Annual Report 2019

Raiffeisen BANK Kosovo

Survey of key data

Raiffeisen Bank Kosovo J.S.C.			
Monetary values are in € million	2019	2018	Change
Income statement	1/1-31/12	1/1-31/12	
Net interest income after provisioning	37.3	37.9	-1.8%
Net commission income	10.3	10.8	-4.3%
Net income from financial instruments at fair value through profit or loss	0.1	0.1	-29.5%
Trading profit/loss	0.1	(0.2)	-163.7%
Other operating income	2.2	2.1	3.5%
General administrative expenses	(29.4)	(27.6)	6.6%
Profit before tax	20.5	23.0	-10.9%
Profit after tax	18.3	20.5	-10.9%
Earnings per share	N/A	N/A	N/A
Balance sheet			
Loans and advances to banks	35.5	24.7	43.5%
Loans and advances to customers	669.5	593.2	12.9%
Deposits and borrowings from banks	7.6	0.6	1129.3%
Deposits from customers	858.7	729.5	17.7%
Equity (incl. minorities and profit)	127.4	127.7	-0.2%
Balance-sheet total	1,021.9	888.9	15.0%
Local regulatory information			
Risk-weighted assets B2, incl. market risk and ops. risk	791.6	721.6	9.7%
Total own funds	128.0	132.8	-3.6%
Total own funds requirement	95.0	86.6	9.7%
Excess cover ratio	34.7%	53.3%	-18.6 PP
Core capital ratio (Tier 1)	14.3%	15.9%	-1.6 PP
Total own funds ratio	16.2%	18.4%	-2.2 PP
Performance			
Return on equity (ROE) before tax	17.7%	20.6%	-2.9 PP
Return on equity (ROE) after tax	18.4%	18.4%	-
Cost/income ratio	53.7%	51.3%	3.9 PP
Return on assets (ROA) before tax	2.2%	2.6%	-0.4 PP
"Net provisioning ratio (average risk-weighted assets B3 in banking book)"	0.9%	0.5%	0.4 PP
Risk/earnings ratio	11.2%	7.5%	3.7 PP
Resources			
Number of staff (FTE)	870	845	3.0%
Business outlets	45	46	-2.2%

Content

Report of the Supervisory Board

Ladies and Gentlemen,

In the 2019 financial year, the members of the Supervisory Board held four ordinary and no extraordinary meetings. The overall attendance rate for Supervisory Board meetings was therefore around 90 per cent.

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Raiffeisen Bank Kosovo. 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 Supervisory Board also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. In the course of its monitoring and advisory activities, the Supervisory Board 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 Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board maintained 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 Supervisory Board, 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 Supervisory Board 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 Supervisory Board without delay and to their satisfaction.

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

On behalf of the Supervisory Board,

Peter Lennkh,
Chairman of the Supervisory Board

Report of the Management Board

2019 was another very good year for Raiffeisen Bank Kosovo J.S.C. The country's macro economic environment was better than many countries in South East Europe and the estimated Gross Domestic Product for Kosovo was above 4 per cent which contributed to the Bank's net profit after tax of €18.3 million.

Of particular note in 2019 was the purchase and move into our new state of the art Head Office in the center of Pristina. We acquired 20,000 square meters of high quality office space to accommodate over 550 staff and to enable us to operate in a manner appropriate to a market leading financial institution and in line with our values and objectives as the employer of choice in Kosovo.

Loan growth in all our customer segments was impressive despite our continued prudent and sensible approach to our lending activity. Our total portfolio grew by an impressive €76 million representing a 12.9 per cent increase on 2018. Of particular note was the 26 per cent growth of our Micro Finance lending where loans outstanding grew by over € 20 million. Our cautious approach to lending for several years now has resulted in an excellent non performing loans ratio of 2.7 per cent at the end of 2019 and the Kosovo banking market continues to have the lowest NPL ratio in South East Europe.

Our customer deposits increased significantly in 2019 with a 17.7 per cent growth to € 858.7 million creating a very acceptable Loan Deposit Ratio of 78 per cent. Cost management and improved efficiency with the bank wide adoption of Agile management techniques resulted in an acceptable Cost Income Ratio of 53.7 per cent.

Our focus on increasing the usage of electronic channels continued in 2019 and led to a wide range of positive results. We processed 363 thousand E-Banking transactions which was a 26 per cent increase compared to 2018. Usage of our mobile banking services increased by 61 per cent and payments through this channel increased by 41 per cent. We also processed over 59 million transactions on our point of sale terminals which was a 13 per cent increase compared to 2018. In addition, 5.1 million transactions were performed on our ATMs which is a 12 per cent increase compared to 2018. These numbers endorse our strategy of reducing cash transactions in many of our branches and enabling our branch staff to spend more time engaging with customers and dealing with more complex and value creating activities.

In our Small Enterprise and Corporate business segments the positive trend of increased usage of alternative channels continued. During the year 184 thousand E-Banking transactions were processed representing 89 per cent of all processed payments, an increase of 5 per cent on 2018. The use of our market leading SMS customs payment service continued at high levels with € 230,8 million of customs payments processed during the year. Customer service continued to be a very important competitive advantage in 2019 and as always we focused on improving our customer satisfaction with all our products and services. We continued to invest in technological developments and staff training as part of our commitment to consistently exceed customer expectations and ensure that we deliver a memorable experience at every interaction. We were also very active on social media in 2019 and managed to stay close and engaged with our customers with appropriate and timely communications throughout the year.

Our Corporate Social Responsibility activities continued in 2019 mainly focused in the areas of culture, technology, education and social welfare. The two main cultural projects that the bank has been supporting for more than a decade were the well-known festivals in Kosovo: Chopin Piano Festival and PriFilm Festival. The bank also supported the Kosovo National Gallery while the young artists continued to use the Raiffeisen Gallery space in the biggest shopping center to promote their artistic work. While, in terms of education and innovation, the bank is a partner of the Atomi project that focuses on the identification and support of people with extraordinary intelligence, gifted and talented people in Kosovo and the Bonevet project which enables children to get access to modern technology.

Finally, on behalf of the Management Board I would like to thank all of our staff for another excellent year. None of this would be possible without their skills, commitment and dedication.

On behalf of the Management Board,

Robert Wright
Chairman of the Management Board

Raiffeisen Bank Kosovo Management Board

Robert Wright

Chairman of the
Management Board
Chief Executive Officer

Iliriana Toçi

Member of the
Management Board
Retail Banking

Johannes Riepl

Member of the
Management Board
Corporate Banking

Anita Kovacic

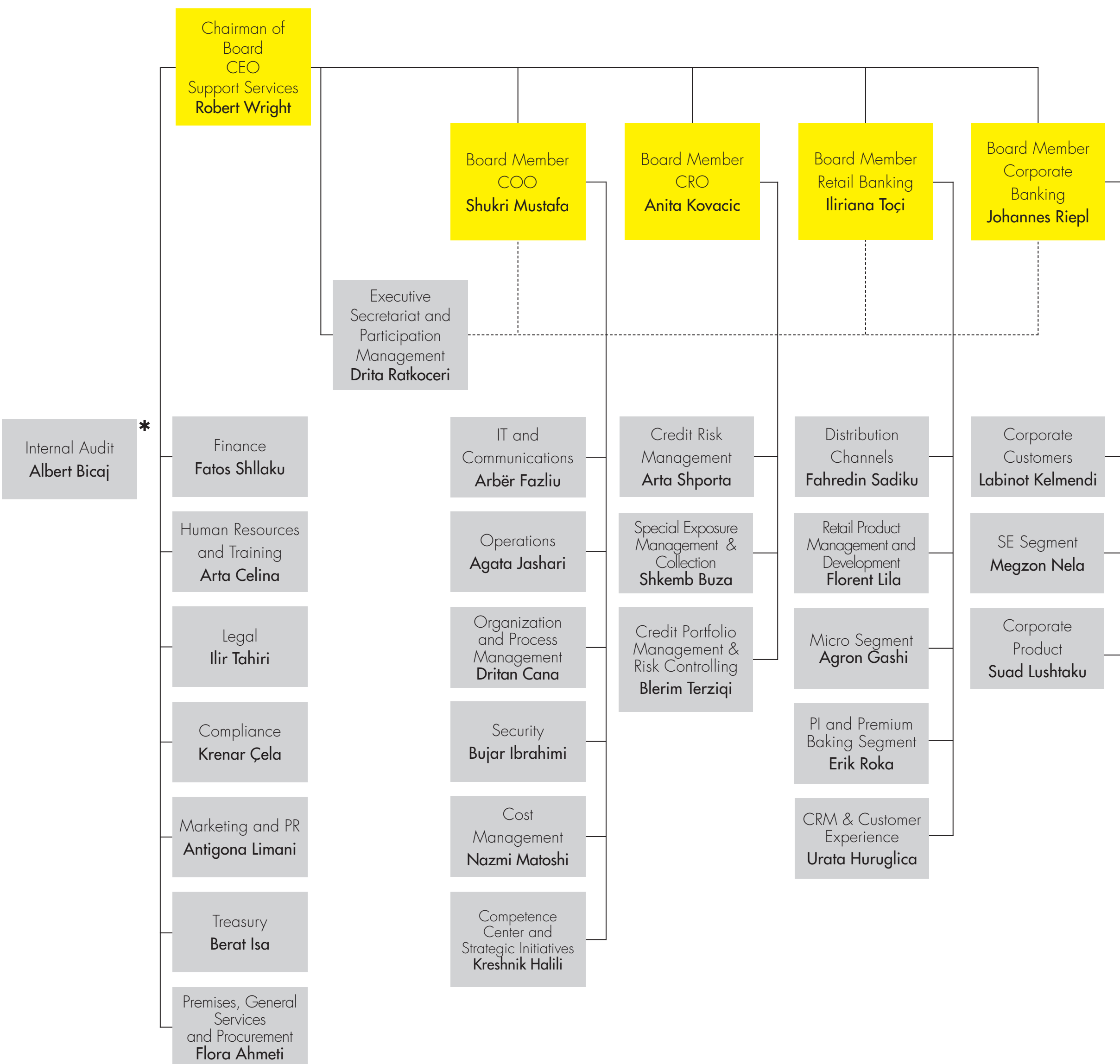
Chief Risk Officer

Shukri Mustafa

Member of the
Management Board
Operations and IT

Raiffeisen Bank Kosovo Organisation Structure

As of 31 December 2019



* Internal Audit reports directly to Audit Committee of Supervisory Board

Raiffeisen Bank Kosovo Vision and Mission

Vision
To be the leading universal bank in Kosovo.

