuation even during 2021 did not prevent us from promoting and emphasizing the concept of self-learning and the continuous learning mindset.

Through selected communication plans and training courses, we aimed to positively contribute to the psychological security and well-being of our staff.

The Bank has provided a variety of online training programs, personal and professional development initiatives. By 2021, 7,603 training days were delivered and 100% of the staff participated at least in 1 training session. Leadership and management education is one of the main focuses of RBAL. We have invested in new leadership training programs and modules, such as inclusive leadership, leadership role in times of crisis, team management in distance, etc.

Agile mindset training delivered during 2021 aimed to easily embrace agility and the new ways of working. HR Division continuously supports the long-term business goals through Talent Management and Successors Planning Strategies. The bank is focused on employee identification that shows a great achievement potential, consistent performance and implements customized development plans, assuring long-run staff engagement.

Banking Group Remuneration Policy

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

The scope of the Remuneration Policy is the fulfillment 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.

On annual basis, RBAL (RLAL Excluded) 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.

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 a significant impact on Bank's result & balance sheet. The number of staff who falls under this category is 47 and includes Supervisory Board members, Board Members, Audit Committee Members and some of the 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 27 and includes some 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 a 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 for a salary increase only if their performance is above a 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 the Remuneration Policy.

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

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

Variable Pay (Risk-Reduction Incentive Scheme):

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

Table 19:** Forms and elements of remuneration for the Supervisory Council (every year end)
(amounts in Lek'000)

Total aggregated value of payments and remuneration for the current fiscal year	Immediate/for the actual period	Past period
	Year 2021	Year 2020
Fixed remuneration elements	12,497	12,544.98
Cash/bonus	12,497	12,544.98
Shares		
Others		
Variable remuneration elements		
Cash/bonus		
Shares		
Other		

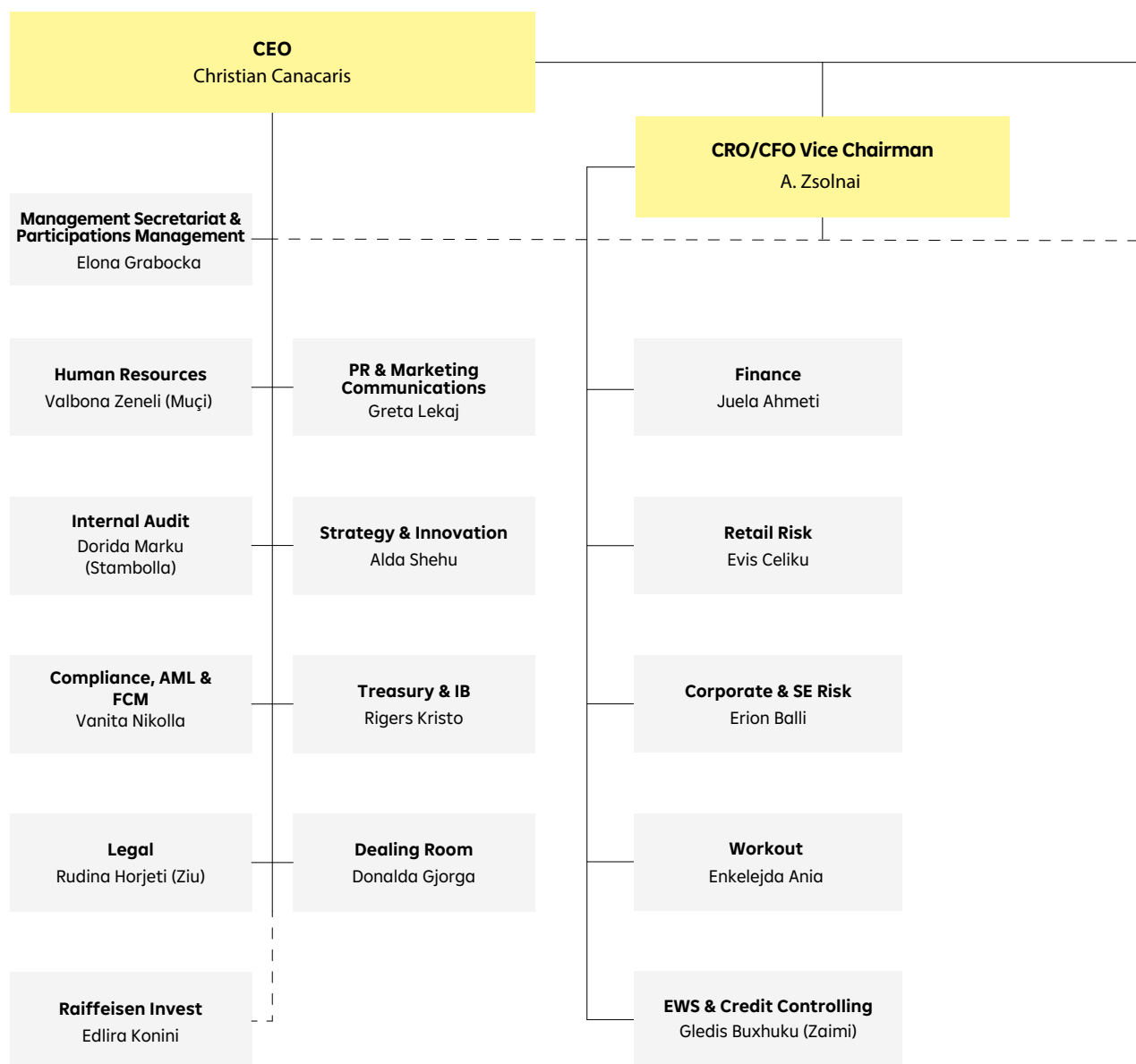
** This table will be completed separately for a) the Executive Board and b) Executive Directors.

Table 19:** Forms and elements of remuneration for Executive Directors (every year end)
(amounts in Lek'000)

Total aggregated value of payments and remuneration for the current fiscal year	Immediate/for the actual period	Past period
	Year 2021	Viti 2020
Fixed elements of remuneration	200,977	209,413
Cash/bonus	177,949	183,888
Shares		
Others	22,998	25,525
Variable elements of remuneration	28,932	7,933
Cash/bonus	28,932	7,933
shares		
others	0	0

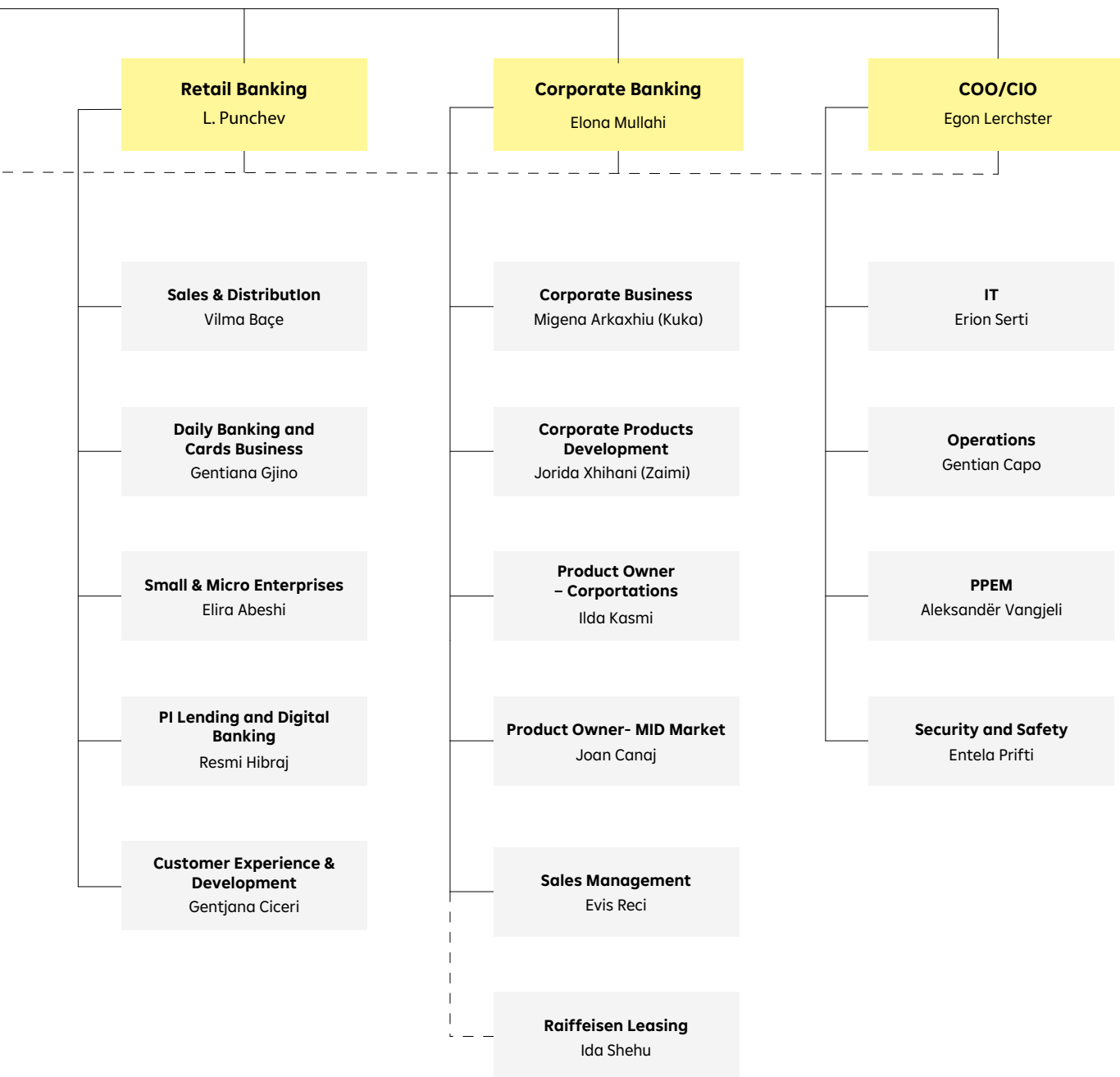
** This table will be completed separately for a) the Board of Directors and b) the Executive Directors.

Organisational structure of Raiffeisen Bank



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

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



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

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

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for the year ended 31 December 2021

(with Independent auditors' report thereon)

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Independent Auditor's Report

To the Management and Shareholders of Raiffeisen Bank sh.a. Group,

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank sh.a. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"s).

Basis for Opinion

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

Other information

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Audit Albania SHPK

Rruga e Kavajes, ish parku i mallrave, Kompleksi Delijorgji, Godina L, Tiranë, Shqipëri

Identification number (NUIS): L41709002H

Enida Cara

Statutory Auditor

Engagement Partner

Tirana, Albania

June 16, 2022

The Group

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 for Raiffeisen Bank sh.a. and its subsidiaries (the "Group"). The Group includes the parent company – Raiffeisen Bank Sh.a. (hereinafter also the "Bank" or the "Parent Company") and its 2 fully owned subsidiaries Raiffeisen Leasing sh.a. and Raiffesien Invest - Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST").

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

The Group's principal business activities are retail banking operations, providing finance leasing to companies and individuals and collection and investment of voluntary pension funds, within the Republic of Albania. The Bank operates through a banking network of 74 service points, as of 31 December 2021 (31 December 2020: 76 service points) throughout Albania, which are managed through 3 Districts and has no overseas operations.

Consolidated statement of comprehensive income

in LEK thousand	Notes	2021	2020
Interest income calculated using the effective interest method		7,060,570	6,836,762
Other interest income		556	684
Interest expenses		(264,793)	(254,377)
Net interest income	[1]	6,796,333	6,583,069
<i>Fee and commission income</i>		3,840,073	3,187,580
<i>Fee and commission expenses</i>		(1,374,019)	(1,204,671)
Net fee and commission income	[2]	2,466,054	1,982,909
Net trading income	[3]	225,705	579,309
<i>Other operating income</i>		40,970	47,582
<i>Other operating expenses</i>		(286,255)	(179,072)
Other net operating loss	[4]	(245,285)	(131,490)
Net operating income		9,242,807	9,013,797
General administrative expenses	[5]	(5,170,001)	(5,092,796)
Special governmental measures	[6]	(693,141)	(655,953)
Impairment reversals (losses) net	[7]	757,124	(1,188,692)
Profit before tax		4,136,789	2,076,356
Income taxes	[8]	(724,534)	(403,335)
Profit for the year		3,412,255	1,673,021
Other comprehensive income for the year		-	-
Total comprehensive income		3,412,255	1,673,021

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 6 to 86.

Consolidated statement of financial position

Assets

in LEK thousand	Notes	31 December 2021	31 December 2020
Cash, cash balances at central bank and other demand deposits	[9]	42,813,051	56,327,181
<i>Debt securities</i>		80,394,977	59,171,534
<i>Loans and advances to financial institutions</i>		36,728,182	27,233,140
<i>Loans and advances to customers</i>		107,036,227	88,305,614
Financial assets - amortized cost	[10]	224,159,386	174,710,288
Financial assets - fair value through profit or loss	[11]	12,222	5,015
Goodwill	[12]	92,783	92,783
Current tax asset		-	193,328
Tangible fixed assets	[13]	3,163,777	2,880,126
Intangible fixed assets	[13]	1,623,371	1,470,260
Reposessed assets	[14]	712,457	1,054,297
Other assets	[15]	822,832	821,096
Total assets		273,399,879	237,554,374

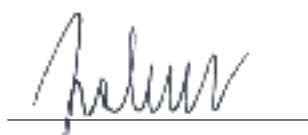
Equity and Liabilities

in LEK thousand	Notes	31 December 2021	31 December 2020
Liabilities			
<i>Deposits from Banks</i>		13,808,180	4,470,562
<i>Deposits from customers</i>		225,130,048	200,249,819
<i>Other financial liabilities</i>		3,096,467	1,526,216
Financial liabilities - amortized cost	[16]	242,034,695	206,246,597
Provisions for liabilities and charges	[17]	383,447	290,551
Deferred tax liabilities	[18]	26,314	23,665
Current tax liabilities	[19]	147,831	-
Other liabilities	[20]	657,112	567,189
Total liabilities		243,249,399	207,128,002
Equity			
Share capital		14,178,593	14,178,593
Other reserves	[21]	3,306,190	3,306,190
Retained earnings	[21]	12,665,697	12,941,589
Total Equity		30,150,480	30,426,372
Total liabilities and equity		273,399,879	237,554,374

These consolidated financial statements have been approved by the Management Board of the Group on 8 June 2022 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 6 to 86.

Consolidated statement of changes in equity

in LEK thousand	Share Capital	Other Reserves	Retained earnings	Equity
Equity at 1 January 2020	14,178,593	3,306,190	11,268,568	28,753,351
Profit for the year	-	-	1,673,021	1,673,021
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
Equity at 1 January 2021				
Dividend payments	-	-	(3,688,147)	(3,688,147)
Profit for the year	-	-	3,412,255	3,412,255
Other Changes	-	-	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	3,412,255	3,412,255
Equity at 31 December 2021	14,178,593	3,306,190	12,665,697	30,150,480

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 6 to 86.