Mission
To develop long-term relationships with our customers by providing a wide range of competitive products and a high standard of service.

To be the employer of choice in Kosovo.

Raiffeisen Bank International at a glance

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

In total, almost 47,000 RBI employees serve 16.7 million customers in more than 2,000 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

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

Developments in the economy of Kosovo

The economy of Kosovo increased by 4.17 per cent in 2019, marking an acceleration of 3.8 per cent compared to 2018 (source: the Kosovo Agency of Statistics estimates). The real growth of the economy is supported by domestic and external demand reflected in the growth of banking lending, the rise of investments and expansion of the net exports. Industry, trade and construction signed the major contributions to the GDP growth in 2019.

Inflation started to rise by the end of 2018 and continued the trend even in 2019 to close the year at an average of 2.7 per cent from only 1.1 per cent in 2018. The major contribution came from food prices with an increase of 2.5 percentage points, followed by alcohol and tobacco prices with 0.16 percentage points and transport prices by 0.13 percentage points. As the consumer basket is highly influenced by seasonal priced products like food, electricity, tobacco and alcohol, if they are removed from the basket, core inflation remained at low stable levels of 0.3 per cent.

The labor market has shown signs of improvement, marking a decline in the unemployment rate from 29.5 per cent in 2018 to 25.7 per cent in 2019 in average. The level of employment as well is extended from 28.8 per cent in 2018 to 30.1 per cent in 2019. The sectors with higher employment are trade with 17 per cent, construction 12.7 per cent, production with 11.9 per cent and education with 10.0 per cent. The youth unemployment rate remains high at around 49.7 per cent.

The fiscal sector is characterized by an increase of both revenues and expenditure in 2019. Government revenues expanded by 7.5 per cent in 2019 while budget expenditures grew by 7.2 per cent resulting in a primary budget deficit of € 168.4 million compared to a budget deficit of € 162.7 million in 2018. The primary budget deficit is estimated at 2.3 per cent of GDP compared to 2.4 per cent in 2018. The major revenues come from indirect taxes which make about 75 per cent of government revenues, especially import taxes (74 per cent of indirect taxes). Public investments in 2019 were estimated at € 530.8 million according to preliminary fiscal data (source: Ministry of Finance), which were almost at the same level as the previous year, making an important contribute to the economic growth.

The level of public debt has increased to € 1.2 billion by the end of 2019 or 9.9 per cent higher than the year before, elevating to 17.5 per cent of GDP. Public debt is on an upward trajectory, but the public debt ratio over GDP remains healthy.

The external position of Kosovo improved in 2019, as the current account deficit, which amounted to € 391.8 million at the end of the year, narrowed by 23.0 per cent compared to 2018. The reduction of the current account deficit is attributed to the growth in services, primary income and secondary income and it was also supported due to the deceleration of the trade deficit expansion. The deficit of trade (goods) amounted € 3.1 billion in 2019, making an annual increase of 4.5 per cent vs 11.6 per cent growth in 2018 due to the better performance of exports and lower imports of goods.

Remittances continued to grow in 2019, making a positive impact on the domestic economy. Remittances peaked at € 851.9 million, with an annual growth of 6.4 per cent fully financing the current account deficit. FDIs amounted to about € 266.5 million by the end of 2019, narrowing by 2.1 per cent despite its high potential to attract foreign investors.

Banking Sector in Kosovo

Note: *Information in this chapter is based on material from the Central Bank of the Republic of Kosovo.*

The banking sector in Kosovo continued to grow and the annual growth was 12.5 per cent reaching a value of € 7.2 billion as of 31 December 2019. The banking sector remained the main sector contributing to this expansion followed by Pension funds.

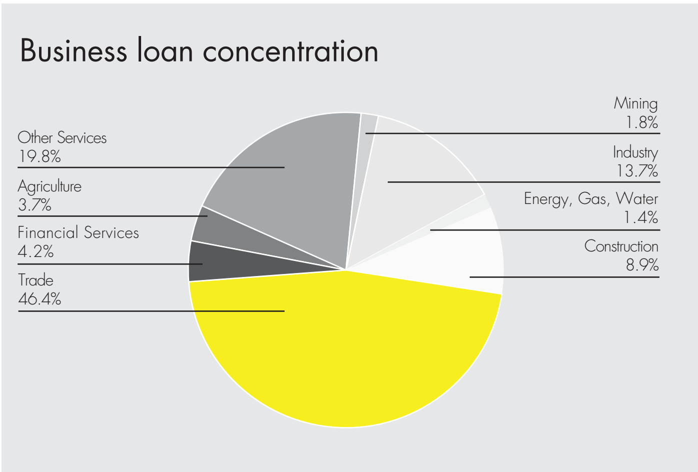
The structure of the banking sector in Kosovo during 2019 did not see any major changes. Similar to the year before, there were ten licensed banks operating in the market. Banking institutions with origins from European Union (EU) continued to dominate the banking sector in Kosovo. Banks with foreign capital made up 86.7 per cent of the total bank's assets. The total number of banking branches as of 31 December 2019 was 217 and the number of employees 3,331.

Total assets of the banking sector reached € 4.76 billion on 31 December 2019 (2018: € 4.18 billion). The growth of total assets in 2019 was 13.9 per cent and it was higher than the previous year's growth of 7.7 per cent. The growth of the banks' total assets was mainly driven by an increase in loans and advances to customers, which continued to be the main asset category.

The lending activity of banks continued to grow during 2019, though the growth was slightly lower than the rate of growth in the previous year. Total loans and advances reached a value of € 3.03 billion (2018: € 2.76 billion), which is an annual increase of 10 per cent compared to 2018 growth of 10.9 per cent. This growth was made possible mainly as result of an increase in demand for new loans and the overall favorable lending conditions offered by banks.

Contribution to the loan growth was from loans and advances to businesses and households. Loans and advances to households continued to have an important impact on the total loan portfolio growth and during 2019, these loans increased by 10.4 per cent compared to 11.2 per cent the year before. The percentage composition of the bank's loans and advances portfolio as of 31 December 2019 was 64 per cent non-financial corporations and 36 per cent individuals. This percentage distribution between non-financial corporations and individuals has remained stable for the last four years.

The economic sector concentration of loans and advances to businesses continued to be dominated by the trade sector with an overall share of 46.4 per cent, followed by other services 19.8 per cent and industry with 13.7 per cent. (Source: Buletini Mujor Statistikor, Dhjetor 19, Nr. 220).



Banking sector investments in securities including bonds and T-bills was € 526.5 million on 31 December 2019 (2018: € 430.2 million), an increase of 22.4 per cent. It reflected the increased overall liquidity position of the Kosovo banks which was impacted by an increase in customer deposits during the year.

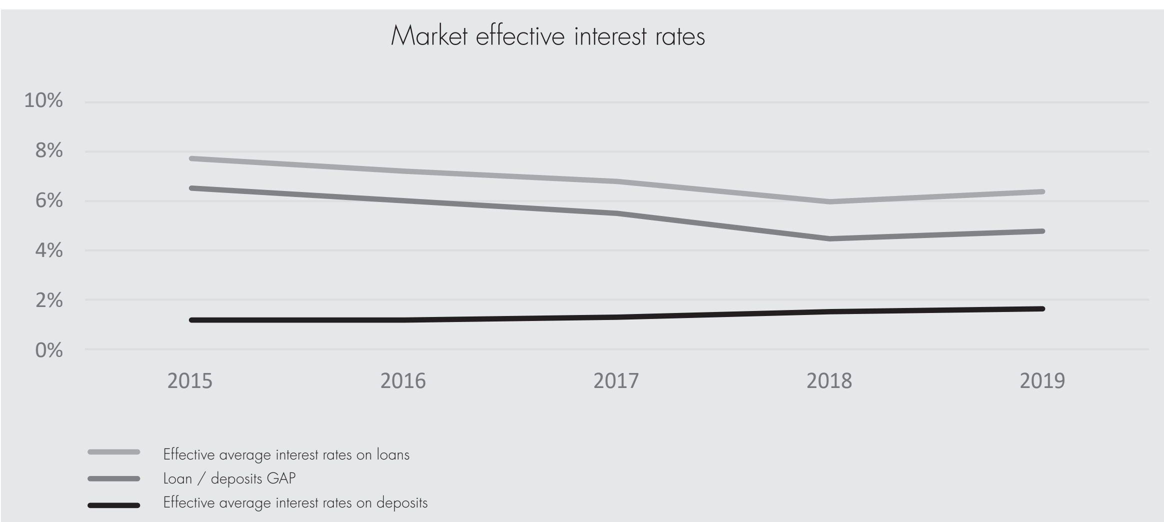
Customer deposits continued to be the main contributor to the financing of banking activities. As of 31 December 2019, customer deposits comprised over 80 per cent of total banking sector liabilities. A high reliance on financing from local deposits, especially from private individuals makes it the most reliable way for financing compared to other options and it is also very immune from international fluctuations in the financial markets.

Total deposits in the banking sector reached € 3.9 billion, with an annual increase of € 546 million or 16.2 per cent (2018: 8.8 per cent). This increase is even more important considering that it was achieved in a period when interest rates have reached historically low levels and most of the banks are close to 0 per cent. The structure of deposits in the banks has also changed in the recent years and there have been more deposits in current accounts and less in term placements and saving accounts, as a consequence of a low rate environment.

As of 31 December 2019, demand deposits accounted for 61 per cent of total deposits with the rest being term deposits and savings deposits. Most customer deposits are Euro deposits with over 96 per cent of banking sector deposits being in Euro, the official currency of Kosovo.

The average rate for term deposits increased by 0.1 percentage points in 2019 reaching 1.6 per cent compared to 1.5 per cent in December 2018. The interest rate for saving accounts remained at 0.4 per cent, a similar rate as at 31 December 2018. The average rate for individual's term deposits was 1.6 per cent while for businesses it was 1.7 per cent. Current accounts continued to pay zero interest.

The trend of decreasing interest rates for loans was reversed in 2019. The average effective interest rate for loans increased to 6.4 per cent from 6.0 per cent as of 31 December 2018. The interest rates for loans increased in 2019 for businesses as well as for households. The average interest rate for businesses as at 31 December 2019 was 6.2 per cent up from 6 per cent as of 31 December 2018. The average interest rate for households also increased during 2019. The average interest rate at 31 December 2019 was 6.8 per cent compared to 6.3 per cent in 31 December 2018. (Source: Buletini Mujor Statistikor, Dhjetor 19, Nr. 220).



In 2019, the banking sector achieved a good overall financial performance in key performance indicators such as profitability and non-performing loans. Bank's income increased in 2019 to € 263 million (2018: € 253 million) while expenses also went up to € 177 million (2018: € 166 million). The increase in income was mostly a result of an increase in interest income following the increase in loans and advances to customers in 2019.

Interest expenses increased in 2019 by € 3.5 million as result of increase in market deposits levels but also as result of the adoption of IFRS 16 rules. General and administrative expenses also increased by € 2 million from 2018 reaching € 107 million at the end of 2019. By 31 December 2019, net profit of the banking sector was € 86.2 million (2018: € 87 million). The banking sector return on average assets decreased in 2019 by 0.3 PP to 2.2 per cent (2018: 2.5 per cent) and the return on average capital also decreased to 18.9 per cent from 20.2 per cent in 2018.

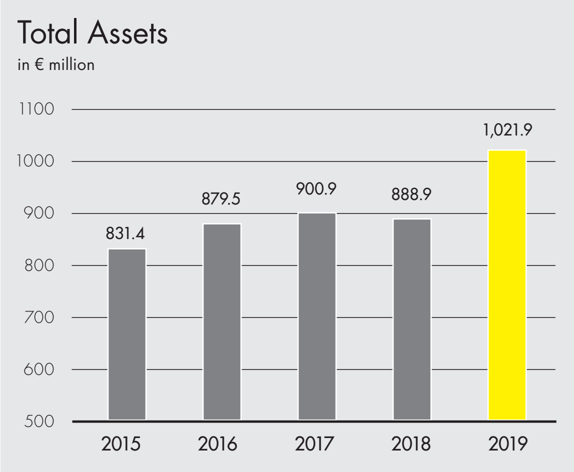
The banks' loan to deposit ratio was 77.6 per cent as of 31 December 2019, down from 81.9 per cent on 31 December 2018. Capital adequacy ratio (regulatory capital /risk weighted assets) was 15.9 per cent down from 17 per cent on 31 December 2018. Even though the capital adequacy ratio showed a decrease in the reporting year, the ratio was still well above the required level which shows that the banking sector is well capitalized.

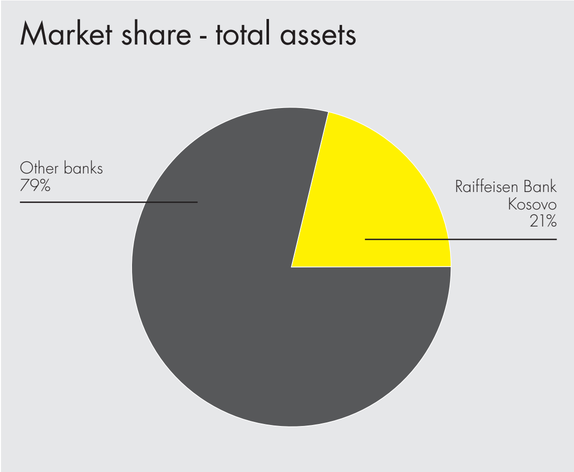
In 2019, both the nonperforming loan ratio and the nonperforming loan provision coverage ratio improved. As of 31 December 2019, the nonperforming loan to total loan ratio dropped to 2 per cent (2018: 2.7 per cent) while the nonperforming loan coverage ratio improved to 163.5 per cent (2018: 152 per cent).

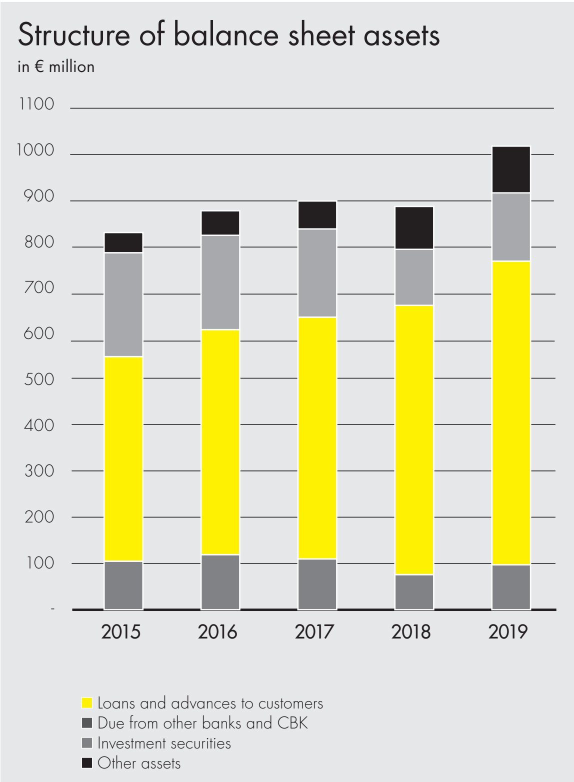
Raiffeisen Bank Kosovo performance and financials

Note: *The market analysis is based on preliminary published financial results of commercial banks prepared in compliance with the Central Bank of Kosovo (CBK) rules.*

Total assets of Raiffeisen Bank Kosovo J.S.C. at 31 December 2019 were € 1,022 million. This is an increase of 15 per cent when compared to the previous year (2018: € 888.9 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 21.5 per cent (2018: 21 per cent).







The structure of Raiffeisen Bank Kosovo assets continued to be dominated by loans and advances to customers. As of 31 December 2019, 65.5 per cent of total assets were concentrated in loans and advances to customers after provisioning for loan losses. That was followed by 14.7 per cent in investment securities.

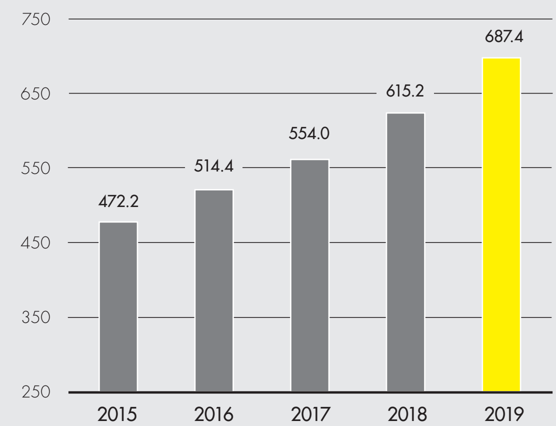
Investment securities include investments in Government and Corporate bonds of EU countries and the US, as well as treasury bills issued by the Kosovo Government.

The investments in securities increased in 2019 by 21.3 per cent. This increase is reflecting the overall liquidity position of the bank impacted by an increase in customer deposits. Total investments in securities as of 31 December 2019 were € 150 million. Investments in Kosovo Government treasury bills were € 37.1 million (2018: € 21.3 million) and investments in other OECD country government and corporate bonds was € 113 million (2018: € 102.4 million).

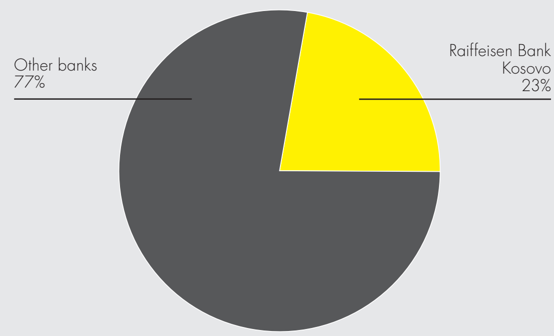
Total gross loans and advances of Raiffeisen Bank Kosovo as of 31 December 2019 were € 687.4 million (2018: € 615.2 million). The market share in loans and advances as of 31 December 2019 was 22.7 per cent (2018: 22 per cent).