Consolidated statement of cash flows

in LEK thousand	Notes	31 December 2021	31 December 2020
Cash, cash balances at central Banks and other demand deposits as at 1 January	[9]	64,799,985	42,269,288
Operating activities:			
Profit before tax		4,136,789	2,076,356
Adjustments for the reconciliation of profit/loss before tax to the cash flow from operating activities:			
Depreciation of tangible and intangible fixed assets	[5]	709,958	770,307
Impairment and reversal of impairment of assets	[7]	(831,111)	1,145,689
Net provisioning for liabilities and charges and impairment losses		73,986	43,002
Net interest income	[1]	(6,795,264)	(6,583,069)
Interest received		6,264,157	3,438,221
Interest paid		(1,173,230)	(205,753)
Income taxes paid		(351,835)	-
Effect of unrealized exchange rate changes		(246,708)	(40,057)
<i>Gain from disposal of tangible and intangible fixed assets</i>		<i>(24,414)</i>	<i>(16,121)</i>
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		-	-
Decrease in restricted balances	[9]	(2,071,895)	(1,267,605)
Financial assets - amortized cost	[10]	(18,212,389)	8,981,496
Financial assets - fair value through profit or loss	[11]	(7,207)	(2,162)
Tax assets		-	(94,120)
Other assets	[15]	339,982	340,050
Financial liabilities - amortized cost	[16]	37,318,481	13,912,306
Provisions for liabilities and charges	[17]	18,525	(41,822)
Other liabilities	[20]	59,737	(51,666)
Net cash from operating activities		19,207,562	22,405,052
Investing activities:			
Purchase of Investment securities and shares		(42,159,321)	(32,556,636)
Purchase of Tangible and intangible fixed assets		(1,118,175)	(1,143,766)
Proceeds from matured Investment securities and shares		21,675,762	35,909,900
Proceeds from Tangible and intangible fixed assets		12,761	17,916
Net cash used in (generated from) investing activities		(21,588,973)	2,227,414
Financing activities:			
Outflows of subordinated liability	[16]	-	(1,865,100)
Outflows of Lease Liabilities		(266,796)	(276,726)
Dividend payments		(3,688,147)	-
Net cash from financing activities		(3,954,943)	(2,141,826)
Cash and cash equivalents as at 1 January	[9]	64,799,985	42,269,288
Effect of exchange rate changes		246,708	40,057
Net (decrease)/increase during the year		(6,336,354)	22,490,640
Cash and cash equivalents as at 31 December	[9]	58,710,339	64,799,985

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 6 to 87.

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).

The Group has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement 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 liabilities.

In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from <http://www.raiffeisen.al>.

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, estimates 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 and financial guarantee contracts. The calculation of expected credit losses (ECL) requires the use of accounting estimates that may not necessarily match actual results. In order to determine the amount of the impairment, significant credit risk parameters such as PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as well as future-oriented information (economic forecasts) are to be estimated by management. The allowance for credit risks is adjusted for this expected loss at each reporting date. The methods for determining the amount of the impairment are explained in section Impairment general under Recognition and measurement principles. For additional disclosures on impairment of financial assets refer to note 26 Expected Credit Losses and note 35 Credit risks.

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 outbreak 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 suspending all activities that were not vital. Although, the Groups' 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 problems can request a postponement of the settlement of their liabilities toward the Banks until 31.08.2020. The Albanian government announced two sovereign guarantees to support all the business which are facing liquidity problems and will seek financing. The first program aimed to immediately finance "salary payments" to business employees while the second provides for a long-term support to business facing issues related to lockdown and pandemics COVID-19.

The activity of the Group has continued without suspension during 2021, and there has been a relatively stable performance on the customers' collection. For the year ending 2021, the Group would expect an increase in the collection of nonperforming loans portfolio due to the economic downturn.

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

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

The Group performs regularly, stress test exercises, to test the possible impact of macroeconomic indicators in Group's key financial position, performance and regulatory compliance. These stress tests are mainly focused on the

impact that some outlined macro and microeconomic scenarios might have on the loan portfolio, being the Bank's main source of income, financial position 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. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis. For additional disclosures on capital management refer to note 46.

Fair value of financial instruments

Fair value is the price received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies regardless of whether the price can be directly observed or has been estimated on the basis of a measurement method. In determining the fair value of an asset or liability, the Group considers certain features of the asset or liability (e.g. condition and location of the asset, or restrictions in the sale and use of an asset) if market participants would also consider such features in determining the price for the acquisition of the respective asset or for the transfer of the liability at the measurement date. Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. For valuation methods and models, estimates are generally used depending on the complexity of the instrument and the availability of market-based data. The inputs to these models are derived from observable market data where possible. Under certain circumstances, valuation adjustments are necessary to account for other factors such as model risk, liquidity risk or credit risk. The valuation models are described in the notes in the section on financial instruments under recognition and measurement principles. In addition, the fair values of financial instruments are disclosed in the notes under (22) 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 appraisers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. These are shown under note (14)

Deferred tax assets

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

Deferred taxes are not reported separately in the income statement and are disclosed under (8) Income taxes. By contrast, deferred taxes are shown consolidatedly in the statement of financial position in the notes under (18) Deferred Tax.

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 mor-atoria, by decision of Management Board, Raiffeisen 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 EUR 2.4mn approx. Companies can use the loan for investment and working capital financing. Also this program is expired by end of June 2021.

Overview of modified loans related to direct government programs

The following tables provide a summary of the Group's modified assets as at 31 December 2021.

in LEK thousand	Stage 2			ECL	Stage 3			ECL
	Temporary and Permanent modification (GCA)	Refinancing	Total		Temporary and Permanent modification	Refinancing	Total	
Non financial	2,570,074	2,062,685	4,632,759	468,460	4,629,225	-	4,629,225	3,436,300
Household	1,036,293	-	1,036,293	140,181	537,727	-	537,727	338,386
Total	3,606,367	2,062,685	5,669,052	608,641	5,166,952	-	5,166,952	3,774,686

Foreign currency translation

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

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

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

The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2021 and 31 December 2020 were as below:

	2021		2020	
	As at December 31 2021	Average January 1, 2021 December 31 2021	As at December 31, 2021	Average January 1, 2020 December 31 2020
Rates in LEK to the units				
European Union currency unit (EUR)	120.76	122.55	123.70	124.07
US dollar (USD)	106.54	103.49	100.84	108.66

Please note that other accounting policies of the group are disclosed at "Recognition and measurement principles" page 66.

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 2021

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

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" - Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 16 "Leases" - Covid-19-Related Rent Concessions (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021),
- Amendments to IFRS 4 "Insurance Contracts" - Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023).
- Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment 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

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

- IFRS 17 Insurance Contracts - Effective for annual reporting periods beginning on or after 1 January 2023
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures-Effective date not been set yet
- Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current-Effective date is beginning on or after 1 January 2023
- Amendments to IFRS 3 Business Combinations—Reference to the Conceptual Framework-Effective beginning on or after 1 January 2022- with early application permitted

- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use—Effective date is beginning on or after 1 January 2022, with early application permitted
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets—Onerous Contracts—Cost of Fulfilling a Contract—Effective date is beginning on or after 1 January 2022, with early application permitted
- Annual Improvements to IFRS Standards 2018-2020—Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture—Effective date is beginning on or after 1 January 2022, with early application permitted
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies—The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates. The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted
- Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction—effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. NET INTEREST INCOME

in LEK thousand	31 December 2021	31 December 2020
Interest income		
Financial assets - amortized cost	7,015,387	6,782,122
Other assets	43,818	52,825
Interest income on financial liabilities	1,365	1,815
Interest income calculated using the effective interest method	7,060,570	6,836,762
Other interest income	556	684
Total interest income	7,061,126	6,837,446
Interest expenses		
Financial liabilities - amortized cost	(49,900)	(99,149)
Interest expenses on financial assets	(194,494)	(132,153)
Interest expense on lease liabilities	(20,399)	(23,075)
Total interest expenses	(264,793)	(254,377)
Total	6,796,333	6,583,069

Interest income using effective interest rate recognized for stage 3 in 2021 is LEK 142 million (2020: LEK 156 million)
Interest expense from financial assets is the negative interest of placements. The increase of interest expense on financial assets relates to the increase of placements during 2021 (please refer to note 11 for more details).

2. NET FEE AND COMMISSION INCOME

in LEK thousand	31 December 2021	31 December 2020
Clearing, settlement and payment services	2,406,877	1,946,746
Loan business commissions	128,364	91,297
Custody services	12,848	15,445
Foreign exchange transactions	209,587	165,608
Other	1,065,743	953,220
Total fee and commission income from contracts with customers	3,823,419	3,172,316
Financial guarantee contracts and loan commitments	16,654	15,264
Total fee and commission income	3,840,073	3,187,580
Clearing, settlement and payment services	(940,441)	(894,052)
Loan and guarantee business	(143,092)	(52,262)
Other	(290,486)	(258,357)
Total Fee and commission expenses	(1,374,019)	(1,204,671)
Net fee and commission income	2,466,054	1,982,909

Clearing, settlement and payment services

Such income is generated mostly from commission due to transfers which is one of the main income sources of the bank. It includes various commission applied to different client types, such as individuals, Micro, SME and Corporate clients, each has its own specific rates. Such income is recognized on the moment the transfer is order and processed.

Loan business commissions

Loan business income is comprised solely of commissions related to loan products such as early repayment fees, late repayment fees, commission from collateral valuation, commission for change of collateral etc.

Custody Services

The bank offers custody services for its clients and enters in bond auctions on their behalf when an order is raised. Based on the type of client and the amount purchased, fees are charged for the service provided.

Foreign exchange transactions

The forex exchange transaction income represent income made from trading.. This commissions are charged on customers that request the Bank to exchange currency for them. Such income is recognized at a point of time,

Other

In other income is included the Administration income, which represents asset management fees and is considered as revenue from services rendered to Pensions/Investment Funds under administration. This income is recognized over time. Almost all other part of other income is comprised of the broker fees collected from the insurance services provided to the clients. The bank has been licensed by the financial supervisory authority in Albania to offer the insurance broker services to clients which request it. The bank works with several insurance companies as their agent to offer such services and collects a fee from them monthly.

3. NET TRADING INCOME

in LEK thousand	31 December 2021	31 December 2020
Net gains/(loss) on financial assets and liabilities - fair value through profit or loss	8,780	14,669
Debt securities	8,780	14,669
Exchange differences, net	216,925	564,640
Total	225,705	579,309

4. OTHER NET OPERATING LOSS

in LEK thousand	31 December 2021	31 December 2020
Gains on derecognition of non-financial assets	-	3,924
Rental income from investment property incl. operating lease (real estate)	5,174	6,417
Sundry operating income	35,796	37,241
Other operating income	40,970	47,582
Write down of repossessed collateral	(169,037)	(79,727)
Loss on derecognition of non-financial assets	(1,858)	-
Expense from allocation and release of other provisions	(8,247)	(6,045)
Sundry operating expenses	(107,113)	(93,300)
Other operating expense	(286,255)	(179,072)
Total	(245,285)	(131,490)

Sundry operating expenses balance relates to the result from other operating activities of the bank. It is mostly related to expenses from the termination of the building lease contract, expenses losses from the written-off of debtors, fraud losses, losses from cash operations, losses in ATM-POS transactions. During 2021 there is an increase in the sundry operating expenses due to the fact that the losses from the sale of repossessed assets is LEK 80 million (2020: LEK 43 million).

5. GENERAL ADMINISTRATIVE EXPENSES

in LEK thousand	31 December 2021	31 December 2020
Staff expenses	(2,393,924)	(2,483,495)
Other administrative expenses	(2,066,118)	(1,838,994)
Depreciation of tangible and intangible fixed assets	(709,959)	(770,307)
Total	(5,170,001)	(5,092,796)

5.1 Staff expenses

in LEK thousand	31 December 2021	31 December 2020
Wages and salaries	(2,062,591)	(2,147,980)
Social security costs and staff-related taxes	(233,616)	(233,935)
Other voluntary social expenses	(42,080)	(23,308)
Expenses for defined contribution pension plans (Note 5.1.1)	(16,871)	(15,905)
Staff expenses under deferred bonus program	(37,146)	(4,364)
Termination benefits (Note 5.1.1)	(1,620)	(58,003)
Total	(2,393,924)	(2,483,495)

5.1.1 Expenses for severance payments and retirement benefits

in LEK thousand	31 December 2021	31 December 2020
Members of the management board and senior staff	(8,656)	(13,104)
Other employees	(9,835)	(60,804)
Total	(18,491)	(73,908)

5.2 Other administrative expenses

in LEK thousand	31 December 2021	31 December 2020
IT expenses	(820,682)	(593,246)
Legal, advisory and consulting expenses	(248,196)	(236,012)
Advertising, PR and promotional expenses	(247,948)	(272,778)
Office space expenses	(235,172)	(254,215)
Sundry administrative expenses	(200,683)	(272,464)
Security expenses	(109,631)	(18,995)
Expenses related to credit risk	(51,128)	(34,120)
Other taxes	(44,296)	(43,059)
Car expenses	(38,630)	(36,690)
Training expenses for staff	(20,063)	(23,242)
Communication expenses	(17,866)	(17,216)
Office supplies	(15,448)	(16,872)
Expenses for leases	(10,255)	(11,783)
Traveling expenses	(6,120)	(7,111)
Litigation expenses not covered by provisions	-	(1,191)
Total	(2,066,118)	(1,838,994)

IT expenses consists of software maintenance, IT running costs, ATM expenses, etc. The increase compared to prior year is mainly due to an increase in IT development expenses.

5.3 Depreciation of tangible and intangible fixed assets

in LEK thousand	31 December 2021	31 December 2020
Tangible fixed assets	(497,858)	(553,828)
Intangible fixed assets	(212,101)	(216,479)
Total	709,959	(770,307)

6. SPECIAL GOVERNMENTAL MEASURES

in LEK thousand	31 December 2021	31 December 2020
Resolution fund	(102,538)	(101,719)
Deposit insurance fees	(590,603)	(554,234)
Total	(693,141)	(655,953)

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 contribution calculated in a proportionate manner with the relevant market share, for the creation of a certain level of emergency intervention fund. This fund is calculated by Bank of Albania and is managed by Albanian Deposit Insurance Agency" (ADIA) in compliance with the investment policy of the financial instruments of the fund.

The calculation of the deposit insurance premium is based on regulation no. 53/2014 dated 22.05.2014

7. IMPAIRMENT LOSSES AND RECOVERIES ON FINANCIAL ASSETS

in LEK thousand	31 December 2021	31 December 2020
Loans and advances	714,462	(1,084,232)
Debt securities	116,648	(61,458)
Loan commitments, financial guarantees and other commitments given	(73,986)	(43,002)
Total	757,124	(1,188,692)

8. INCOME TAXES

in LEK thousand	31 December 2021	31 December 2020
Current income taxes	(721,885)	(384,391)
Deferred taxes	(2,649)	(18,944)
Total	(724,534)	(403,335)

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

in LEK thousand	31 December 2021	31 December 2020
Profit before tax	4,136,788	2,076,356
Theoretical income tax expense using the domestic tax rate of 15%	620,518	311,453
Tax effect of:		
Tax-exempt income/expense	(9,063)	(534)
Non-deductible expenses	124,824	108,275
Tax-exempt income	(11,745)	(15,859)
Effective tax burden	724,534	403,335
Effective tax rate in per cent	14.92%	16.0%

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

in LEK thousand	31 December 2021	31 December 2020
Cash on hand	8,189,459	9,380,323
Balances at central Banks	32,327,265	45,985,573
<i>hereof restricted balance – Compulsory reserve</i>	20,644,479	18,573,120
Other demand deposits at Banks	2,296,327	961,285
<i>herof restricted balance as bank guarantees</i>	179,978	179,442
Total	42,813,051	56,327,181

Cash, cash balances at central Banks and other demand deposits includes cash in hand, balances due on call and compulsory reserves at Central Bank of Albania, and demand deposits at Banks that are due on call.