Customer loans and advances - gross

in € million



Market share - customer loans and advances



Raiffeisen Bank Kosovo also made allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 17.9 million (2018: € 22 million). These allowances are calculated based on the IFRS 9 expected credit loss model and reflect Raiffeisen Bank Kosovo assessment of risk on the credit portfolio on 31 December 2019.

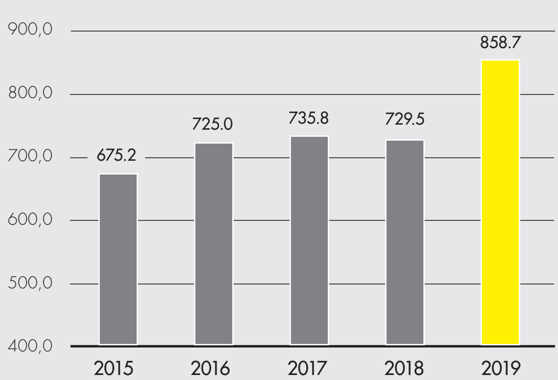
The total credit loss allowances to nonperforming loans in 2019 was 96 per cent (2018: 110 per cent).

Total customer deposits of Raiffeisen Bank Kosovo reached € 858.7 million as of 31 December 2019 up from € 729.5 million on 31 December 2018. That was an increase of 17.7 per cent. The domestic generation of finances also contributed towards greater stability in the banking sector and reduced the impact of any volatility from the international markets.

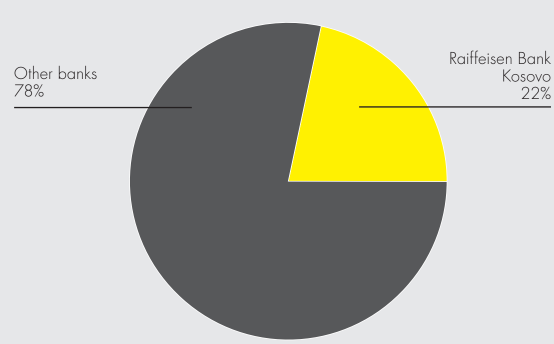
The largest contributor to deposits from customers was current accounts with a share of 83 per cent. Savings accounts have a share of 15 per cent of total bank customer deposits. Term deposits from customers contain equate to less than 2 per cent of the total deposit base. The increase in current account balances is also due to the drop in market interest rates for saving accounts and term deposits in the recent years. The liabilities structure of Raiffeisen Bank Kosovo was dominated by customer deposits, and this was also the case for the Kosovo market.

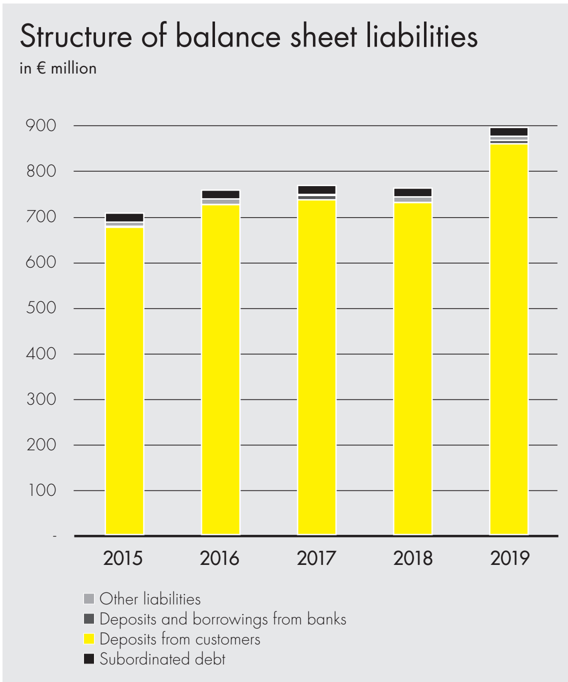
Customer deposits

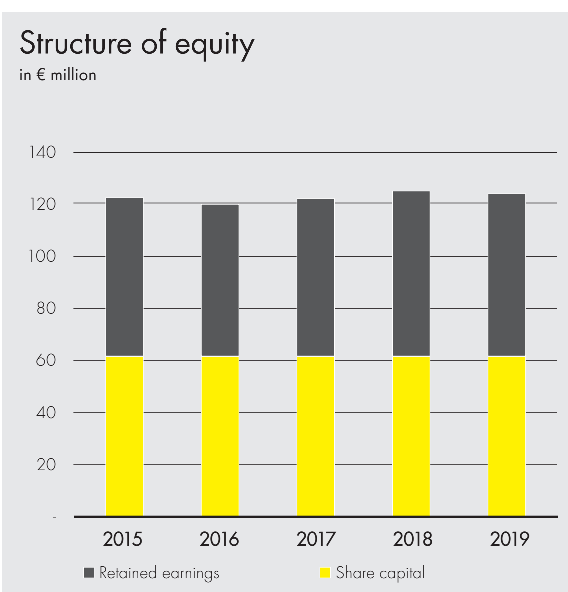
in € million



Market share - customer deposits







In 2019, Raiffeisen Bank Kosovo's share capital remained unchanged at € 63 million. The total equity as at 31 December 2019 was € 127.4 million (2017: € 127.7million), also including € 64 million in the form of retained earnings. Raiffeisen Bank Kosovo distributed a dividend to its shareholder from its retained earnings in 2019 to the value of € 19.4 million. This payment did not reflect in the value of total equity or in the regulatory capital requirements.

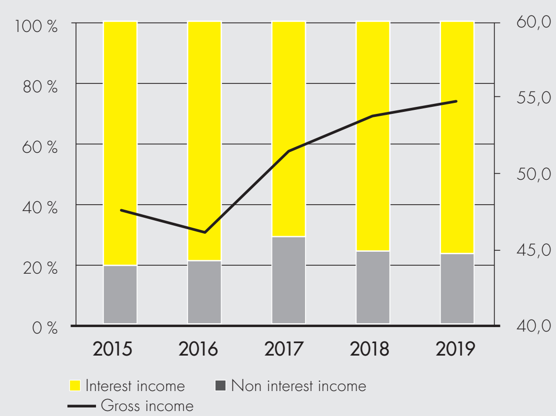
Raiffeisen Bank Kosovo continued to be well capitalized which was reflected in the 2019 regulatory capital ratios of Tier 1 to total risk weighted assets ratio of 14.3 per cent (legal requirement 8 per cent) and a total capital (including Tier 2) to risk weighted assets ratio of 16.2 per cent (legal requirement 12 per cent). In the calculation of Tier 2 capital, Raiffeisen Bank Kosovo has included the amount of € 19 million of subordinated debt with an original maturity of ten years reduced by 40 per cent in line with regulatory requirements. The above capital requirements where calculated in compliance with the CBK regulation on capital adequacy and other applicable regulatory rules and regulations.

Net income after tax in 2019 was € 18.3 million (2018: € 20.5 million). This result is calculated based on IFRS Financial Statements as included in the report. Raiffeisen Bank Kosovo also produces financial reports based on IFRS reflecting additional requirements from the Central Bank of Kosovo Regulations. Those statements are sent to Central Bank and are also published on a quarterly basis on the Raiffeisen Bank Kosovo website and also in local daily papers.

Raiffeisen Bank Kosovo income was strongly dominated by income generated from loans and advances to local customers. Income from interest on loans and advances and securities continued to be main source of income despite falling rates for loans in the market as well as very low yields and sometimes negative yields on OECD government issued bonds or money market placements.

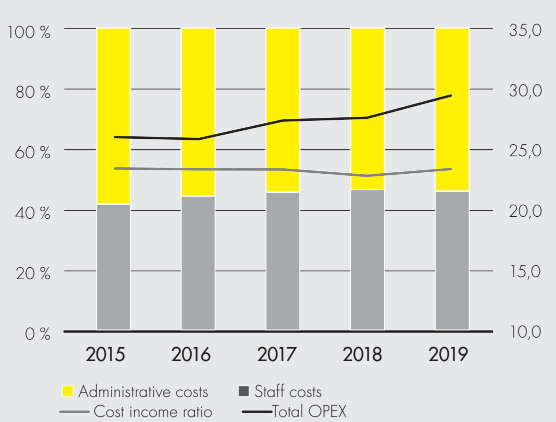
Gross income development and structure

in € million



General administrative expenses development

in € million



In 2019, the net interest income increased compared to the year before even though the adoption of IFRS 16 means that the bank had higher interest expenses as result of leases treatment for this new standard adopted for the first time in 2019. In 2018 this standard was not applicable, and the bank did not restate previous year's figures.

Fee and commission income and other income also increased in the reporting year as result of an increase in income from cards business and income from other non-banking services related to the Competence Center. These non-banking services contain income related to a limited number of IT services provided to the RBI Head Office in Vienna and other RBI consolidated companies.

The general and administrative expenses as of 31 December 2019 were € 29.4 million (2018: € 27.6 million). The cost income ratio was 53.7 per cent (2018: 51.3 per cent). Higher costs are reported in bank running costs and also in depreciation expenses mainly as a result of bank investments in the new head office located in Prishtina which are depreciated for the first time in the reporting year. Staff costs also include costs, such as training and other professional development. These costs continued to represent a significant part of operational expenses as Raiffeisen Bank Kosovo considers it very important to invest in the professional development of the staff.

Treasury, asset and liability management

Asset and liability management

2019 was a successful year as far as the collection and consolidation of deposits was concerned, as well as loan issuance. Raiffeisen Bank Kosovo managed to further increase its core deposit position, increasing the total deposits balance by € 131 million compared to 2018. The bank was able to increase its outstanding position with loans by € 76 million euro over the year. Building on the increased trust in the financial system, especially the brand of Raiffeisen Bank Kosovo, the banks' liquidity remained at stable levels, thus lowering the funding costs on a year on year basis. Treasury/ asset liability management (ALM) assets remained stable throughout the year at 30 per cent of the bank's total assets compared to 29 per cent in 2018. New funding volumes have enabled the financing of customer loans.

In 2019, the bank experienced an increase in customer deposits of € 129 million, while on loans and advances there was an increase of € 76 million. Prudent asset and liability management made it possible for Raiffeisen Bank Kosovo to keep the lowest cost of deposits in the market, which in turn enabled lower loan interest rates and higher margins. The reduction in interest expense was primarily achieved through the quantitative modeling of assets and liabilities management, as well as through a rundown of historical high-rate term deposit contracts into lower cost savings accounts and current accounts. The bank focuses on stable relationship with customers as its core-funding base for loan operations.

Core funding

Raiffeisen Bank Kosovo utilizes quantitative modeling to measure customer deposits stickiness for its non-maturing assets and liabilities, for interest rate risk purposes but also for liquidity risk purposes, for both retail and non-retail customers. The bank's funding sources came mainly from stable retail deposits (household deposits) amounting to 80 per cent of total deposits of the bank, and an increase of almost € 78 million in non-corporate deposits in 2019. The compound effect of a high liquidity position and a high stickiness position produced a stable liquidity position. The interest rates basis point value (BPV) in 2019, showed an end of year BPV position of around 12,750. Net interest margin stood stable in 2019 at around 4.84 per cent despite increased liquidity and lower loan interest rates.

Liquidity

As at the end of 2019, the bank had a Net Stable Funding Ratio (NSFR) above 137 per cent, and Liquidity Coverage Ratio (LCR) above 245 per cent. The liquidity of the bank is comprised of holdings of investment in Bonds, Money Markets and the Central Bank.

Short-term liquidity bridging is provided through repo transactions with qualified counterparties.

Interest rate risk in banking book and strategy

The bank has in some parts increased its interest rate duration on bonds, picking up relatively high yields for USD-denominated bonds. This will provide for positive maturity transformation of the bank in an environment of lower yields. A higher proportion of variable rate customer loans, compared to the years before, enables the customers to benefit from lower yields, while the bank retains its fixed margin. Having the right and prudent positioning of the interest rate balance sheet is very important for the bank's management and shareholders.

In a broader context: the table below shows the P&L exposures by currency per 1 basis point shift in curve.

Exposure : P&L impact per each 1 Basis Point shift in Curve BPV (Basis Point Value)

Currency	max. maturity in months	single currency limits	0-3M	3-6M	6-12M	1-2Y	2-3Y	3-5Y	3-5Y
Total	240	12,750	-14	-120	-32	-123	0	0	0
CHF	60	-281	-16	-117	-24	-123	0	0	0
EUR	12	12,995	-1,459	-5,057	-2,635	418	13,252	36,662	-17,736
USD	12	-28	-44	66	-124	-1,137	1,045	166	0

(-) Long fixed Rate buckets

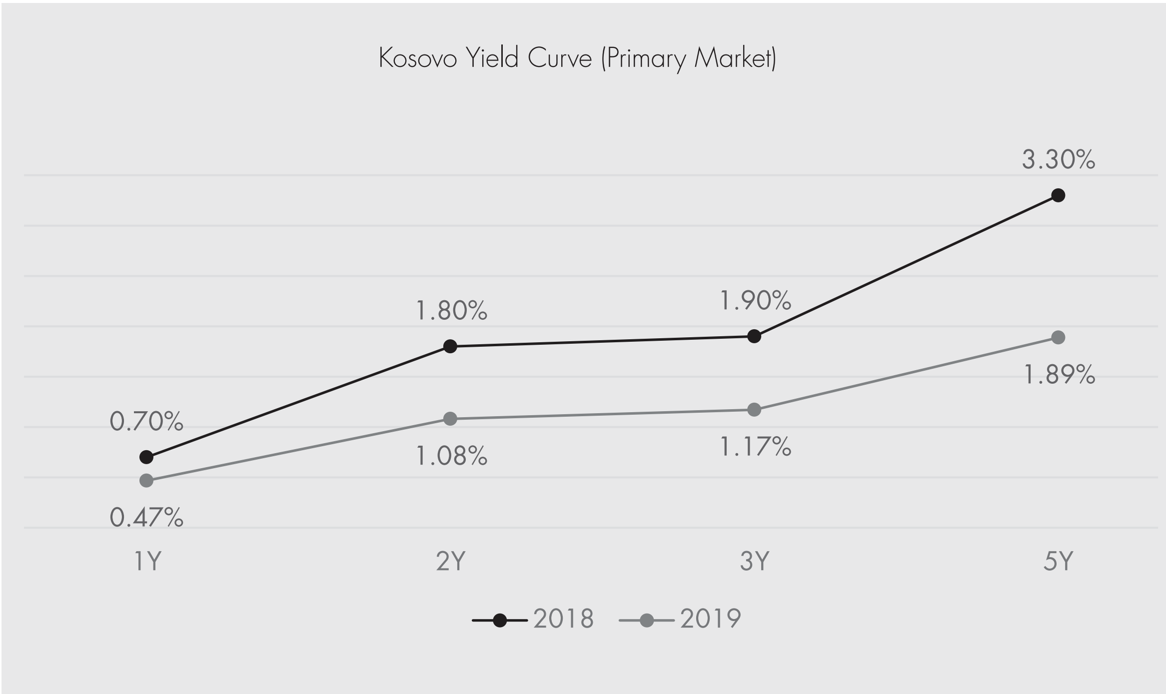
Government/Corporate FI securities

The bank increased its holdings of financial investment in 2019 by € 26 million, ending the year with a volume of € 150 million. Out of this volume, around 77 per cent of the portfolio were quality investments in Government and Corporate/FI securities, and the remainder was allocated to exposure in Kosovo Government domestic debt issuances.

Moody's Rating**	Proportion	Modified Duration
Aaa	22%	1.22
Aa1	15%	1.59
Aa2	6%	2.07
Aa3	9%	2.73
A2	5%	0.19
A3	19%	0.15
NR (Kosovo)	23%	1.28

(*)% Bonds Held by Raiffeisen Bank Kosovo on its Own Bond book(**) sorted as per referred Moody's rating table

In parallel, the total market for Kosovo treasury bills continued its pace of development. In its role as a primary dealer, Raiffeisen Bank Kosovo and its customers continued to define the creation of the Kosovo government debt secondary market, albeit at a slower rate due to its declining attractiveness given the lower yields attained. In 2019, the auction interest rates for Kosovo Bills/Bonds improved significantly compared to auctions of 2018. This has helped the bank to improve its return on liquidity. The table below shows the last auction information for each respective year.



Financial derivatives in relation to banking book

Raiffeisen Bank Kosovo's interest rate swaps portfolio is an important risk management tool for its long-term portfolio. Interest rate swaps are used to mitigate the risks from shifts of interest rates in unfavorable directions. The bank did not enter into any new contract for interest rate swaps in 2019. Rather than entering into IRS derivative deals, the bank used the opportunity to continue to convert part of its loan book rates into variable rate loans and also keep in check the duration of its bonds position.

The bank expects that the market rates will remain for an extended period at current low levels of interest rates, given the mature level of the economic cycle slowly phasing into recession, and the expected shortfall in gross economic output given the developing pandemic situation.

Business segments

Corporate

Combination of financial strength, high capital base and deep knowledge and expertise of the corporate relationship and product managers has put corporate business of Raiffeisen Bank Kosovo in a unique position compared to its peers. The bank continued to maintain its market leader position in Kosovo by further supporting growth of its relationship customers and the acquisition of new customers.

In 2019, corporate business maintained a record high lending portfolio at € 223 million, with very good asset quality improvement resulting in non-performing loans of only 2.2 per cent of loan portfolio a decrease of 51 per cent compared to the previous year. A very well collateralized portfolio resulted in a sustainable Return on Risk Adjusted Capital (RoRAC) of 128.63 per cent and net profit after tax of € 7.4 million.

During 2019, a high priority was also given to ensuring full compliance with increased regulatory requirements both on a local and international level, as well as group requirements such as Basel III, FATCA, KYC etc.

Small enterprises

The Small Enterprises (SE) segment of Raiffeisen Bank Kosovo continued to provide a vital role in Kosovo's economy as an important part of the business eco-system, by supporting business growth and providing employment opportunities. In 2019, the main focus of the SE segment was to continue to foster customer relationships through its experienced relationship managers situated in four main regions of Kosovo, who were also supported from head-office and through the expertise of the product managers potentials. The bank's product offer is permanently adapted to the customers' requirements and business development.