Mandatory reserves with Central Bank are not for everyday use by the Group and represent a minimum reserve deposit, required by the Central Bank of Albania and is not considered as cash for the statement of cash flow purposes. This reserve is calculated as a certain percentage of customer deposits that varies by currency or maturity. The required reserve rate in Lek is 7.5% and 5% of Lek's customer deposits, respectively, with a maturity of no more than 12 months and from 12 months to 2 years. The required reserve ratio in foreign currency is 12.5% and 20% of foreign currency deposits, respectively, when they are below 50% and over 50% of total customer deposits.

Cash and cash equivalents include highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. A break-down of cash and cash equivalents as included in the statement of cash flows is presented below:

in LEK thousand	31 December 2021	31 December 2020
Cash on hand	8,189,459	9,380,323
Balances at central bank, excluding compulsory reserve	11,682,786	27,412,453
Other demand deposits at banks net of restricted balances	2,116,349	781,843
Loans and advances to central banks (Note 10 below)	6,035,130	6,180,462
Loans and advances to other banks (Note 10 below)	30,686,615	21,044,904
Total cash and cash equivalents as included in the statement of cash flows	58,710,339	64,799,985

10. FINANCIAL ASSETS - AMORTIZED COST

in LEK thousand	31 December 2021			31 December 2020		
	Gross carrying amount	Accumulated impairment	Carrying amount	Gross carrying amount	Accumulated impairment	Carrying amount
Debt securities	80,423,392	(28,415)	80,394,977	59,316,597	(145,063)	59,171,534
General governments	76,797,811	(28,199)	76,769,612	51,169,577	(144,852)	51,024,725
Banks	3,625,581	(216)	3,625,365	8,147,020	(211)	8,146,809
Loans and advances	153,356,184	(9,591,775)	143,764,409	126,665,834	(11,127,080)	115,538,754
Central Banks	6,035,185	(55)	6,035,130	6,180,755	(293)	6,180,462
General governments	240	(2)	238	167	(2)	165
Banks	30,686,946	(330)	30,686,616	21,044,970	(66)	21,044,904
Other financial corporations	6,438	-	6,438	7,776	(2)	7,774
Non-financial corporations	69,178,321	(6,659,868)	62,518,453	57,669,446	(8,216,370)	49,453,076
Households	47,449,056	(2,931,522)	44,517,534	41,762,720	(2,910,347)	38,852,373
Total	233,779,578	(9,620,192)	224,159,386	185,982,431	(11,272,143)	174,710,288

11. FINANCIAL ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

in LEK thousand	31 December 2021	31 December 2020
Debt securities	12,222	5,015
Total	12,222	5,015

Treasury bills as at 31 December 2021 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 1.45% to 2.2% per annum (31 December 2020: zero-coupon treasury bills of the Government of Albania with yields ranging from 1.5% to 2.25%).

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 2021 (2020: Lek 90 million).

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

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2021, 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 2021 (2020: nil).

13. DEVELOPMENT OF FIXED ASSETS

in LEK thousand	31 December 2021	31 December 2020
Tangible fixed assets	3,163,777	2,880,126
Land and buildings used by the Group for own purpose	627,560	582,759
Other land and buildings (investment property)	85,124	95,889
Office furniture, equipment and other tangible fixed assets	984,882	930,287
Right of use assets (RoU)	1,466,211	1,271,191
Intangible fixed assets	1,623,371	1,470,260
Software	1,623,371	1,470,260
Total	4,787,148	4,350,386

The item software comprises internally developed software amounting to Lek 89,316 thousand (2020: 62,847). The fair value of investment properties carried at cost model as at 31 December 2021 is 51,994 thousand lek, 31 December 2020 is 60,453 thousand lek.

Rental income from investment property of Lek 5,174 thousand (2020: Lek 6,417 thousand) has been recognised in other net operating income.

in LEK thousand	Cost of acquisition				As at December 31, 2021
	As at January 1, 2021	Additions	Disposals	Transfers	
Tangible fixed assets	6,594,534	1,224,851	(955,800)	-	6,594,535
Land and buildings used by the Group for own purpose	1,109,926	86,486	(42,740)	-	1,109,926
Other land and buildings (investment property)	126,269	-	(7,721)	-	126,269
Office furniture, equipment and other tangible fixed assets	3,551,755	317,711	(222,914)	-	3,551,756
Right of use assets (RoU)	1,806,584	820,654	(682,425)	-	1,806,584
Intangible fixed assets	3,466,589	365,942	(2,327)	-	3,466,965
Software and licences	3,466,589	365,942	(2,327)	-	3,466,965
Total	10,061,123	1,590,793	(958,127)	-	10,693,789

The Group recognized as at 31 December 2021 "internally generated intangible assets" in compliance to IAS 38 in the amount of Lek 89,316 thousand. They are staff cost & other relevant costs related to development of internally used software during calendar year 2021.

13. DEVELOPMENT OF FIXED ASSETS – CONTINUED

Fixed assets developed as follows:

	Write-ups, amortization, depreciation, impairment			Carrying amount	
	Cumulative	Accumulated depreciation on sales	Depreciation	Reclassification	As at December 31, 2021
Tangible fixed assets	((3,714,407))	497,546	(482,947)	-	3,163,777
Land and buildings used by the Group for own purpose	(527,166)	40,286	(39,232)	-15,006	627,560
Other land and buildings (investment property)	(30,380)	2,277	(5,321)	15,006	85,124
Office furniture, equipment and other tangible fixed assets	(2,621,467)	204,435	(244,638)	-	984,882
Right of use assets (RoU)	(535,394)	250,548	(193,756)	-	1,466,211
Intangible fixed assets	(1,996,330)	1,598	(212,101)	-	1,623,371
Software	(1,996,330)	1,598	(212,101)	-	1,623,371
Total	(5,710,737)	499,144	(695,048)	-	4,787,148

Cost of acquisition					
in LEK thousand	As at January 1, 2020	Additions	Disposals	Transfers	As at December 31, 2020
Tangible fixed assets	6,362,911	1,087,663	(856,039)	-	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	-	-	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)	-	1,806,584
Intangible fixed assets	3,099,307	382,539	(14,881)	-	3,466,965
Software and licences	3,099,307	382,539	(14,881)	-	3,466,965
Total	9,462,218	1,470,202	(870,920)	-	10,061,500

Fixed assets developed as follows:

in LEK thousand	Write-ups, amortization, depreciation, impairment				Carrying amount
	Cumulative	Accumulated depreciation on sales	Depreciation	Reclassification	As at December 31, 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)	-	(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

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

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

	Buildings	IT Contracts	ATM Space	Total
Carrying amount at December 31, 2020	1,263,393	1,833	10,378	1,275,604
Additions	796,779	2,646	21,228	820,653
Early termination	(427,593)	-	-	(427,593)
Depreciation charge	(187,617)	(2,234)	(12,602)	(202,453)
Carrying amount at December 31, 2021	1,444,962	2,245	19,004	1,466,211

Total cash outflow for leases in 2021 was LEK 276,904 thousand (2020: LEK 280,509 thousand). Please see note 1 and 40 for Lease Liabilities disclosures. The total amounts of expenses of short term and low value leases in 2021 is LEK 10,255 (2020, LEK 11,873). Please refer to note 5.2

14. REPOSSESSED COLLATERALS

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	31 December 2021	31 December 2020
Repossessed collaterals	1,405,851	1,642,669
Write down of repossessed collateral	(693,394)	(588,372)
Total	712,457	1,054,297

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

in LEK thousand	31 December 2021	31 December 2020
Balance at the beginning of the year	588,372	531,934
Additional write down	169,037	79,726
Reversal of write down	(64,015)	(23,288)
Balance at the end of the year	693,394	588,372

15. OTHER ASSETS

in LEK thousand	31 December 2021	31 December 2020
Prepayments and other deferrals	260,732	313,941
Other assets	562,100	507,155
Total	822,832	821,096

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	31 December 2021	31 December 2020
Due to Banks	13,808,180	4,470,562
Current accounts/overnight deposits/redeemable at notice	9,825,558	1,694,196
Deposits with agreed maturity	3,982,622	2,776,366
Subordinated financial liabilities	-	-
Deposits from customers	225,130,048	200,249,819
Current accounts/overnight deposits/redeemable at notice	186,904,258	156,918,642
Deposits with agreed maturity	38,225,790	43,331,177
Other financial liabilities	1,668,497	225,073
Lease liabilities lessee	1,427,970	1,301,143
Total	242,034,695	206,246,597

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

in LEK thousand	31 December 2020	Inflows	New leases	Dividend declared	Outflows	Interest accrued	Other changes (e.g. FX changes)	31 December 2021
Subordinated financial liabilities	-	-	-	-	-	-	-	-
Lease liabilities	1,301,143	-	397,915	-	(266,796)	20,352	(24,644)	1,427,970
Dividend payable	-	-	-	3,688,147	(3,688,147)	-	-	-
Total	1,301,143	-	397,915	3,688,147	(3,954,943)	20,352	(24,644)	1,427,970

The following table shows the cash and non-cash effects for liabilities arising from financing activities according to IAS 7 as of December 31, 2020:

in LEK thousand	31 December 2019	Inflows	New leases	Dividend declared	Outflows	Interest accrued	Other changes (e.g. FX changes)	31 December 2020
Subordinated financial liabilities	1,874,489	-	-	-	(1,865,100)	(47,939)	38,550	-
Lease liabilities	1,220,555	-	315,726	-	(276,726)	23,069	18,519	1,301,143
Dividend payable	-	-	-	-	-	-	-	-
Total	3,095,044	-	315,726	-	(2,141,826)	(24,870)	57,069	1,301,143

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

in LEK thousand	31 December 2021	31 December 2020
General governments	6,806,812	3,310,089
Banks	3,201,236	1,681,086
Other financial corporations	10,606,944	2,789,476
Non-financial corporations	44,446,843	34,144,441
Households	173,876,393	162,795,288
Total	238,938,228	204,720,380

17. PROVISIONS FOR LIABILITIES AND CHARGES

in LEK thousand	31 December 2021	31 December 2020
ECL for off-balance-sheet items	199,048	124,930
ECL for commitments	199,048	124,930
Accruals for staff	150,607	131,829
Bonus payments	113,799	63,844
Overdue vacations	36,808	67,985
Other provisions	33,792	33,792
Legal issues and tax litigation	33,692	33,692
Other provisions	100	100
Total	383,447	290,551

The following table shows the changes in provisions for liabilities and charges in the reporting year, although provisions for off-balance-sheet items pursuant to IFRS 9 of 199,048 LEK thousand are not included. These are shown under (28) Development of impairments.

in LEK thousand	1 January 2021	Allocation	Release	Usage	Transfers,	31 dhjetor 2021
exchange	131,829	89,289	-31,956	-38,555	-	150,607
differences	31 December 2021	88,509	-	-38,555	-	113,799
Accruals for staff	131,829	89,289	(31,956)	(38,555)	-	150,607
Bonus payments	63,845	88,509	-	(38,555)	-	113,799
Overdue vacations	67,984	780	(31,956)	-	-	36,808
Other provisions	33,792	-	-	-	-	33,792
Legal issues and tax litigation	33,692	-	-	-	-	33,692
Other provisions	100	-	-	-	-	100
Total	165,621	89,289	(31,956)	(38,555)	-	184,399

18. DEFERRED TAX LIABILITIES

Deferred tax assets/liabilities derived from the following items:

in LEK thousand	31 December 2020	Recognised in profit or loss	31 December 2021
Tangible and Intangible Fixed Assets	(25,264)	(5,804)	(31,068)
Total	(25,264)	(5,804)	(31,068)

in LEK thousand	31 December 2019	Recognised in profit or loss	31 December 2020
Tangible and Intangible Fixed Assets	(9,028)	(16,236)	(25,264)
Total	(9,028)	(16,236)	(25,264)

19. CURRENT TAX LIABILITIES

in LEK thousand	31 December 2021	31 December 2020
Current tax liabilities	147,831	-
Total	147,831	-

20. OTHER LIABILITIES

in LEK thousand	31 December 2021	31 December 2020
Deferred income and accrued expenses	238,218	199,078
Due to employees	55,678	112,876
Other tax liabilities	95,829	69,652
Sundry liabilities	267,387	185,583
Total	657,112	567,189

21. EQUITY

in LEK thousand	31 December 2021	31 December 2020
Share capital	14,178,593	14,178,593
Other reserves	3,306,190	3,306,190
Retained earnings	12,665,697	12,941,589
hereof profit for the year	3,412,255	1,673,021
Total	30,150,480	30,426,372

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

Share capital

The Group's capital is LEK 14,178,593 thousand comprised of 7,000 shares (2020: 7,000 shares). The Par-ent's capital is equal to LEK 14,178,593 thousand and the nominal value of each share is LEK 2,025,513 (2020: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each).

Other reserves

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

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

in LEK thousand	31 December 2021	31 December 2020
Regulatory reserves	1,852,979	1,852,979
Legal reserves	1,453,211	1,453,211
Total	3,306,190	3,306,190

Dividend distributions:

As of January 22, 2021 the general assembly approved the payment of the amount LEK 2,804,157,895 as dividend from the account "Retain earnings" (500,494 dividend per share)

As of September 2, 2021 the general assembly approved the payment of the amount LEK 882,989,474 as dividend from the account "Retain earnings" (126,141 dividend per share)

NOTES TO CONSOLIDATED FINANCIAL INSTRUMENTS

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

If fair value cannot be measured using either sufficiently regularly quoted market prices (Level I) or using valuation models which are entirely based on observable market prices (Level II), then individual input parameters which are not observable on the market are estimated using appropriate assumptions. If parameters which are not observable on the market have a significant impact on the measurement of the underlying financial 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.

Assets in LEK thousand	31 December 2021			31 December 2020		
	Level I	Level II	Level III	Level I	Level II	Level III
Financial assets - fair value through profit or loss			12,222			5,015
Debt securities			12,222			5,015

Qualitative information for the valuation of financial instruments in Level III

Assets 2021	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	12,222	Discounted cash flow method (DCF)	ALL base rate -last auctions yields -T bills	0.59% - 1.51%
Total				

Fair value of financial instruments not reported at fair value

The financial instruments in the following table are not managed on a fair value basis and are therefore not measured at fair value in the statement of financial position. For these instruments the fair value is calculated only for the purposes of providing information in the notes, and has no impact on the consolidated statement of financial position or on the consolidated income statement. The calculation of the fair value of receivables and liabilities not reported at fair value was reclassified and, among other things, input factors are also used in the models which are not observable on the market, but which have a significant influence on the calculated value. A simplified fair value calculation method for retail and non-retail portfolios is applied for all short term 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.