Thus, the SE loan portfolio maintained positive growth reaching € 81.3 million as of 31 December 2019 or an increase of 20.23 per cent compared to 2018. Investment appetite requiring long-term financing remained modest compared to working capital needs among SE customers. A well collateralized lending portfolio resulted in a high level of return on Risk Adjusted Capital (RoRAC) of 148.9 per cent, with a substantial improvement of the portfolio quality with NPL rate of 2.75 per cent, a decrease of 60.9 per cent compared to a previous year.

To sustain the internal processes in the SE segment, several initiatives in process efficiency were taken during 2019. Most of these initiatives were focused on the simplification of processes, making them leaner or appropriate to the size and complexity of the applications.

Micro enterprises

In 2019, the bank offered financial services to more than16,000 micro enterprises. The micro enterprises segment marked a growth in customer base and assets mainly as a result of the bank's focus on superior customer experience and simplification of processes.

In 2019, the bank launched a new Current Account Packages for Micro enterprises that was focused on providing customers with the services and products they use most and encourages the increase of turnover with the bank. In addition, the bank simplified and shortened the time spent by the customer, especially on loan applications by introducing a "within the day" offer which enabled the customer to receive funds in their account within the same day they apply for the loan.

Further cooperation with guarantee funds and the satisfactory performance of the current portfolio enabled the bank to increase the interest for additional growth and further increase the activities that led to the additional penetration of lending products to micro enterprises and increase assets by 30 per cent.

During 2019, the bank continued its activities to move micro enterprises towards the usage of electronic banking channels and increase the turnover with the bank from this customer base, ensuring the reduction of cash economy. This approach resulted in an increased customer usage: 24 per cent increase in number of internet and mobile banking transfers or about 80 per cent of total transfers being performed in electronic channels by the end of year. Furthermore, 90 per cent of the cash transactions were performed in ATMs. This move towards electronic channels reduced the time branch staff spent on performing day to day transactions, allowing them to focus in financial counseling for the customers. This was reflected in further improved relationship management which enabled the Bank to identify the best product/service that the customers needed.

Private individuals and Premium Banking

2019 was the attestation of a sound business model for individual costomers in almost all key financial lines. Loans and advances to individuals continued to have an important impact on the total loan portfolio growth and during 2019, these loans increased by 17.5 per cent compared to 14.8 per cent the year before. Private individuals and premium banking segments increased assets by 17.5 per cent or € 34 million compared to the year before. Liabilities grew by 9.51 per cent or € 52.5 million compared to 2018.

The Bank continued to retain its leading market position in PI and Premium Banking with 26.8 per cent market share. During 2019, the bank offered banking services to more than 253,000 individuals and 13,000 premium customers marking an increase of 6 per cent. In addition, the bank recorded a considerable growth in the mortgage portfolio of 26 per cent compared to 2018. At the same time, the bank also increased the credit card portfolio, both in volumes and new cards. These results were achieved due to preferential offers for customers who have a Credit Card following the successful campaigns with different merchants.

During 2019, the marketing campaigns were mainly focused on loans: both secured and non-secured loans and limits, digitalization and packages. Additionally, the bank used a new methodology to increase usage of our banking services and products via Behavioral Economics, a new way of communication and approaching customers.

2019 was particularly successful for premium banking. The total assets of the premium banking service grew by 36 per cent while the number of customers grew by 27 per cent compared to 2018. In addition to the loan products, the bank continued to be focused on offering the profitable solutions for savings by creating a holistic advising approach for premium customers. It also continued to offer premium customers the possibility to trade treasury bills to maximize their savings.

Another initiative that the bank is developing and is expected to launch during 2020 is Premium Direct establishing a new and improved level of advising our customers remotely.

Banking products and services

Corporate and SE

In 2019, Raiffeisen Bank Kosovo developed further and implemented several new initiatives in order to enhance its banking services and products for corporates and small enterprises.

Project Finance
Being the only bank in Kosovo offering Project Finance, the bank supported non-standard requests of its customers by developing tailor made solutions and meeting their requirements. A case worth mentioning is the financing of the first renewable energy project in Kosovo.

Trade Finance
Raiffeisen Bank Kosovo continued to hold the leading position in Trade Finance compared to its peers. Extensive expertise and being part of an international banking group has facilitated the acceptance of securing instruments such as guarantees and Letters of Credit (LCs). As a result, the Trade Finance portfolio during 2019 showed a significance increase of LC transactions compared to the previous year.

Cash Management
Its wide portfolio of cutting-edge technology enables Raiffeisen Bank Kosovo to meet the expectations of customers by offering convenience, speed, transparency and highly innovative products. A distinguishing service in the market is SMS for customs payments. Customers were able to conduct customs payments at a speed of less than 10 seconds, from anywhere, by only having a mobile phone. Such a solution has enabled corporate customers to channel 74 per cent of all customs payments via SMS. In addition, the bank was focused on advancing and using our digital channels and as a result 87 per cent of corporate and SE transactions processing was done in E-Banking compared to 13 per cent in branch.

Factoring
In 2019, Raiffeisen Bank Kosovo continued to be the only bank in the market that offers Factoring. The portfolio showed an exceptional increase. Factoring continued to complement the product range of working capital financing to corporate and small enterprise customers.

In September 2019, a new product has been launched – Reverse factoring which is a deal between buyer, supplier and the bank. Reverse factoring supports and meets the customer's working capital requirements and ensure flexible financial liquidity management. Contrary to traditional factoring, the bank, at the request of the buyer and under a contract, finances the supplier chosen by the buyer, prior to their actual due date and typically at a financing cost aligned with the credit risk of the buyer."

Digital Transformation
Parallel to the fast pace of technological developments, the bank continued to pursue its digital program, in order to meet the expectations of customers by offering convenience, speed and transparency. In this regard, the Corporate Agile Center of Excellence was established with the aim to offer superior products and solution developments for Corporate and SE customers with a fully agile methodology as well as enabling the corporate banking to become an adaptive organization.

Retail

Raiffeisen Bank Kosovo was focused on innovative and digitally offered products and services for retail customers. Following the significant increase in the usage of the bank's digital offer, ATM and internet banking share reached 92 per cent compared with the previous year of 89 per cent. The increase is a comparison of transactions between ATM and internet/mobile banking transactions versus branch (cash and transfers).

Furthermore, ATM transactions increased by 13 per cent (4.3 million transaction in 2019 versus 3.9 million transaction in 2018) and as a result, the ATM share of transactions compared to the branch transactions is 95 per cent.

During 2019, there were several new initiatives developed. This had a direct impact on enhancing further the banking services and products for the customers which were reflected in the achieved results.

Internet and Mobile Banking Platform
In September 2019, the bank launched a new internet and mobile banking platform named Raiffeisen Plus. Raiffeisen Plus provides much easier possibilities and complete control for the customer to manage his or her finances through a web browser or their mobile device 24/7. This platform functions on a real time basis whenever customers need it and offers simple and user-friendly interfaces, making our customer experience much better.

The best advantage of the platform "Customer empowerment" is the possibility to enroll online and the opportunity to use just the mobile app, with four-digit PIN access. Customers are offered real-time services and details about all their bank products. In addition, they can easily apply online for any lending offers that they receive from the bank. "Get Offer" is feature of the Raiffeisen Plus, End to End process for lending products.

Continuing to increase its electronic channels and usages of products, the bank had 71 per cent of retail transactions completed on Internet and Mobile banking channels as at the end of December 2019.

Chatbot
As a part of the Raiffeisen Plus platform, the bank also developed the newest and most attractive channel "ChatBot" in October 2019. Raiffeisen Bank Kosovo is the first bank in the market that launched a chatbot, and we created an unforgettable experience for the customer as the easy way to communicate with us and obtain information regarding products and services. The Raiffeisen Bank chatbot is available in Viber and Facebook/Messenger and is creating significant benefits for customers, such as smooth customer support, easy to use, endless availability and market leading customers engagements.

Since Viber and Facebook are the two most used social networks for communication in Kosovo, the bank wanted to deploy chatbot in these channels. For the first 3 months after the bank launched chatbot, there were more than 26,000 subscribers on viber. Chatbot is available 24/7 and within seconds gives accurate answers and solid advice to customers' requests.

e-commerce
Digital payments are also closely connected to e-commerce service, and Raiffeisen Bank Kosovo has been certified for many years by Visa and MasterCard secure for payment gateways. The most important benefit of e-commerce service is that it allows merchants to avoid long lines and save time. During 2019, in order to further improve customer experience with e-commerce, the bank developed three methods of payments:

- Fast payment - without the need to enter your card details by saving them, shipping or billing information to purchase with just one quick tap or click online.

- Recurring payment - a series of scheduled payments to a specific service provider that the customer set up once. The payments are then made automatically based on the defined dates, payment method, and amount.

- Subscriptions - customer must pay a recurring price at regular intervals for access to a product or service.

Stick'N'Pay Card
Raiffeisen Bank Kosovo developed a new card product, the " Stick'n'Pay" card and launched it on August 2019. Stick'n'Pay is the ideal (contactless) sticker card for quick purchases up to 100€ on any POS that supports contactless cards. This card can be attached to the phone or any other suitable device without the need to carry the basic card.

Distribution channels

Branch network

In 2019, 870 employees of Raiffeisen Bank Kosovo served more than 250,000 customers through 45 branches and sub-branches, which is the largest branch network in Kosovo.

The Branch Transformation Program was the highlight of 2019. The aim of the program was to optimize the branch network through consolidation of premises into more efficient and cost-effective branches, in order to explore opportunities for revenue growth by increasing the sales capabilities with a multitasked staff approach. The reinvented branch offers a variety of new features such as the new self-service area in which the customer can use online banking services 24/7, a comfortable yet discreet space to meet and discuss banking with a modern touch.