2021 in LEK thousand	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Financial assets - amortized cost	-	42,813,051	224,508,546	267,321,597	266,972,437	349,160
Cash and cash equivalents	-	42,813,051	-	42,813,051	42,813,051	-
Debt securities	-	-	80,744,137	80,744,137	80,394,977	349,160
Loans and advances	-	-	143,764,409	143,764,409	143,764,409	-
Liabilities						
Financial liabilities - amortized cost	-	-	242,022,822	242,022,822	242,034,695	(11,873)
Deposits	-	-	238,926,355	238,926,355	238,938,228	(11,873)
Other financial liabilities	-	-	3,096,467	3,096,467	3,096,467	-

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	-
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	-

Level I Quoted market prices

Level II Valuation techniques based on market data

Level III Valuation techniques not based on market data

23. LOAN COMMITMENTS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS

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

in LEK thousand	31 December 2021	31 December 2020
Loan commitments given	17,498,943	14,687,332
Financial guarantees given and other commitments given	7,948,185	7,128,504
Total	25,447,128	21,815,836
Provisions for off-balance-sheet items under IFRS 9	(199,048)	(124,930)

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

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

2020 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

24. 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 negligible or low probability of default (PD range 0.0300 - 0.1878 per cent).
- Good are exposures which demonstrate a good capacity to meet financial commitments, with low default risk (PD range 0.1878 - 1.1735 per cent).
- Satisfactory are exposures which require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk (PD range 1.1735 - 7.3344 per cent).
- Sub-standard are exposures which require varying degrees of special attention and default risk is of greater concern (PD range 7.3344 - 100.0 per cent).
- Credit impaired are exposures which have been assessed as impaired (PD range 100.0 per cent).

24. CREDIT QUALITY ANALYSIS - CONTINUED

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

2021	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	12 month ECL	Lifetime ECL	Lifetime ECL	
Excellent	2,316,362	-	-	2,316,362
Strong	35,086,519	17,332	-	35,103,851
Good	117,345,678	758,286	-	118,103,964
Satisfactory	50,374,949	2,580,164	-	52,955,113
Substandard	5,060,329	4,509,475	-	9,569,804
Credit impaired	-	-	9,861,541	9,861,541
Unrated	5,479,218	389,725	-	5,868,943
Gross carrying amount	215,663,055	8,254,982	9,861,541	233,779,578
Accumulated impairment	(856,481)	(1,097,688)	(7,666,023)	(9,620,192)
Carrying amount	214,806,574	7,157,294	2,195,518	224,159,386
2020	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	12 month ECL	Lifetime ECL	Lifetime ECL	
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

24. CREDIT QUALITY ANALYSIS - CONTINUED

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

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

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

2020	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	12 month ECL	Lifetime ECL	Lifetime ECL	
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 ratings are available. The rating is therefore based on qualitative factors.

25. 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:

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

25. COLLATERAL AND MAXIMUM EXPOSURE TO CREDIT RISK - CONTINUED

2020 in LEK thousand	Maximum exposure to credit risk	Fair value of collateral	Credit risk exposure net of collateral
Central Banks	6,180,462	0	6,180,462
General governments	51,008,741	0	51,008,741
Banks	29,191,713	0	29,191,713
Other financial corporations	3,312,761	0	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

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

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

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)

26. 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 sup-ortable 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 significant assumptions about future economic conditions and payment behavior. Significant judgements are required in applying the accounting requirements for measuring expected credit losses, inter alia:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/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 (the lifetime PD curve) needs to be compared with the risk of a default at initial recognition (the forward lifetime PD curve) plus additionally qualitative criteria like 30 days past due or forbearance measures as backstop. Given the different nature of products between non-retail and retail, the methods for assessing potential significant increases in credit risk also differ slightly.

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

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

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

Qualitative criteria

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

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

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

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

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

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

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at an individual transaction level for all retail portfolios.

Backstop

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

Low credit risk exemption

Në raste të përzgjedhura për letrat me vlerë të borxhit kryesisht nga qeveritë qendrore, Grupi përdor përjashtimin e rrezikut të ulët të kredisë. Të gjitha letrat me vlerë që paraqiten me rrezik të ulët kredie kanë një vlerësim të barabartë me shkallën e investimit ose më të mirë, d.m.th. minimumi i S&P BBB-, Moody's Baa3 ose Fitch BBB-. Grupi nuk ka përdorur përjashtimin e rrezikut të ulët të kredisë për asnjë klient në sektorin e biznesit.

Definition of default and credit-impaired assets

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

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

Explanation of inputs, assumptions and estimation techniques

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

The basis for all Retail ECL component parameter estimates are the relating Pillar I/II models developed within the Basel framework.

Probability of Default (PD)

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

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

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

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

Loss Given Default (LGD)

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a twelve-month or lifetime basis, where twelve-month loss given default is the percentage of loss expected to be made if the default occurs in the next twelve months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

26. EXPECTED CREDIT LOSSES (CONTINUED)

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

In the limited circumstances where some inputs are not fully available alternative recovery models, 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 circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

Discount factor (D)

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

Calculation

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

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

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

Shared credit risk characteristics

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

26. EXPECTED CREDIT LOSSES (CONTINUED)

Forward looking information

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

These economic variables and their associated impact on the probability of default, loss given default and exposure at default vary by category type. Forecasts of these economic variables (the base economic scenario) are provided by RBI Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. The set of forward looking information also includes the credit clock used for improvement of the regression which reproduces the current state of the credit cycle and the derived outlook of the credit cycle development. After three years, to project the economic variables for the full remaining life-time of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long-term average rate or a long-term average growth rate until maturity. The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

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

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

For the development of a macroeconomic model, a variety of relevant macroeconomic variables were considered. The model employed is a linear regression model with the aim of explaining changes in or the level of the default rate. The following types of macro variables were considered as drivers of the credit cycle: real GDP growth, unemployment rate, 3-month money market rate, 10-year government bond yield, housing price index, FX rates, and the HICP inflation rate. For each country (or portfolio in case of retail exposure), a relevant set is determined based on the ability to explain historically observed default rates. Through the cycle, PDs are overlaid with the results of the macro-economic model to reflect the current and expected state of economy. For the LGD, the macro model is applied on the underlying cure rates. i.e. a positive macro-economic outlook drives up the cure rates and this reduces the LGD. For retail exposures, the workout LGD is modelled in a similar manner to the default rates either directly or as well via the components like cure rate, loss given cure as well as loss given non-cure. The long-run average LGDs are overlaid with the results of the macro models to reflect current and expected state of economy. The weightings assigned to each scenario at the end of the reporting year-end are as follows: 25 per cent optimistic, 50 per cent base and 25 per cent pessimistic scenarios. These weightings were maintained and no further scenarios were used as a result of the COVID-19 pandemic.

After strong growth year to date, COVID-19 is once more on the rise. With vaccinations still being below desired levels, the risks for another economic weakening during the winter 2021/2022 are elevated. The strong recovery in the first three quarters of 2021 is expected to slow down in 2022, but economic growth will remain above average for most countries. Next to the pandemic, supply chain disruptions and high energy inflation are a risk to economic growth.

The strong rebound of the economy has been clouded by recent geopolitical events in Ukraine. The direct impact from the war is expected to be low due to limited trade interlinkages between the 3 countries most involved in the conflict. However, the indirect shock in oil prices feeding directly into inflation and, therefore, private consumption is already being felt by the population. We have therefore downgraded our initial projection for the economy of 4.4% to a more moderate increase of 3.4% in 2022. Private consumption, that was supposed to be the driver of the economy in 2022, is expected to be limited by a higher inflation rate and a more lackluster tourism season compared to initial assumptions.

26. EXPECTED CREDIT LOSSES (CONTINUED)

Post-model adjustments and collective staging

Overlays and other risk factors

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

All these adjustments are approved by the Group Risk Committee (GRC).

For the central models in the corporate segment, the additional risk was considered using the risk factors, while in the local retail segment the risks were applied on top of the models. For retail exposures, post-model adjustments are the main types of overlays applied for the calculation of the expected credit losses. Generally, post-model adjustments are only a temporary solution to avoid potential distortions. The management has assessed to recognise and calculate the post model adjustments up to 2023. The overlays relevant for 2021 are shown in the table below and split according to the relevant categories.

31 December 2021	Modelled ECL	Post-model adjustments						Total
	000 Ieke	COVID-19 related			Other		Total	Total
Central banks	154	-	0%	-	0%	-	0%	154
General governments	28,202	-	0%	-	0%	-	0%	28,202
Banks	559	-	0%	-	0%	-	0%	559
Other financial corporations	34	-	0%	-	0%	-	0%	34
Non-financial corporations	698,862	212,336	30.4%	-	0%	212,336	30.4%	911,198
Households	816,628	247,066	30.3%	-	0%	247,066	30.3%	1,063,694
Total	1,544,438	459,402	29.7%	-	0%	459,402	29.7%	2,003,840

The post-model adjustments resulted in additional Stage 1 and 2 provisions of Lek 459,402 thousand, of which Lek 459,402 thousand are COVID-19 related.

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

In 2021, the COVID-19 post-model adjustments for corporate customers were replaced with the more differentiated risk factor methodology described below. In addition, the gradual reduction of the COVID-19 related post-model adjustments for households was started, and this is expected to be completed by the middle of 2022 depending on moratorium expiration and other country specifics. The accounts will either naturally de-fault by this time or no longer be considered as increased credit risk, and the adjustment will be reversed.

Other risk factors

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

26. EXPECTED CREDIT LOSSES (CONTINUED)

Sensitivity analysis

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

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

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

2021	31 December 2021	100%	100%	100%
in LEK thousand	(25/50/25%)	Optimistic	Base	Pessimistic
Accumulated impairment (Stage 1 & 2)	2,003,782	1,937,589	1,991,959	2,093,622
2020	31 December 2020	100%	100%	100%
in LEK thousand	(25/50/25%)	Optimistic	Base	Pessimistic
Accumulated impairment(Stage 1 & 2)	1,474,619	1,282,419	1,480,324	1,655,408

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 bankruptcy, loans are written down on the value of the collateral if the company no longer generates cash flows from its operating business. The retail business takes into account qualitative factors. In cases where no payment has been made for one year, the outstanding amounts are derecognised whereby depreciated assets can continue to be subject to enforcement activities.

For the exposure of companies in gone concern cases, loans are written down to the value of the collateral if the company no longer generates cash flows from its operating business. The retail business takes into account qualitative factors. In cases where no payment has been made for one year, the outstanding amounts are written off here. The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity were immaterial/amounts to LEK thousand.

27. 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 managed (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 households:

2021 in LEK thousand	Gross carrying amount			Accumulated impairment			ECL Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	6,035,185	-	-	(55)	-	-	0.00%	0.00%	0.00%
General governments	76,797,981	70	-	(28,201)	(1)	-	0.04%	0.81%	0.00%
Banks	34,312,527	-	-	(546)	-	-	0.00%	0.00%	0.00%
Other financial corporations	6,438	-	-	-	-	-	0.01%	0.00%	0.00%
Non-financial corporations	56,647,711	5,395,994	7,134,616	(450,113)	(543,532)	(5,666,222)	0.79%	10.07%	79.42%
Households	41,863,213	2,858,918	2,726,925	(377,566)	(554,155)	(1,999,801)	0.90%	19.38%	73.34%
hereof mortgage	18,202,467	1,533,993	391,885	(165,184)	(258,072)	(256,224)	0.91%	16.82%	65.38%
Total	215,663,055	8,254,982	9,861,541	(856,481)	(1,097,688)	(7,666,023)	0.40%	13.30%	77.74%
2020 in LEK thousand	Gross carrying amount			Accumulated impairment			ECL Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	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)	-	-	0.02%	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%

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:

2021 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9			ECL Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central Banks	-	-	-	-	-	-	0.00%	0.00%	0.00%
Banks	2,523,959	-	-	11	-	-	0.00%	0.00%	0.00%
General governments	-	-	-	-	-	-	0.00%	0.00%	0.00%
Other financial corporations	-	-	-	-	-	-	0.00%	0.00%	0.00%
Non-financial corporations	17,905,415	1,218,125	70,073	68,519	17,904	69,865	-0.38%	-1.47%	-99.70%
Households	3,679,702	25,364	24,490	20,059	2,063	20,627	-0.55%	-8.13%	-84.23%
Total	24,109,076	1,243,489	94,563	88,589	19,967	90,492	-0.37%	-1.61%	-95.70%
2020 in LEK thousand	Nominal amount			Provisions for off-balance-sheet items under IFRS 9			ECL Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
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%

27. 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:

2021 in LEK thousand	Gross carrying amount		Impairment		ECL Coverage Ratio	
	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL
Movement from 12 month ECL to lifetime ECL	-	-	-	-	-	-
Non-financial corporations	(1,837,526)	1,837,526	(59,811)	162,399	3.25%	8.84%
Households	(1,354,124)	1,354,124	(39,910)	367,811	2.95%	27.16%
Movement from lifetime ECL to 12 month ECL	-	-	-	-	-	-
Non-financial corporations	5,099,327	(5,099,327)	72,985	(256,549)	1.43%	5.03%
Households	1,036,443	(1,036,443)	20,069	(236,303)	1.94%	22.80%
2020 in LEK thousand	Gross carrying amount		Impairment		ECL Coverage Ratio	
	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL
Movement from 12 month ECL to lifetime ECL	-	-	-	-	-	-
Non-financial corporations	(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%

28. DEVELOPMENT OF IMPAIRMENTS

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

in LEK thousand	Stage 1	Stage 2	Stage 3	POCI	Total
	12 month ECL	Lifetime ECL	Lifetime ECL		
As at January 1, 2021	829,526	1,205,775	7,335,241	1,901,598	11,272,141
Increases due to origination and acquisition	171,169	9,210	129,072	-	309,451
Decreases due to derecognition	(14,590)	(16,494)	(925,745)	(11,226)	(968,055)
Changes due to change in credit risk (net)	(129,057)	(85,521)	657,491	(320,071)	122,842
Changes due to update in the institution's methodology for estimation	-	-	-	-	-
Decrease in allowance account due to write-offs	(569)	(15,284)	(1,099,758)	(576)	(1,116,187)
As at December 31, 2021	856,479	1,097,686	6,096,301	1,569,725	9,620,192

27. GROSS EXPOSURE BY STAGES – CONTINUED

	Stage 1	Stage 2	Stage 3		Total
in LEK thousand	12 month ECL	Lifetime ECL	Lifetime ECL	POCI	
As at January 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 December 31, 2020	829,494	1,205,809	7,335,240	1,901,598	11,272,141

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

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

	Stage 1	Stage 2	Stage 3	Totali
Në mijë Lek	12 month ECL	Lifetime ECL	Lifetime ECL	
As at January 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
Changes due to update in the institution's methodology	4,265	(1,041)	(1,392)	1,832
As at December 31, 2020	51,364	27,081	46,485	124,930

29. 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:

2021	Carrying amount								
	in LEK thousand	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)	
		≤ 30 days	> 30 days	> 90 days	≤ 30 days	> 30 days	> 90 days	≤ 30 days	>30 days
Non-financial corporations	2,335,664	-	-	678,980	143,885	-	633,248	45,766	431,388
Households	592,504	-	-	158,051	217,616	-	59,015	28,757	413,860
Total	2,928,168	-	-	837,031	361,501	-	692,263	74,523	845,248

2020	Carrying amount								
	in LEK thousand	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)	
		≤ 30 days	> 30 days	> 90 days	≤ 30 days	> 30 days	> 90 days	≤ 30 days	>30 days
Non-financial corporations	995,292	-	-	1,704,805	995,324	-	384,398	48,129	1,631,753
Households	557,700	-	-	260,038	197,749	-	119,676	20,592	386,633
Total	1,552,992	-	-	1,964,843	1,193,073	-	504,074	197,253	2,018,386

30. BREAKDOWN OF REMAINING TERMS OF MATURITY

Assets	Current assets			Non-current assets	
	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
2021 in LEK thousand					
Cash, cash balances at central Bank and other demand deposits	22,165,330	3,241	-	-	-
Financial assets - amortized cost	22,227	67,772,201	41,883,982	91,525,309	32,575,859
Financial assets - fair value through profit or loss	-	889	11,333	-	-
Other assets	-	22,505	-	-	-
Total	22,187,557	67,798,836	41,895,315	91,525,309	32,575,859

30. BREAKDOWN OF REMAINING TERMS OF MATURITY – CONTINUED

Liabilities	Short-term liabilities			Long-term liabilities	
2021 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
Detyrime financiare - kosto e amortizuar	197,563,843	15,769,142	26,889,031	1,434,195	378,484
Detyrime të tjera	61,726	213,125	-	-	-
Totali	197,625,569	15,982,267	26,889,031	1,434,195	378,484

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	3,537,118	-	-	-
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

31. FOREIGN CURRENCY VOLUMES

in LEK thousand	31 December 2021	31 December 2020
Assets	124,316,775	98,200,885
Liabilities	111,905,726	84,878,975

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

32. 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 coverage capital.
- **Continuous planning:** Risk strategies and risk capital are reviewed and approved in the course of the annual budgeting and planning process, whereby special attention is also paid to preventing risk concentrations.
- **Independent control:** A clear personnel and organizational separation is maintained between business operations and all risk management or risk control activities.
- **Ex ante and ex post control:** Risks are consistently measured within the scope of product selling and in risk-adjusted performance measurement. Thereby it is ensured that business in general is conducted only under risk-return considerations and that there are no incentives for taking high risks.

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

33. 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 decisions according to the risk reports and analyses. The Management Board is supported in undertaking these tasks by independent risk management units and special committees.

Risk management functions are performed on different levels in the Group. The Group develops and implements the relevant concepts as the parent credit institution. Risk management units implement the risk policies for specific risk types and take active steering decisions within the approved risk budgets in order to achieve the targets set in the 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 adequacy framework.

Risk committees

The Group Risk Committee is the most senior decision-making body for all of the Group's risk-related topic areas. It decides on the risk management methods and on the control concepts used for the overall Group and for key subdivisions, and is responsible for ongoing development and implementation of methods and parameters for risk quantification and for refining steering instruments. This also includes setting the risk appetite and the various risk budgets and limits at overall Group level as well as monitoring the current risk situation with respect to internal capital adequacy and the corresponding risk limits.

It approves risk management and control activities (such as the allocation of risk capital) and advises the Management Board in these matters.

The Group Asset/Liability Committee assesses and manages the statement of financial position structure and liquidity risk and defines the standards for internal funds transfer pricing. In this context it plays an important role in planning long-term funding and hedging structural interest rate and foreign exchange risks.

The Market Risk Committee controls market risks arising from trading and Banking book transactions and establishes corresponding limits and processes. In particular, it relies on profit and loss reports, the risks calculated and the limit utilization, as well as the results of scenario analyses and stress tests with respect to market risks.

The Credit Committees are staffed by front office and back office representatives, with the staff assignments depending on the type of customer (corporate customers, Groups, sovereigns and retail). The committees decide upon the specific lending criteria for the different customer segments and make all credit decisions concerning those segments in connection with the credit approval process (depending on rating and exposure size).

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

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

Quality assurance and internal audit

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

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

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

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

34. 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 annually assessed is taken into account. This concept of overall Group risk management provides for meeting capital requirements from both a regulatory perspective (sustainability and going-concern status) and from an economic perspective (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.

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening.

The government of Albania has responded by announcing a sovereign guarantee to all the business which are facing liquidity problems and will seek financing. Furthermore, the Bank of Albania has announced that customer that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Banks up to 31 December 2020.

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.

34. OVERALL GROUP RISK MANAGEMENT (CONTINUED)

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 compliance 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 subordinated 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 requirement pursuant to the CRR	Risk taking capacity (projected earnings plus capital in excess of the regulatory requirement) may not exceed the Group's value at risk (one-year risk horizon)	95 per cent, reflecting the owners' willingness to inject additional own funds
Sustainability perspective	Risk of falling below a sustainable tier 1 ratio throughout an economic cycle	Capital and earnings projection for a three-year planning period based on assumptions of a significant downturn in the economy	85–90 per cent, based on potential management decisions to reduce risk temporarily or raise additional equity capital

35. CREDIT RISK

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

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

The total credit exposure used in portfolio management includes both exposures on and off the statement of financial position before the application of credit-conversion factors, and thus represents the total credit exposure. It is not reduced by the effects of credit risk mitigation such as guarantees or physical collateral, effects that are, however, considered in the total assessment of credit risk. The total credit exposure is used – if not explicitly stated otherwise – for referring to exposures in all subsequent tables in the risk report.

The following table shows total credit exposure, including off balance sheet items classified by segments

in LEK thousand	31 December 2021	31 December 2020
Corporate customers	71,025,331	52,332,003
Project finance	4,839,225	5,377,549
Retail customers	63,685,989	61,615,243
Banks	47,328,709	41,464,582
Sovereigns	115,160,503	103,336,072
Total	302,039,757	264,125,449

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 23).

Credit portfolio – corporate customers

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

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
1 Minimal risk	5,479,055	7.71%	-	0.00%
2 Excellent credit standing	-	0.00%	-	0.00%
3 Very good credit standing	143,660	0.20%	61,206	0.12%
4 Good credit standing	1,288,178	1.81%	805,149	1.54%
5 Sound credit standing	27,396,761	38.57%	14,817,290	28.31%
6 Acceptable credit standing	23,807,222	33.52%	14,830,148	28.34%
7 Marginal credit standing	7,509,321	10.57%	9,655,244	18.45%
8 Weak credit standing / sub-standard	4,242,976	5.97%	3,074,929	5.88%
9 Very weak credit standing / doubtful	987,828	1.39%	1,076,900	2.06%
10 Default	157,463	0.22%	8,010,355	15.31%
NR Not rated	12,867	0.02%	781	0.00%
Total	71,025,331	100.00%	52,332,002	100.00%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
6.1 Excellent project risk profile – very low risk	865,624	17.89%	1,194,951	22.22%
6.2 Good project risk profile – low risk	3,557,951	73.52%	3,591,597	66.79%
6.3 Acceptable project risk profile – average risk	1	0.00%	125,498	2.33%
6.4 Poor project risk profile – high risk	-	0.00%	-	0.00%
6.5 Default	415,649	8.59%	465,503	8.66%
NR Not rated	-	0.00%	-	0.00%
Total	4,839,225	100.00%	5,377,549	100.00%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Wholesale and retail trade	22,913,969	30.20%	18,034,294	31.25%
Electricity, gas, steam and hot water supply	16,726,339	22.05%	8,518,269	14.76%
Manufacturing	15,425,247	20.33%	13,152,491	22.79%
Construction	8,249,836	10.87%	7,465,556	12.94%
Transport, storage and communication	4,047,201	5.33%	3,566,463	6.18%
Real estate	2,644,539	3.49%	2,385,024	4.13%
Freelance/technical services	25,300	0.03%	47,937	0.08%
Financial intermediation	18,508	0.02%	35	0.00%
Other industries	5,813,617	7.66%	4,539,483	7.87%
Total	75,864,556	100.00%	57,709,552	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	31 December 2021	Share	31 December 2020	Share
Retail customers – private individuals	51,180,180	80%	45,449,495	74%
Retail customers – small and medium-sized entities	12,505,809	20%	16,165,749	26%
Total	63,685,989	100%	61,615,244	100%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
0.5 Minimal risk	1,263,628	2.38%	1,074,072	2.30%
1.0 Excellent credit standing	1,085,955	2.04%	974,658	2.08%
1.5 Very good credit standing	4,937,617	9.29%	2,949,757	6.31%
2.0 Good credit standing	15,548,149	29.25%	11,211,241	23.97%
2.5 Sound credit standing	12,437,240	23.39%	12,567,469	26.87%
3.0 Acceptable credit standing	4,468,453	8.41%	5,241,973	11.21%
3.5 Marginal credit standing	2,141,344	4.03%	2,041,402	4.36%
4.0 Weak credit standing / sub-standard	1,220,303	2.30%	1,314,321	2.81%
4.5 Very weak credit standing / doubtful	818,644	1.54%	1,244,445	2.66%
5.0 Default	2,624,224	4.94%	2,548,352	5.45%
NR Not rated	6,618,187	12.45%	5,602,300	11.98%
Total	53,163,744	100%	46,769,990	100%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
1 Minimal risk	191,240	1.82%	198,222	1.28%
2 Excellent credit standing	180,962	1.68%	401,168	2.77%
3 Very good credit standing	996,046	9.68%	550,975	3.58%
4 Good credit standing	1,439,251	13.32%	884,175	5.91%
5 Sound credit standing	1,570,949	15.51%	3,297,956	22.86%
6 Acceptable credit standing	2,078,156	20.59%	2,883,418	19.63%
7 Marginal credit standing	1,717,766	15.69%	3,039,315	20.54%
8 Weak credit standing / sub-standard	995,386	9.07%	1,589,566	10.22%
9 Very weak credit standing / doubtful	334,782	2.83%	909,412	5.92%
10 Default	1,013,303	9.76%	1,088,512	7.27%
NR Not rated	4,404	0.04%	2,535	0.02%
Totali	10,522,245	100.00%	14,845,254	100.00%

35. CREDIT RISK (CONTINUED)

CREDIT PORTFOLIO – RETAIL CUSTOMERS (CONTINUED)

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Mortgage loans	23,486,220	36.88%	20,469,686	33.22%
Personal loans	20,810,192	32.68%	18,241,566	29.61%
SME financing	9,967,274	15.65%	14,380,902	23.34%
Overdraft	5,326,092	8.36%	4,488,349	7.28%
Credit cards	2,228,649	3.50%	2,432,437	3.95%
Car loans	1,867,562	2.93%	1,602,303	2.60%
Total	63,685,989	100%	61,615,243	100%

Credit portfolio – Banks

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
1 Minimal risk	365,380	1%	2,126,202	5%
2 Excellent credit standing	21,032,031	44%	16,398,349	40%
3 Very good credit standing	10,847,000	23%	5,150,408	12%
4 Good credit standing	4,201,001	9%	4,109,715	10%
5 Sound credit standing	1,139,081	2%	4,048,211	10%
6 Acceptable credit standing	873,941	2%	23,514	0%
7 Marginal credit standing	107,744	0%	107,748	0%
8 Weak credit standing / sub-standard	533,598	1%	120,001	0%
9 Very weak credit standing / doubtful	-	0%	0	0%
10 Default	-	0%	0	0%
NR Not rated	8,228,933	17%	9,380,434	23%
Total	47,328,709	100.00%	41,464,582	100.00%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Money market	29,504,072	62%	19,860,408	48%
Bonds	3,625,581	8%	8,147,020	20%
Loans and advances	2,299,523	5%	966,747	2%
Repo	1,182,874	2%	1,184,562	3%
Other	10,716,659	23%	11,305,845	27%
Total	47,328,709	100%	41,464,582	100%

35. CREDIT RISK (CONTINUED)

Credit portfolio – Sovereigns

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
A2 Strong credit standing	3,639,251	3.16%	1	0.00%
A5 Good credit standing	105,837,718	91.90%	103,169,748	99.84%
C1 Excellent credit standing	2,346,921	2.04%	-	0.00%
C2 Strong credit standing	1,404,256	1.22%	-	0.00%
C3 Strong credit standing	5	0.00%	-	0.00%
C4 Good credit standing	1,210,908	1.05%	-	0.00%
NR Not rated	721,444	0.63%	166,323	0.16%
Total	115,160,503	100.00%	103,336,072	100.00%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Loans and advances	32,327,505	28.07%	45,985,740	44.50%
Bonds	76,797,813	66.69%	51,169,577	49.52%
Money market	6,035,185	5.24%	6,180,755	5.98%
Total	115,160,503	100.00%	103,336,072	100.00%

Non-performing exposures (NPEs)

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

in LEK thousand	NPE		NPE ratio		NPE coverage ratio	
	2021	2020	2021	2020	2021	2020
Non-financial corporations	7,159,055	9,751,207	10.35%	16.91%	80.10%	75.61%
Households	2,674,168	2,718,253	0.10%	6.48%	75.39%	73.16%
Loans and advances	9,833,223	12,469,460	6.25%	5.28%	78.93%	74.08%
Total	9,833,223	12,469,460	6.25%	5.28%	78.93%	74.08%

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 proceedings, if it has been necessary to recognize an impairment or a direct write-down on a customer loan, or if credit risk management 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):

në mijë LEK	NPL		NPL ratio		NPL coverage ratio	
	2021	2020	2021	2020	2021	2020
Non-financial corporations	7,158,993	9,751,014	2.07%	16.66%	80.79%	76.13%
Households	2,674,168	2,718,253	0.10%	6.48%	75.97%	75.10%
Total non-Banks	9,833,161	12,469,267	0.32%	12.23%	78.93%	74.70%
Total	9,833,161	12,469,267	0.32%	12.23%	78.93%	74.70%

35. CREDIT RISK (CONTINUED)

NON-PERFORMING LOANS (NPL) (CONTINUED)

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

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

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

in LEK thousand	As at January 1, 2020	Additions	Decrease	As at December 31, 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	-	-	-	-
Total	12,529,120	1,992,389	(2,052,241)	12,469,268

Concentration risk

The credit portfolio of the Group is well diversified in terms of geographical region and industry. Single name concentrations are also actively managed (based on the concept of groups of connected customers) by way of limits and regular reporting. As a result, portfolio granularity is high. As part of the Group's strategic realignment, the limit structures for concentration risk were reviewed for each customer segment. The regional breakdown of the exposures reflects the broad diversification of credit business in the Group's markets.