During 2019, the bank invested in the remodeling of ten sub-branches and its scope primarily consisted of the addition of self-service areas. This ultimately resulted in an increase of the number of self-service areas to 30. Furthermore, and in order to ease the banking experience, the bank added convenient cash services for its customers in all branches.

This Branch Transformation Program enabled both individual and business customers to have access to banking services in all these branches, and in addition to traditional banking services, the customers could also use the Self-service areas incorporated in the branch network. A new area has been dedicated only for corporate customers as a part of the new Head Office, opened in September 2019, in the center of the capital Prishtina.

The Branch Transformation Program aims to complete the remodeling and optimization of the branch network in 2021.

Direct sales agents network

Raiffeisen Bank Kosovo has also a network of sales agents who meet and visit the customers at their convenient location and provide them provide them services, advice and support to prepare the necessary documents to apply for the financial products they need. 50 direct sales agents operated in all branches and sub-branches and contacted about 20,000 customers in 2019.

Contact Center

The customers can contact Raiffeisen Bank Kosovo 24/7 and talk to bank officials for any bank service or product offered through the Contact Center, which makes Raiffeisen the only bank in Kosovo that offers this service all the time. In addition, customers can contact the bank free of change through chat, the web page and facebook.

With segmentation of its resources, the bank sustained two activity streams responsible for successful handling inbound queries as well as providing outbound direct sales. The Contact Center as an alternative channel continued to play an important role in product selling and providing superior customer service for customers. Thus, during 2019, the volume of banking services offered through the Contact Center increased significantly, including services through e-mail, sms, chat, Facebook and inbound calls.

Customer experience

Mapping, designing and improving customer journeys across all channels and touch points was one of the main priorities of 2019. The bank managed to prioritize and map three main customer journeys; to identify, minimize and possibly eliminate pain points that customers may encounter through onboarding and applying for lending products. Measuring and understanding customer experience with the aim of identifying and articulating improvements around the organization enabled Raiffeisen Bank Kosovo to provide excellent, simple and stress-free experiences that directly affected the improvement of the overall customer experience.

In addition, Raiffeisen Bank implemented two innovative channels for collecting customer feedback, allowing it to contact more than 10 per cent of its active customer base. Through implementation of Interactive SMS, Raiffeisen Bank Kosovo became the first bank in the banking industry to implement an *SMS survey*. This solution provides better and more relaxing experiences to the customer while sending their feedback regarding the experiences they had and is completely free of charge. The *Customer Experience Management Platform* enabled systematic data collection and allows the bank to collect actionable customer insights and to invest continuously in improving and transforming customer interactions into positive memorable experiences.

Risk management

Risk management

Active risk management is a core competency of Raiffeisen Bank Kosovo. In order to effectively identify, measure and manage risks, the bank continues to develop its comprehensive risk management system. Risk Management is an integral part of overall bank management. In particular, in addition to legal and regulatory requirements, the bank takes into account the nature, scale, and complexity of its business activities and the resulting risks.

The bank has a system of risk principles and procedures in place for measuring and monitoring risk, which is aimed at controlling and managing material risks. Credit, market, liquidity and operational risks are measured, limited, aggregated and compared to available risk coverage capital.

Credit portfolio management

Credit portfolio management in the bank is, among other aspects, based on the credit portfolio strategy, which is turn based on the business and risk strategy. By means of the selected strategy, the exposure amount in industries or product types is limited and thus prevents undesired risk concentrations.

The following graph shows the bank's credit exposure at the end of the reporting period and the previous two periods. Total credit risk exposure was € 939 million as of 31 December 2019, which compared to a year-end 2018 increased by 6 per cent. The increase is mainly driven by the Retail Customers, which increased by 22 per cent compared to year-end 2018.

This portfolio is diversified between business and individual customer segments and includes exposures on, and off balance sheet, prior to the application of impairment provision and credit conversion factors and thus represents the total credit exposure.

Management of non-performing loans

Raiffeisen Bank Kosovo has also been actively engaged in the prevention of new defaults and good recoveries which resulted in a decrease of the non-performing ratio in 2019 from 3.2 per cent to 2.7 per cent. During the same period, the coverage ratio decreased from 111.24 per cent to 96.61 per cent.

Liquidity risk

Liquidity adequacy is ensured from both an economic and a regulatory perspective. In order to approach the economic perspective, the bank established a governance framework comprising of internal limits and steering measures.

The regulatory component is addressed by compliance with the reporting requirements under Central Bank of Kosovo (Regulatory Liquidity Ratio). In addition to the local regulatory requirements, the bank also complies with Basel III reporting requirements (Liquidity Coverage Ratio and Net Stable Funding Ratio).

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.

The cornerstones of the economic liquidity risk framework are the Going Concern (GC) and the Time to Wall (TTW) scenario. The Going Concern report shows the structural liquidity position. It covers all main risk drivers, which could detrimentally affect the group in a business as usual scenario. On the other hand, the Time to Wall report shows the survival horizon for defined adverse scenarios and stress models (market, reputational and combined crisis) and determines the minimum level of the liquidity buffer (and/or the counter-balancing capacity) of the bank.

The liquidity scenarios are modelled using a Group-wide approach, acknowledging local specifications where they are justified by influencing factors such as the market environment or particular business characteristics.

Monitoring of limits and reporting limit compliance is performed effectively, and the respective escalation channels are being utilized and work as designed.

The bank’s liquidity position continued to remain stable and revealed a strong liquidity buffer during 2019.

Central Bank of Kosovo Regulatory Liquidity Ratio

	2019	2018	Minimum Requirement
All currencies	35.36%	35.0%	25.0%
Euro currency	27.76%	27.0%	20.0%

Market risk

The bank 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 interest rates, exchange rates and credit spread.

Limit System

The following values are measured and limited on a daily basis in the market risk management system:

• *Value-at-Risk* (confidence level 99 per cent, risk horizon one day)
Value-at-risk (VaR) is the main steering instrument in liquid markets and normal market situations. VaR is measured based on a hybrid simulation approach, where 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 historical data. Distribution assumptions include modern features like volatility declustering and random time change. This helps in reproducing fat-tailed and asymmetric distributions accurately. Value-at-risk results are not only used for limiting risk but also in the economic capital allocation.

• *Sensitivities* (to changes in exchange rates and interest rates)
Sensitivity limits shall 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.

• *Stop loss*
This limit strengthens 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 compliments this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio.

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 self-assessments. Another management tool is the incentive system implemented in internal capital allocation. This system rewards high data quality and active risk management.

As with other risk types the principle of firewalling between risk management and risk controlling is also applied to operational risk. To this end, three lines of defense concept has been implemented where Business Line Managers s 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, scenarios and measures. They are supported in their work by Dedicated Operational Risk Specialists (DORS).

Operational risk controlling unit is 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 and all first line of defense partners (Operational Risk Managers).

Risk identification
Identifying and evaluating risks that might endanger the bank'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 manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products, new projects, new emerging regulations and open audit points as well. The bank grades the impact of high probability/low impact events and low probability/high impact incidents according to its estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quantified by an analytical tool with specific scenarios. The internal risk profile, losses arising and external changes determine which cases are dealt with in detail.

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

Loss data is collected in a central database called ORCA (Operational Risk Controlling Application) in a structured manner 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. The results of the analyses as well as events resulting from operational risks are reported in a comprehensive manner to the Operational Risk Management Committee on a regular basis.

Loss data is collected in a database called Operational Risk Controlling Application (ORCA). Collecting losses stemming from operational risks is a prerequisite for implementing a statistical loss distribution model and a minimum requirement for implementing the regulatory Standardized Approach. Furthermore, loss data is used to create and validate operational risk scenarios and for exchange with international data pools to further develop advanced operational risk management tools as well as to track further on measures and control efficiency. The results of the analyses as well as events resulting from operational risks are reported in a comprehensive manner to the Operational Risk Management Committee on a regular basis.

Quantification and mitigation
Since the end of 2019, Raiffeisen Bank Kosovo has implemented Advanced Management Approach (AMA) but the bank currently reports the calculation of regulatory capital requirements for operational risks according to Basel III using the Standardized Approach (STA). Operational risk reduction is initiated by business managers who decide on preventive actions like risk mitigation or risk transfer. Progress and success of these actions is monitored by risk controlling. The former also define contingency plans and nominate responsible persons or departments for initiating the defined actions if losses in fact occur. In addition, a dedicated organizational unit provides support to business units for reducing operational risks. An important role is taken on by fraud management which reduces potential fraud related losses through proactive monitoring and preventive actions. The bank also executes an extensive staff training program and has different emergency plans and back-up systems in place.

Changes in the regulatory environment

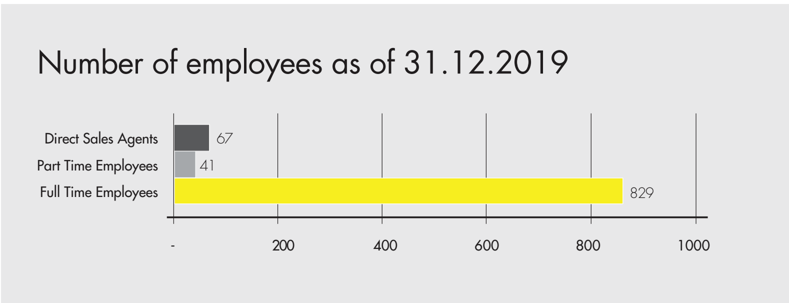
The Bank followed closely the current and the upcoming regulatory developments in 2019. The Kosovo banking sector remains very dynamic with changes in legislation in line with EU.