The following table shows the distribution of credit exposures across all asset classes by the borrower's home country, grouped by regions:

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Albania	249,563,530	82.63%	230,693,320	88.94%
Austria	23,918,002	7.92%	7,496,405	2.89%
France	4,358,068	1.44%	162,178	0.06%
Germany	4,212,816	1.39%	8,990,972	3.47%
Poland	3,625,628	1.20%	3,713,794	1.43%
Switzerland	3,414,594	1.13%	123,707	0.05%
North America	3,003,330	0.99%	208,995	0.08%
Netherlands	1,151,617	0.38%	0	0.00%
Great Britain	88,149	0.03%	682	0.00%
Italy	58,720	0.02%	1,810	0.00%
Romania	1,031	0.00%	249	0.00%
Czech Republic	53	0.00%	4,434,178	1.71%
Bulgaria	29	0.00%	3	0.00%
Rest of World	1,420,097	0.47%	2,813	0.00%
Other European Union	1,831,856	0.61%	1,864,591	0.72%
Other European-non European Union countries	5,392,237	1.79%	1,676,513	0.65%
Total	302,039,757	100.00%	259,370,210	100.00%

35. CREDIT RISK (CONTINUED) CONCENTRATION RISK (CONTINUED)

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Euro (EUR)	112,170,074	37.53%	95,242,580	36.72%
US-Dollar (USD)	22,068,851	7.38%	12,990,647	5.01%
Swiss franc (CHF)	335,077	0.11%	465,830	0.18%
Albanian lek (ALL)	159,741,875	53.45%	146,130,390	56.34%
Other foreign currencies	4,531,130	1.52%	4,540,763	1.75%
Total	298,847,007	100.00%	259,370,210	100.00%

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

in LEK thousand	31 December 2021	Share	31 December 2020	Share
Banking and insurance	85,871,710	28.43%	34,925,623	13.47%
Public administration and defense and social insurance institutions	69,192,857	22.91%	52,770,797	20.35%
Private households	51,203,183	16.95%	46,652,699	17.99%
Retail trade except repair of motor vehicles	25,863,370	8.56%	24,896,375	9.60%
Electricity, gas, steam and hot water supply	16,882,908	5.59%	8,632,510	3.33%
Manufacture of basic metals	15,429,987	5.11%	14,349,571	5.53%
Construction	10,511,203	3.48%	9,610,423	3.71%
Other business activities	6,590,531	2.18%	54,407,667	20.98%
Other transport	5,234,655	1.73%	4,365,965	1.68%
Extraction of crude petroleum and natural gas	3,475,257	1.15%	2,997,509	1.16%
Real estate activities	2,892,871	0.96%	2,519,497	0.97%
Wholesale trade and commission trade (except car trading)	524,239	0.17%	574,639	0.22%
Land transport, transport via pipelines	422,322	0.14%	386,456	0.15%
Manufacture of machinery and equipment	171,910	0.06%	225,177	0.09%
Sale of motor vehicles	52,898	0.02%	35,690	0.01%
Other manufacturing	-	0.00%	-	0.00%
Manufacture of food products and beverages	-	0.00%	-	0.00%
Other industries	7,719,856	2.56%	2,019,612	0.78%
Total	302,039,757	100%	259,370,210	100%

36. MARKET RISK

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

Market risks from the customer divisions are transferred to the Treasury division using the transfer price method. Treasury is responsible for managing structural market risks and for complying with the Group's overall limit. The Capital Markets division is responsible for proprietary trading, market making, and customer business in money market and capital market products.

Organization of market risk management

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

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

The Market Risk Management department ensures that the business volume and product range comply with the defined strategy of the Group. It is responsible for implementing and enhancing risk management processes, risk management infrastructure and systems, manuals, and measurement techniques for all market risk categories and credit risk arising from market price changes in derivative transactions. Furthermore, Market Risk Management independently measures and reports all market risks on a daily basis.

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

Limit system

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

- Value-at-Risk (VaR) – (confidence level: 99 per cent; risk horizon: one day)
- Value-at-risk is the main market risk steering instrument in liquid markets and normal market situations. VaR is measured based on a hybrid simulation approach in which 5,000 scenarios are calculated. The approach combines the advantages of a historical simulation and a Monte-Carlo simulation and derives market parameters from 500 days of historical data. Distribution assumptions include modern features such as volatility declustering and random time changes, which helps in accurately reproducing fat-tailed and asymmetric distributions and base interest rate risk factors. Value-at-risk results are not only used for
- limiting risk but also in the allocation of economic capital.
- Sensitivities (to changes in exchange rates and interest rates, gamma, vega, equity and commodity prices)
- Sensitivity limits are to ensure that concentrations are avoided in normal market situations and are the main steering instrument under extreme market situations and in illiquid markets or in markets that are structurally difficult to measure.
- Stoploss - Stop loss limits serve to strengthen the discipline of traders such that they do not allow losses to accumulate on their own proprietary positions but strictly limit them instead.

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

36. MARKET RISK (CONTINUED)

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 December 31, 2021	VaR as at December 31, 2020
Currency risk	100%	100%
Interest rate risk	0%	0%
Credit spread risk	0%	0%
Share price risk	0%	0%
Vega risk	0%	0%
Basis risk	0%	0%
Total value	(14,537)	(6,347)

Banking book VaR 99% 1d in LEK thousand	VaR as at December 31, 2021	VaR as at December 31, 2020
Currency risk	0%	0%
Interest rate risk	25.70%	22.2%
Credit spread risk	74.00%	76.7%
Vega risk	0%	0%
Basis risk	0.3%	1.1%
Total	(381,935)	(431,463)

Total VaR 99% 1d in LEK thousand	VaR as at December 31, 2021	VaR as at December 31, 2020
Currency risk	21.5%	17.6%
Interest rate risk	19.7%	18.0%
Credit spread risk	58.4%	63.4%
Share price risk	0%	0%
Vega risk	0%	0%
Basis risk	0.3%	2.3%
Total	(485,449)	(470,295)

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.

36. MARKET RISK (CONTINUED)

EXCHANGE RATE RISK AND CAPITAL RATIO

The following table shows all material open foreign exchange rate positions as at 31 December 2021 and the correspond-ing values for the previous year.

in LEK thousand	31 December 2021	December 31, 2020
AUD	(15,073)	(13,340)
CAD	(3,209)	(27,017)
CHF	(82,155)	28,679
DKK	1,157	1,186
EUR	11,923,295	13,339,309
GBP	(22,716)	140,274
JPY	5,098	5,972
NOK	25	165
SEK	1,232	1,236
USD	844,289	(6,113)

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 2021 and 31 De-cember 2020.

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

2020 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
ALL	-0.25			-0.25								

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 context of the interest rate risk statistic submitted to the Banking supervisor.

36. MARKET RISK (CONTINUED) EXCHANGE RATE RISK AND CAPITAL RATIO

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 2021 and 31 December 2020.

2021 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
ALL	2,687	(108)	(60)	(368)	421	2,958	(691)	(160)	255	574	38	(172)
CHF	17	-	-	(2)	(4)	(1)	(3)	(2)	(2)	(1)	-	-
EUR	3,224	232	19		1,296	536	1,219	(1,497)		(279)	(254)	(106)
GBP	12	13	2	(296)	1	-	-	-	(4,094)	-	-	-
USD	1,092	13	2	22	1	-	-	-	-	-	-	-

2020 in LEK thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
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	-	-	-	-	-

37. 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 beneficial pricing, the Group is also using interGroup borrowing and placements with local and international Groups.

Principles

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

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

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

Responsibility and Organization

Përgjegjësia për të siguruar nivele të përshtatshme të likuiditetit qëndron në Bordin e Administrimit. Megjithatë, sa i The responsibility to ensure adequate levels of liquidity lies with the entire Board of Management. However, in terms of functions, the responsible Board members are the Chief Executive Officer (Treasury and IB) and the Chief Risk Officer/Chief Financial Officer. Consequently, the processes related to liquidity risk are mainly carried out by two areas within the Group. Firstly, Treasury/Dealing Room department manage the liquidity risk positions within the strategy, guidelines and parameters set by decisions taken in Asset/Liability Committee (ALCO) meetings which reflect all regulatory constraints. Secondly, these are monitored and supported by independent Integrated Risk division (Market Risk department). Market risk department measures and implements limits on different liquidity positions, as well as monitors their compliance. In addition to the aforementioned line functions, ALCO and Research department is responsible for implementing Group wide methodology on liquidity risk models.

37. LIQUIDITY MANAGEMENT (CONTINUED) EXCHANGE RATE RISK AND CAPITAL RATIO

Liquidity strategy

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

Treasury/Dealing Room is committed to achieve all key performance indicators (KPIs) and to comply with risk-based principles. Key performance indicators include general targets (i.e. return on risk adjusted capital (RORAC) or coverage ratios), as well as specific Treasury targets for liquidity (such as a minimum survival horizon in defined stress scenarios or the diversification of the refinancing structure). Besides achieving a structural contribution by means of a maturity transformation that reflects the liquidity and market risk assumed by the Group, Treasury/Dealing Room pursues a prudent and sustainable risk policy in its balance sheet management.

Liquidity risk framework

The Group is regularly forecasting its liquidity position under a going concern and stressed liquidity gaps scenarios, as well as internally measured stress survival period and in case it is necessary, the regulatory Liquidity Cover Ratio (LCR). The inputs used for these forecasts are mainly the balance sheet dynamics (maturities of main funding sources, i.e. customer 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 purpose of projecting the LCR, sovereign and Central Bank deposits are also relevant and considered. The funding activities are calibrated by taking the forecast of the liquidity metrics (going concern, stressed liquidity gaps, and the LCR) into account.

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

Risk appetite and liquidity limits

The liquidity position is monitored on Group level and on individual unit level and is restricted by means of a comprehensive limit system. Limits are defined both under a business as usual as well as under a stress perspective. In accordance with the defined risk appetite, our Group has a survival horizon of several months (TTW) in a severe, combined stress scenario (reputational and market stress). This is ensured by both a structurally positive liquidity profile and by a sufficiently high liquidity buffer. In a normal going concern environment, maturity transformation is fully covered by the available liquidity buffer in the medium term.

This means that the cumulative liquidity position over a period of up to one year is positive. In the long term (one year or more), maturity transformation is permitted up to a certain level.

For internal models, these limits are supplemented by limits for compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR). All liquidity position limits are complied with on a daily basis.

Additionally, the Group is compliant with Group of Albania regulations on Liquidity Risk management, which is regulated by regulation No. 71, dated 14.10.2009, amended by regulation No.75, dated 26.10.2011 and further amended by regulations No. 28, dated 27.03.2013 and No. 14, dated 7.2.2018 of the Supervisory Council of the Group of Albania)

According to Group of Albania regulations, the Group calculates and assures the compliance of the "liquid assets to short term liabilities ratio" on a daily basis.

Liquidity Limits

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

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

Liquidity monitoring

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

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

37. LIQUIDITY MANAGEMENT (CONTINUED)

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 combined crisis), consider the effects of the scenarios for a period of several months and demonstrate that stress events can simultaneously result in a time-critical liquidity requirement in several currencies. The stress scenarios include the principal funding and market liquidity risks, without considering beneficial diversification effects. This means that in the stress tests of the Group, all network units are simultaneously subject to a pronounced combined crisis for all their major products. The results of the stress tests are reported to the Chief Risk Officer and the Chief Financial Officer as well as other members of management on a weekly basis; they also form a key component of the monthly ALCO meetings and are included in the Group's strategic planning and contingency planning.

A conservative approach is adopted when establishing outflow ratios based on historical data and expert opinions. The simulation assumes a lack of access to the money or capital market and simultaneously significant outflows of customer deposits. In this respect, the deposit concentration risk is considered by assigning higher outflow ratios to large customers. Furthermore, stress assumptions are formulated for the drawdown of guarantees and credit obligations. In addition, the liquidity buffer positions are adapted by haircuts in order to cover the risk of disadvantageous market movements, and the potential outflows resulting from collateralized derivative transactions are estimated. The Group continuously monitors whether the stress assumptions are still appropriate or whether new risks need to be considered. 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 expected in crisis scenarios. The Group has sizeable, unencumbered and liquid securities portfolios eligible for Central Bank outright auction transactions in order to ensure sufficient liquidity in local currency. The Group is responsible for ensuring the availability of liquidity buffers, testing its ability to utilize central Group funds, evaluating constantly its collateral positions as regards to their market value and encumbrance, as well as examining the counterbalancing capacity, including the secured and unsecured funding potential and the liquidity of the assets. Generally, a haircut is applied to all liquidity buffer positions. These haircuts include a market-risk specific haircut and a Central Bank haircut. While the market risk haircut represents the potential price volatility over the next 20 trading days of the securities held as assets as part of the liquidity buffer, the Central Bank haircut represents an additional haircut by the Central Bank that may be offered as collateral. The eligibility criteria on group level further considers intra-group lending restrictions such as the legal lending limit.

Intraday Liquidity Management

In compliance with regulatory requirements for intraday liquidity management, Dealing Room Department is fulfilling the following tasks:

- Fulfilling Group legal liquidity requirements (minimum reserve requirements);
- Optimize the liquidity flows, financing costs and the return on investments;
- Provides available funds for outgoing payments on our NOSTRO accounts with correspondent 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 payments from other departments and provides available funds on our NOSTRO account normally with value date T+2. There are special requests for value date T+1, T+0. For all the payments in local and international market should be respect the Group's cut off time until then the transaction can be performed. For payments in Local currency the cut off time fixed by Group of Albania (BoA) is 3.30 p.m. For payments in foreign currency the cut off time is 4.30 p.m.

The Group is using AIPS (Albanian InterGroup Payment System) as platform for monitoring online our Nostro Account with Group of Albania for all the payments / incomings in local currency LEK. The monitoring of our Nostro accounts in foreign currency is done using online platforms on this purpose, which facilitate the daily liquidity management. Daily queries produced by core Banking system 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 Processing & SWIFT unit (Central Operations & Facility Management

37. LIQUIDITY MANAGEMENT (CONTINUED)

INTRADAY LIQUIDITY MANAGEMENT (CONTINUED)

Department) with value date T+2 and with specific request with value date T+0.

The whole Group liquidity position is monitored and updated during the day after each transaction done. We keep our liquidity position by using excel and update it manually using the information re-ceived from different sources as Pay-ment Processing & SWIFT unit (Central Operations & Facility Management Department, Trade Finance & Short-Term Financing (Corporate and SE Products De-partment), Treasury Back Office (Central Operations & Facility Management Department), Foreign Exchange & Cash Desk, Corporate Department.

The excess of liquidity in FCY is invested as short term in the internal and international market.

Dealing Room Department is responsible for the liquidity management in local and foreign currency for whole Group, not for each branch consolidatedly. Money Market desk receives the funds request for the client payments on daily basis and provide necessary liquidity needs. We are using online platform monitoring for most of our NOSTRO accounts to check all the transac-tion done though these accounts.

The closed balance position of each NOSTRO account is received by mail from swift dep (in the morning) by MT 950 message. The closed balance position of each LORO account is prepared by the Securities, Investigation, Reconciliation & Support on different frequency basis as agreed with each of them and is sent by Swift, by MT 950.

Contingency funding plan

The Group is analysing the potential impact from the Pandemic Covid -19 on the liquidity of the Group in 2020. Under difficult liquidity conditions, the Group will switch to a contingency process in which it will follow a predefined liquidity contingency plan. These contingency plans also constitute an element of the liquidity management framework and are mandatory for all RBI Group members. The emergency management process is designed so that the Group can retain a strong liquidity position even in serious crisis situations.

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 posi-tion and downward market movements in relation to positions which influence the liquidity counterbalancing capacity.

in LEK thousand	31 December 2021		31 December 2020	
	1 month	1 year	1 month	1 year
Liquidity surplus	75,485,877	68,217,612	86,222,692	75,421,907

Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets (HQLAs) held by the Group, to meet potential liability run offs (short-term obligations). HQLAs can be converted into cash to meet liquidity needs for a minimum 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 2020 and 2021, the regulatory limit for the LCR stood at 100 per cent.

in LEK thousand		2020
Average liquid assets	90,236,519	81,262,024
Net outflows	10,070,846	7,444,771
Inflows	43,339,834	38,201,186
Outflows	40,283,385	29,779,083
Liquidity Coverage Ratio	896%	1,098%

37. LIQUIDITY MANAGEMENT (CONTINUED)

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the proportion of Available Stable Funding ("ASF") via the liabilities over Required Stable Funding ("RSF") for the assets. Sources of Available Stable funding includes: customer deposits, long-term wholesale funding (from the interGroup lending market), and equity..

in LEK thousand	31 December 2021	31 December 2020
Required stable funding	93,352,028	95,460,162
Available stable funding	218,056,194	202,358,832
Net Stable Funding Ratio	234 %	212%

Liquidity Coverage Ratio and Net Stable Funding Ratio are presented in Local ALCO meetings on a monthly basis. The Group aims to assure liquidity consistency with Basel III requirements.

Funding liquidity risk

Funding liquidity risk is mainly driven by changes in the risk strategy of lenders or by a deterioration in the creditworthiness of a Group that needs external funding. Funding rates and supply rise and fall with credit spreads, which change due to the market- or Group-specific situation.

As a consequence, long-term funding depends on restoring confidence in Groups and increased efforts in collecting customer deposits. The Group Banking activities are financed by combining retail deposit-taking and wholesale funding. In the Group's funding plans, special attention is paid to a diversified 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 assets 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.

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

2021 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	266,984,659	292,614,649	112,490,899	39,260,741	104,524,771	36,338,240
Cash, cash balances at central Banks and other demand deposits	42,813,051	42,813,051	42,813,051	-	-	-
Loans and advances	143,764,409	165,500,616	53,377,531	31,579,900	52,071,875	28,471,311
Central Banks	6,035,130	6,035,130	6,035,130	-	-	-
General govern- ments	238	238	238	-	-	-
Banks	30,686,615	30,686,615	30,686,615	-	-	-
Other financial corporations	6,437	6,437	269	-	6,168	-
Non-financial corporations	62,518,456	72,615,037	12,550,716	26,320,368	27,581,847	6,162,107
Households	44,517,533	56,157,159	4,104,563	5,259,532	24,483,860	22,309,204
Debt securities	80,407,199	84,300,982	16,300,317	7,680,841	52,452,896	7,866,929
General govern- ments	76,781,834	80,661,264	16,300,317	4,041,123	52,452,896	7,866,929
Banks	3,625,365	3,639,718	-	3,639,718	-	-

37. LIQUIDITY MANAGEMENT (CONTINUED)

Funding liquidity risk – continued

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 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 govern- ments	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 govern- ments	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

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

2021 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	267,481,823	267,485,401	217,699,230	35,925,766	11,197,319	2,663,087
Deposits	240,366,198	240,369,776	211,544,003	26,991,884	1,455,405	378,484
Central Banks	-	-	-	-	-	-
General governments	6,806,812	6,806,812	6,806,812	-	-	-
Banks	3,201,236	3,201,236	3,201,236	-	-	-
Other financial corporations	10,627,083	10,628,371	10,370,329	166,262	91,780	-
Non-financial corporations	44,684,199	44,684,350	44,436,458	40,587	192,293	15,011
Households	175,046,868	175,049,007	146,729,168	26,785,035	1,171,332	363,473
Other financial liabilities	1,668,497	1,668,497	1,668,497	-	-	-
Issued financial guarantee contracts	7,948,185	7,948,185	1,478,493	3,933,904	2,535,788	-
Issued loan commitment	17,498,943	17,498,943	3,008,237	4,999,978	7,206,126	2,284,603

38. LIQUIDITY MANAGEMENT CONTINUED FUNDING LIQUIDITY RISK – CONTINUED

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 liabilities	225,072	225,072	225,072	-	-	-
Issued financial guarantee contracts	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

38. 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 operational risk in the Group. To this end, individuals are designated and trained as Operational Risk Managers for each business area. Operational Risk Managers provide central Operational Risk Controlling with reports on risk assessments, loss events, indicators and measures. They are supported in their work by Dedicated Operational Risk Specialists (DORS).

Operational risk controlling units are responsible for reporting, implementing the framework, developing control measures and monitoring compliance with requirements. Within the framework of the annual risk management cycle, they also coordinate the participation of the relevant second line of defense departments (Financial Crime Management, Compliance, Vendor Management, Outsourcing Management, Insurance Management, Information Security, Physical Security, BCM, Internal Control System) and all first line of defense partners (Operational Risk Managers).

Risk identification

Identifying and evaluating risks that might endanger the Group's existence (but the occurrence of which is highly improbable) and areas where losses are more likely to arise more frequently (but have only limited impact) are important aspects of operational risk management.

Operational risk assessment is executed in a structured and Group-wide uniform manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well.

All Group units grade the impact of high probability/low impact events and low probability/high impact incidents according to their estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quantified by a Group-wide analytical tool (scenarios). The internal risk profile, losses arising and external changes determine which cases are dealt with in detail.

Monitorimi

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

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

Quantification and mitigation

Since October 2016, the operational risk activities is taken on by Financial Crime Management. Financial Crime Management provides support for the prevention and identification of fraud. The Group also conducts an extensive staff training program and has different contingency plans and back-up systems in place.

OTHER DISCLOSURES

39. GROUP AS LESSOR

Future lease payments under non-cancellable leases are as follows:

in LEK thousand	31 December 2021	31 December 2020
Up to 1 year	2,853	3,420
more than 1 to 2 years	1,750	1,930
more than 2 to 3 years	1,750	1,781
more than 3 to 4 years	676	1,781
more than 4 to 5 years	-	1,781
Total	7,029	10,694

40. GROUP AS LESSEE

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

in LEK thousand	31 December 2021	31 December 2020
Up to 1 year	243,476	280,990
More than 1 year, up to 5 years	847,500	845,279
More than 5 year	410,994	250,150
Total	1,501,970	1,376,419

41. RELATED PARTIES

Transactions with related parties (companies and individuals) are limited to Banking business transactions that are carried out at fair market conditions. Disclosures on related parties (individuals) are reported under note (44) Relations to key management.

in LEK thousand	31 December 2021	31 December 2020
Selected financial assets		
Debt securities	-	4,433,226
Raiffeisenbank a.s.		4,433,226
Loans and advances	13,771,068	7,953,518
Raiffeisen Bank International AG (parent company)		7,930,032
Raiffeisen Bank Kosovo J.S.C.		23,487
Other assets	77,755	81,283
Raiffeisen Bank International AG (parent company)		78,959
Regional Card Processing Center s.r.o.		1,948
Raiffeisen Bank Kosovo J.S.C.		376
Selected financial liabilities		
Deposits	21,611	7,359
Raiffeisen Bank International AG (parent company)	17,882	7,359
Raiffeisen Bank Kosovo J.S.C.	3,729	-
Provisions & Other liabilities	77,467	70,894
Raiffeisen Bank International AG (parent company)	77,467	70,894
Loan commitments, financial guarantees and other commitments given	1,586,886	1,468,074
Raiffeisen Bank International AG (parent company)	1,586,333	1,467,507
Raiffeisenbank Austria d.d.	553	567
in LEK thousand	31 December 2021	31 December 2020
Interest income	5,828	48,584
Raiffeisenbank a.s.	4,986	27,690
Raiffeisen Bank International AG (parent company)	842	20,894
Interest expenses	(54,437)	(77,767)
Raiffeisen Bank International AG (parent company)	(54,437)	(77,767)
Fee and commission income	472	221
Raiffeisen Bank International AG (parent company)	472	208
Raiffeisen Bank Kosovo J.S.C.	-	13
Fee and commission expenses	(226,395)	(190,944)
Ukrainian Processing Center PJSC	(57,764)	(59,755)
Regional Card Processing Center s.r.o.	(82,641)	(62,465)
Centralised Raiffeisen International Services & Payments S.R.L.	(12,119)	(9,843)
Raiffeisen Bank International AG (parent company)	(73,871)	(58,880)

42. AVERAGE NUMBER OF STAFF

	31 December 2021	31 December 2020
Full-time equivalents		
Salaried employees	1,214	1,233
Wage earners	40	40
Total	1,254	1,273

43. RELATIONS TO KEY MANAGEMENT

Group relationship with key management

in LEK thousand	31 December 2021	31 December 2020
Assets	238,221	238,442
Liabilities	177,207	177,460

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	31 December 2021	31 December 2020
Short-term employee benefits	215,042	191,128
Other long-term benefits	39,809	51,157
Total	254,851	242,285

Remuneration of members of Board of Directors

in LEK thousand	31 December 2021	31 December 2020
Remuneration of Board of Directors	14,648	1,128

44. MANAGEMENT BOARD

The Management Board as at 31 December 2021 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
Elona Mullahi	09/10/2015	30/06/2024
Egon Lerchster	13/11/2017	31/12/2023

Board of Directors

The Board of Directors as at 31 December 2021 was as follows:

Members of the Board of Directors	First assignment	End of period
Peter Lennkh	07/07/2017	09/03/2025
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

45. 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 carry a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

in LEK thousand	31 December 2021	31 December 2020
Total risk weighted assets	134,521,667	115,825,796
Regulatory capital	27,301,468	27,876,687
Capital adequacy ratio	20.30%	24.07 %

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 gear-ing 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.

Regulatory capital of Supplementary Pension Funds and Investment Funds Management Company (subsidiary of the Bank)

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Man-agement Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capital, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased be-yond a limit of Lek 1,250,000 thousand. As at 31 December 2021 and 2021, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2021 and 2020, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gear-ing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

46. UNCONSOLIDATED STRUCTURED ENTITIES

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration com-pany (subsidiary of the Group). According to the Albanian legislation on pension fund and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2021 consolidated financial statements. Information about unconsoli-dated structured entities is as follows:

	Year ended 31 December 2021	At 31 December 2021		
In thousands of LEK	Income from the structured entity for the year	Carrying amount of assets of the structured entity	Carrying amount of liabilities o structured entity	Net assets of the structured entity
Prestige Fund	1,481,387	47,077,915	116,128	46,961,787
Pension Fund	56,566	1,043,816	5,558	1,038,258
Vizion Fund	594,375	17,452,512	33,233	17,419,279
Euro Fund	175,797	8,118,005	12,225	8,105,780
Mix Fund	20,146	535,102	958	534,144
Total	2,328,271	74,227,350	168,102	74,059,248

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, Raiffeisen Bank Sh.a and entities controlled by the Company, Raiffeisen Leasing Sh.a and Raiffeisen Invest Sh.a made up to 31 December each year. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, Raiffeisen Bank Sh.a has 100% percent control in its subsidiaries. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Classification and measurement of financial assets and financial liabilities

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

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

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

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

On initial recognition of an equity instrument that is not for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis for each investment and essentially covers strategic interests that are not fully 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 recognized in profit or loss. In addition, the Group has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an accounting mismatch – that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases.

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

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

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

Business model assessment

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

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

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

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

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

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

Analysis of contractual cash flow characteristics

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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 payments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a 'perfect' benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value.

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

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

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

Financial assets and financial liabilities

Financial assets – amortized cost

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

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

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

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

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

Financial liabilities – amortized cost

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

Assets/Liabilities	Fair value	Amortized cost	Category according to IFRS 9
<i>Assets classes</i>			
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
<i>Liabilities classes</i>			
Financial liabilities - amortized cost		X	AC
Financial liabilities - designated fair value through profit/loss	X		FVTPL
Financial liabilities - held for trading	X		FVTPL

AC: Amortized Cost

FVOCI: Fair Value Through Other Comprehensive Income

FVTPL: Fair Value Through Profit or Loss

Amortized cost

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

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows arising from a financial asset have expired, when the Group has transferred the rights to the cash flows, or if the Group has the obligation, in case that certain criteria occur, to transfer the cash flows to one or more receivers. A transferred asset is also derecognized if all material risks and rewards of ownership of the assets are transferred. The Group has in place a write-off policy based on the principle that the 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 (26) Expected credit losses.

Modification of financial assets

In the Group, a financial asset is derecognized on account of a modification if the underlying contract is modified substantially. Terms are substantially different if the discounted present value of the cash flows under the new terms using the original effective interest rate differs by at least 10 per cent from the discounted present value of the remaining cash flows of the original financial asset (present value test). In addition to the present value test further quantitative and qualitative criteria are considered in order to assess whether a substantial modification applies. The other quantitative criteria primarily consider the extension of the average remaining term. Stage 3 loans are often restructured to match the maximum expected payments from the customer.

If this is the case then additional judgement is required to determine whether the 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).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Derecognition of financial liabilities

The Group derecognizes a financial liability if the obligations of the Group have been paid, expired or revoked. The in-come 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.

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

Reclassification of financial assets

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

Fair value

The fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability, in an orderly business transaction between market participants on the measurement reference date. This applies irrespective of whether the price is directly observable or has been estimated using a valuation method. In accordance with IFRS 13, the Group uses the following hierarchy to determine and report the fair value for financial instruments.

Quotation on an active market (Level I)

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

Measurement techniques based on observable market data (Level II)

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial guarantees

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

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

Contingent liabilities and commitments

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

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

Impairment

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

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

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

- Stage 1 essentially includes all financial instruments whose credit default risk has not significantly increased since their initial recognition. Stage 1 also includes all transactions which show a low credit risk on the reporting date, where the Group has utilized the option available under IFRS 9 to waive the assessment of a significant increase in credit risk. A low credit risk exists for all financial instruments whose internal credit rating on the reporting date is within the investment grade range (corresponds to at least Standard & Poor's BBB-, Moody's Baa3 or Fitch BBB-). On initial recognition of loans, the Group records an impairment in the amount of the expected twelve-month loss. Stage 1 also includes loans where the credit risk has improved and which have thus been reclassified from Stage 2.
- Stage 2 includes those financial instruments whose credit risk has significantly increased since their initial recognition and which, as at the reporting date, are not classified as transactions with limited credit risk. Impairments in Stage 2 are recognized in the amount of the financial instrument's lifetime expected credit loss. Stage 2 also includes loans where the credit risk has improved and which have thus been reclassified from Stage 3.
- Stage 3 includes financial instruments which are classified as impaired as at the reporting date. The Group's criterion for this classification is the definition of a default in accordance with Article 178 CRR. The expected credit loss over the entire remaining lifetime of the financial instrument is also to be used as the basis for recognizing impairment of Stage 3 loans in default.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

The recognition and measurement principles for calculating expected credit losses are set out in the notes (26) Expected credit losses in the chapter Determination of expected credit losses. The recognition and measurement principles for de-termining a significant increase in the credit risk are set out in (26) Expected credit losses in the chapter significant in-crease in credit risk. The expected credit losses are measured on either a collective or individual basis. The requirements for collective measurement are set out in (26) Expected credit losses in the section shared credit risk characteristics.

Determination of expected credit losses

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

The twelve-month loss used for the recognition of impairments in Stage 1 is the portion of the lifetime expected credit loss for the financial instrument that results from default events which are expected to occur within twelve months 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 (26) 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 particular, on the current economic environment (point-in-time perspective) and forward-looking information. This as-sessment primarily involves regularly reviewing the effects which the Group's macroeconomic forecasts will have regard-ing 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 macroe-conomic factors, such as real GDP, unemployment rate, reference interest rates and Information about the currently as-sumed 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 loss-es are also taken into account.

Further details on forward-looking information are provided in the notes (26) 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 indicators. In addition, the PD adjusted in accordance with IFRS 9 requirements takes into account not only historical information and the current economic environment, but also, in particular, forward-looking information such as the forecast for the devel-opment 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 finan-cial reporting date has risen significantly since the initial recognition of the respective financial instrument is performed as at the reporting date. This review compares the observed probability of default over the residual maturity of the finan-cial instrument (Lifetime-PD) against the lifetime PD over the same period as expected on the date of recognition. Fur-ther details on forward-looking information are provided in the notes (26) Expected credit losses in the chapter Signifi-cant increase in the credit risk.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

Collateral

In order to mitigate credit risks for financial assets, the Group endeavors to use collateral wherever possible. This collateral can take different forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets and credit improvements such as netting agreements. The accounting principles for collateral remain unchanged compared to IAS 39. Collateral is not recorded in the Group's statement of financial position unless it is repossessed. The fair value of collateral does, however, affect the calculation of ECLs. Generally, it is valued at least at the outset, and subject to half-yearly reviews. Some collateral such as cash or securities are assessed daily in respect of margin requirements. Further details are provided in the notes (25) Collateral and maximum credit risk.

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

Genuine sale and repurchase agreements

In a genuine sale and repurchase transaction, the Group sells assets to a third party and agrees at the same time to repurchase these assets at an agreed price and time. The assets remain on the Group's statement of financial position and are measured according to the standards applied to the item in the statement of financial position 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 portfolio and are valued according to IFRS 9. Borrowed securities are not recognized and not valued in the Group. Cash collateral provided by the Group for securities lending transactions is shown as a claim under the item financial assets – amortized cost while collateral received is shown as financial liabilities – amortized cost in the statement of financial position.

Leasing

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

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 has selected to present right of use assets together with tangible assets (please refer to note 13) and Lease liability together with Financial liabilities (please refer to note 39).

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

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 banks that are due on call.

Cash, cash balances at central banks and other demand deposits are carried at amortised cost in the statement of financial position.

Cash and cash equivalents

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Intangible fixed assets

Acquired intangible fixed assets

In the Group, 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 capitalized at acquisition cost less accumulated impairment. The normal useful life of software is between 8 years. The normal useful life for large software projects may extend over a longer period.

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

Useful life	Years
Software	8

Internally developed intangible fixed assets – research and development costs

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

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 expenses.

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 impairment loss is reported in the income statement and shown under the item general administrative expenses. In the event that the reason for the write-down no longer applies, a write-up will take place up to a maximum of the amount of the amortized cost of the asset.

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

Investment property

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

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

Provisions for liabilities and charges

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

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

Employee compensation plans

Defined contribution plans

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

Social and health contributions

The Group makes compulsory social security contributions that provide pension benefits for employees upon 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

Short-term benefits

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

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

Termination benefits

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

Subordinated liabilities

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

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2021 and 2020.

Net interest income

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

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 26 Expected credit loss, paragraph "Definition of default and credit-impaired assets".

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

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

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

Net fee and commission income

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

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

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED (CONTINUED)

IMPAIRMENT GENERAL (IFRS 9)

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 activities 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.

EVENTS AFTER THE REPORTING DATE

The ongoing military conflict in Ukraine as a result of the Russian invasion on February 24, 2022 and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The bank does not have any direct exposure with Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities in the future. At this stage there is no direct impact in regard to any operational disruption, potential diminished demand for products or services, contractual obligations due or anticipated within one year, potential liquidity and working capital shortfalls, and access to existing sources of capital, and as such management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer-term impact would need to be continuously assessed in terms of trading volumes, cash flows and profitability.

On 31 January 2022, the Raiffeisen Leasing Sh.a agreed to renew the credit line for three additional year till 31 January 2024. The interest is payable on monthly basis. The interest rate is 12-month Euribor plus 0.5 % p.a. for Euro and 6-month Treasury Bills + 0.5% p.a reviewed every 6 months for Lek. Also Raiffeisen Leasing Sh.a agreed to increase the limit with EUR 3 million, reaching EUR 36 million.

On April 26, 2022 the General Assembly of Raiffeisen Leasing Sh.a approved the payment of LEK 139,978,345 of the dividends from retained earnings to Raiffeisen Bank sh.a. As a result, these events are non-adjusting post balance sheet events.

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, 08.06.2022

The Management Board

Christian Canacaris

Alexander Zsolnai

Elona Mullahi

Egon Lerchster

STATEMENT OF LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

The Management Board

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management

Egon Lerchster
Member of the Management Board
CIO/COO

Elona Mullahi
Member of the Management Board for
Corporate Banking

Raiffeisen Leasing Sh.a

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. Since October 10, 2016, Raiffeisen Bank Sh.a. is the sole immediate parent company of Raiffeisen Leasing Sh.a. The headquarters of the Company is registered with the address: "Rruga "Tish Daija", Kompleksi "Haxhiu", Godina nr.1, Kati7, Tirana".

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

The financial statements for the year ended 31 December 2021 were authorized for issue by the Board of Directors on 11 March 2021. The financial statements are subject to final approval by the Shareholders in the Annual General Meeting. The Shareholders have the power to amend the financial statements after the issue.

The 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 Supervisory Board
Erion Balli	Supervisory Board Member
Migena Arkaxhiu	Supervisory Board Member

Managing Board

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

Even during the year 2021, Raiffeisen Leasing Albania continued to be the leader in the Albanian leasing market. The value of the new business in 2021 amounted to € 18,4 million, of which € 17,6 million was used for vehicle financing, and € 0.8 million for equipment.

The basic products of Raiffeisen Leasing are vehicle 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.

The new business during the Year 2021 is mainly conducted with corporate customers reaching 47 per cent, with SE customers 16 per cent, and with Micro customers in 20 per cent of the business, and the rest 17 per cent is conducted by Retail customers.

The company continues to maintain a satisfactory level of liquidity while the total active covers the total liabilities by about 115% on December 31, 2021 compared to 114% of the previous year, for which the receivables from financial rents cover about 101% long-term debt versus 100.7% of the year before. Payments of short-term liabilities against suppliers have not been influenced and the company has not reduced operational activity with suppliers. Raiffeisen Leasing does not anticipate the sale of the financial rent portfolio.

Our goal was mainly focused on strengthening long-term partnerships with clients of Raiffeisen Banking Group, providing them with the efficient support they needed in their business. Furthermore, aiming at improving its offer, Raiffeisen Leasing dedicated special attention to further strengthening partnerships and establishing strategic cooperation with the network of the most important dealers operating in Albania.

By fostering the high professional standards set by its founders, Raiffeisen Leasing provides its clients with superior quality products and services, as well as complete information regarding the structure and simplicity of all transactions involved.

Part of our activity constitutes of vehicle remarketing and resale. We are also positioned in the ranks of experts regarding the establishment of standards in the re-sale market due to the procedures implemented. However, the company used the know-how and experience of International Leasing Steering and Product Management and other leasing companies operating in the region, concerning its products, financial leasing services and marketing. Moreover, the company has full access to the large network of international suppliers of heavy tonnage vehicles, machinery and equipment, with which the Raiffeisen Group keeps stable relations, in order that the existing and prospective customers of the company benefit and realize their plans for investment.

At the end of 2021, Raiffeisen Leasing had 18 employees, providing their clients with prompt and highly professional services.

Raiffeisen Leasing has launched its social media platforms on Instagram, Facebook, LinkedIn and has been very active in increasing its presence by promoting Leasing products and services.

Also, it has launched a new and improved website: www.raiffeisen-leasing.al. In 2021, Raiffeisen Leasing has been very active and has launched different marketing campaigns, mainly based on policies and marketing activities of local concessionaires as our key business partners.

We would like to avail of this opportunity to thank our clients and business partners for the excellent cooperation in 2021 and especially for the trust they placed in us. We are also especially grateful to our employees for their commitment and efforts expressing our deep conviction that the Raiffeisen Leasing team will be able to keep its strong market position in 2022 as well.

Prospect 2022

Raiffeisen Leasing sh.a shall continue to actively support the business and investment plans of its clients in 2022 as well, by offering to finance of vehicles and equipment. We shall stay fully committed to further developing our long-lasting cooperation with our clients and dealers and will continue to proactively respond to their needs by improving our range of products and services.

Our major objectives will be increasing new business, improving cross-sales with Raiffeisen bank in all segments, constant improvement of existing products and innovation of new ones, adequate risk management, cost reduction and efficiency improvement. We are fully dedicated to keeping the stability of our portfolio by applying the principle of quality, instead of quantity and a strict risk policy.

Our experience and support of Raiffeisen Group, strong capital base and quality portfolio represent a guarantee that we will remain a secure stable and reliable partner to our clients and dealers in the forthcoming period as well.

Raiffeisen INVEST

The year 2021 proved to be a particularly good year but remained challenging for our clients and our people. We operated in an incredibly dynamic market environment, where the focus was our clients and managed to deliver to them and our shareholders exceptionally satisfactory results.

Raiffeisen Invest team has constantly focused on the implementation of best asset management practices and being fully transparent with the customers.

Moreover, the company mobilized all its resources and expertise to support its customers in a challenging work environment where due to the pandemic, many of the staff performed their duties remotely.

In 2021, Raiffeisen Invest remained the leading company in the Albanian market for investment funds, with 94 percent of the market share. The assets under the management of Raiffeisen Invest recognized a strong increase compared to 2020 (+ 17%), recording approximately EUR 613 million of assets in both investment funds and voluntary pension fund (604.7 million Euros in investment funds and 8.6 million Euros in the pension fund). The number of investors who entrusted the management of their assets to Raiffeisen Invest was 38,420 investors for investment funds or +22% YoY and 3,220 investors for voluntary pension funds or +3.3% YoY.

2021 was a year of achievements in several strategic initiatives. We made further progress toward the digital transformation of the business through the improvements of the "Investment module" in Raiffeisen ON, increased the digital channel share on gross sales compared to 2020 and remained the only asset management company in the market that provides digital services to its clients.

An important project was also accomplished: the compliance of the activity of Raiffeisen Invest and all its funds under management with the requirements of the new legal framework on collective investment undertakings.

2021 also evidenced great progress on some previous strategic initiatives, such as investment plan growth, reaching 7,223 active plans (mainly in LCY), or +120% versus 2020.

Last, but not least, as an asset manager of the RBI Group, Raiffeisen Invest has aligned its strategy with the Group's vision, including sustainability in its short-term development goals. Concerned by global challenges such as climate change and environmental pollution, Raiffeisen Invest aims to contribute to the development of a sustainable world through the design of ESG products in a near future.

Funds performance and financial markets development

In 2021, the funds under management provided the following net returns to the investors:

- Raiffeisen Voluntary Pension Fund: +4.44 per cent on an annual basis
- Raiffeisen Prestige Fund: +2.43 per cent on an annual basis
- Raiffeisen Vision Fund: +4.43 per cent on an annual basis
- Raiffeisen Invest Euro Fund: -1.00 per cent on an annual basis
- Raiffeisen Mix Fund: +4.68 per cent on an annual basis

The evolution of the pandemic and the rapid vaccination of the population has continued to be the most important drivers of the economic and market outcomes during 2021. It was a year of an impressive recovery for the global economy, and it was characterized by the continued monetary policy accommodation by the Central Banks.

The yields of the bonds declined till the end of the third quarter, supported by the bond purchase programs of the Central banks. Afterwards, they suffered a sharp upward trend during the last quarter of 2021 since the pick-up in inflation pressure was far more than a "transitory" episode. The magnitude of inflation rebound was produced from the economic reopening on one side and from the surge in commodities prices such as oil, gas, or energy on the other side. Generally, the demand strongly rebounded this year, but in many areas, the supply has struggled to keep the pace.

The financial markets were featured by high volatility, which has impacted the performance of our funds. The investment portfolio of Raiffeisen Invest Euro fund and the fixed income portfolio of Raiffeisen Mix fund was affected by the underperformance of the international bond market because the yields have risen amid the inflationary

pressures and concerns for the hawkish central bank decisions in the near future. The funds denominated in Euro mainly focused on the medium-term investments, to reduce the interest rate risk.

Despite the sharp acceleration in inflation by end of 2021, the Central Banks have kept monetary conditions extremely accommodative throughout the year and this fact helped the stock market to produce a strong yearly performance, especially the US stocks which outperformed their peers' stocks and recorded the new elevated levels by end of 2021.

For the Raiffeisen Mix fund the investments in equities have proven to be very advantageous and this fund benefited from the rally of the stock market. The fund recorded a very satisfying net annual return for 2021.

The domestic market was characterized by a continued decline in the interest rates of the Albanian Government securities and the investment portfolios of both funds, Prestigj and Vizion benefited from this downward trend of the yields, providing a very satisfactory performance to the clients.

Raiffeisen Voluntary Pension Fund recorded the highest annual return during 2021 compared to other voluntary pension funds operating in the domestic market.

Social responsibility

Raiffeisen Invest sh.a. continues to show its commitment to a sustainable society, by supporting projects with a high community impact. Community investments remained one of the key components of the business orientation during this extraordinary year.

Throughout 2020, Raiffeisen Invest sh.a. has shown a powerful sense of solidarity and responsibility for the society, focused in supporting projects related to health care, reclamations of a few hospitals and health centers, etc. It is worth mentioning the financial support of 14 projects aimed to improve health care, as one of the key priorities to tackling the Covid 19 pandemic.

Furthermore, we financed computer equipment for several educational institutions at all levels, but without forgetting the support of social projects and the promotion of sports, culture and environmental protection.

Raiffeisen Invest sh.a, as part of Raiffeisen Group, will continue with its commitment to support the community and society in Albania, aiming the fulfillment of our principles and vision to be the most trusted asset management company in the country.

2022 Outlook

After a strong 2021 in terms of economic growth, the outlook for 2022 will be weaker and the growth in almost every major economy will slow down. The combination of a strong economic recovery and accommodative monetary policy has fuelled healthy returns for many investors during 2021, but the macroeconomic overview is now becoming more challenging.

In most advanced economies a combination of strong demand and supply shortages means that core inflation is unlikely to ease as quickly as policymakers expect. The pressure from inflation and the rise in prices of foods and other commodities will continue to be the key issue for policymakers and financial markets.

Since inflation will remain high, most central banks are expected to tighten the monetary policy, but the degree of tightening varies in different economies. The Central banks will taper the bond purchase programs and the interest rates in the US and Eurozone will follow an upward trend. The returns from equities could be positive, but the weaker growth will cause them to have lower returns compared to 2021.

Even for Albania, the year 2022 will impose high economic challenges with high inflation imported mainly from abroad. The interest rates of government securities will increase in response to the higher inflation, but the trend of yields will depend on government financing needs and the level of liquidity in the market.

Raiffeisen Invest expects to further grow the assets under management despite a challenging financial environment, continue its digital transformation path and introduce sustainable products, aiming to be a pioneer of digital transformation and sustainability in the Albanian investment fund market. Our vision will remain the offering a high-quality service to the customers and be the most recommended asset management company in the market.

Raiffeisen Bank International at a glance

Raiffeisen Bank International (RBI) regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 13 markets across the region. In addition, the Group comprises numerous other financial service providers that are active in areas such as leasing, asset management and M&A.

In total, around 46,000 RBI employees serve 19 million customers from around 1,800 business outlets, the vast majority of which are in CEE. At year-end 2021, RBI's total assets was approximately € 192 billion.

RBI AG shares have been listed on the Vienna Stock Exchange since 2005. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares with the remaining 41.2 per cent in free float.

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