During the year 2019, the Central Bank of the Republic of Kosovo has updated the regulations on Credit Risk Management and Regulation on Non-Performing Exposure and Forbearance which is enforced as of January 2020. As part of Raiffeisen Bank International (RBI) group, the bank is subject to the changes in the regulatory environment in the EU. This enables us to be adapted in advance to changes in local regulations, which aim to be harmonized with EU regulations.

Human resources and training

One the main objectives of the bank is to remain being the employer of choice in Kosovo by offering a safe working environment for the bank employees to enable them to serve the customers in the best way.

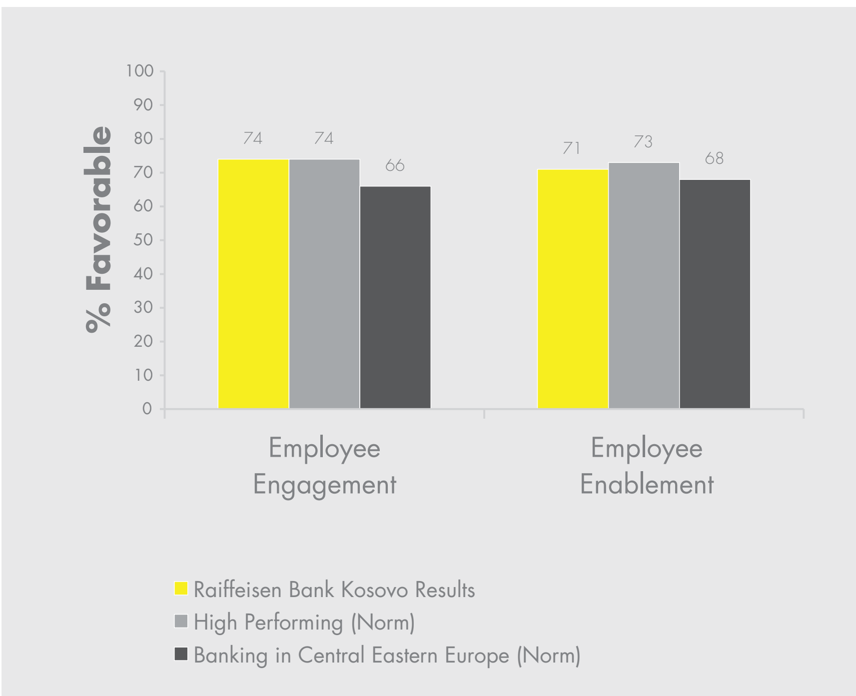
Referring to employees statistics, the bank had a small increase of 3 per cent in the total number of employees in comparison with the previous year.



The number of new employees in 2019 who joined the bank was 86. Through its traditional activity during 2019, the bank welcomed 152 interns in regular paid internship program and involvement in different projects. The aim of the internship programs is to support under-graduate, master degree students and graduated candidates in Kosovo market on their professional development and retain the best with the Bank.

The average age of employees was 37 years, indicating a relatively young human capital engaged in the bank whereas 53 per cent of total employees were women, while 47 per cent of total employees were men.

Employee engagement and contribution toward the bank strategy remains the priority for the bank, therefore it invited all employees to participate in a survey to find out the factors that drive employees to perform their best and the factors that stop them. The survey produces the scoring of two main criteria that measure Employee Engagement and Employee Enablement as seen in the chart below:



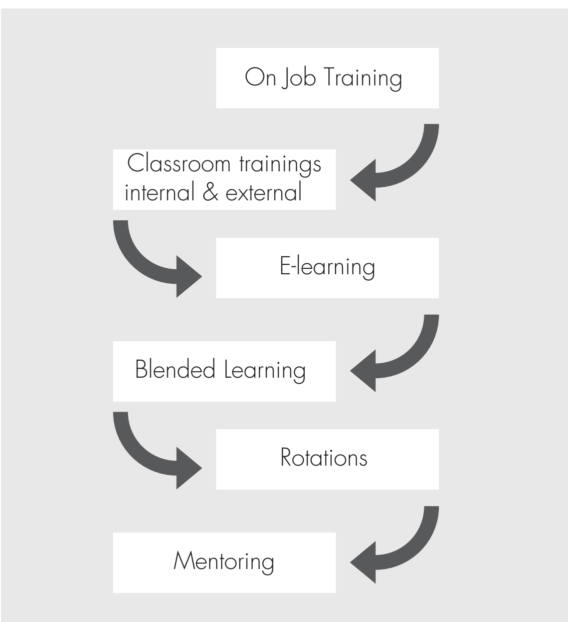
As seen from the chart, if compared to high performing companies and banking in CEE, Raiffeisen Bank Kosovo is very well positioned which shows a high commitment towards its employees.

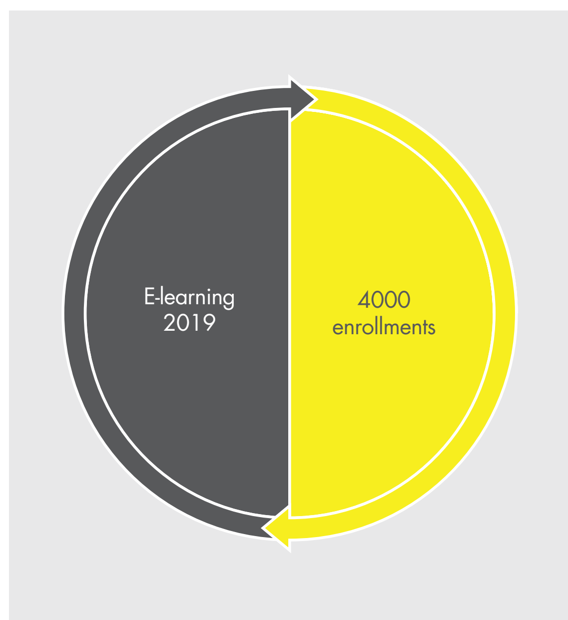
Professional development

The bank is committed to grow and develop people, their knowledge and skills by offering a variety of learning and development opportunities.

These initiatives resulted in knowledge improvements in the field of banking products and services. In this way, the bank gained a competitive advantage in the market by offering a more professional and efficient service to its customers. A specific focus was given to the concept of self-development and own initiative for online self-learning in 2019. The newly upgraded online Learning Management System offers high quality services and modern learning experience for learners using the latest technology.

The bank cooperates with various training providers in and out of Kosovo for specific training programs. Training needs identification is done continuously in order to have tailored programs that meet employees' needs. Individual development plans provided with focus specifically on the competencies of an individual and increase the chances of personal development.





E-Learning is already a very well accepted learning platform and became one of the most important, attractive, flexible and efficient methods of learning by most employees. In 2019, there was an impressive level of interest and support by bank employees to attend and design internally created courses. Additional focus was also given to external provider online courses to increase efficiency and variety in learning.

In addition to the activities already mentioned, the bank continued to support employees for their specific professional needs and provided licensed courses on a range of topics from technical to soft skills. Lifelong learning remains one of the key messages in the bank. Besides all the learning there was also continuous focus on leisure events to achieve an acceptable work-life balance and develop team spirit amongst employees.

Talent management

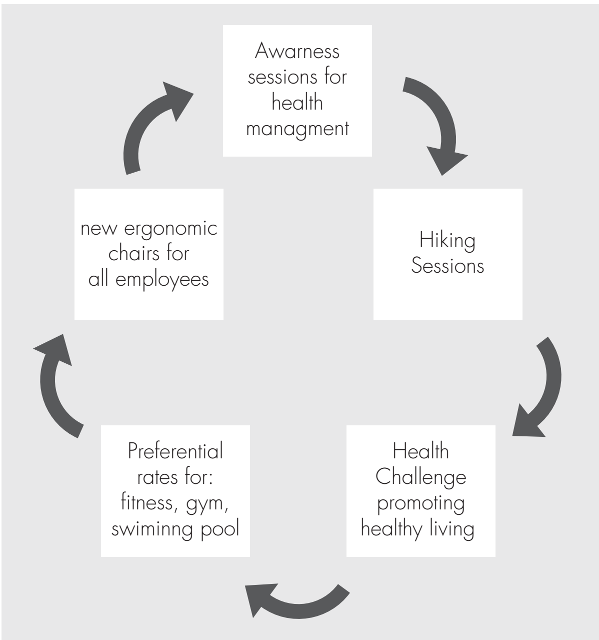
During 2019 the focus on increasing the awareness and skills of people managers toward human capabilities continued. Talent management calibration meetings were organized with the top management and with management teams in the branches through a process that is hand to hand linked with the internal promotion and focused development. The Bank continued to run the development initiatives of rotation and cross-functional programs and tailored learning assignments. These internal and international programs aim to deepen the expertise of the most talented bank employees and managers through an innovative combination of practical, alternative and academic methods of learning.

Safe working environment

Branch remodeling and establishment of the new Head Office were milestones in 2019 regarding working environment. Following this, new initiatives took place in 2019 promoting the wellbeing of the people.

- Opening of the new Head Office created and fostered collaboration and teamwork by gathering all head office employees in one building.
- A restaurant in the Head Office was opened to offer its employees a possibility to eat inside the building a healthy food for better management of wellbeing
- The new design of branches and re-modeling has continued in 2019 as well by contributing to the motivation of employees and a better customer experience.

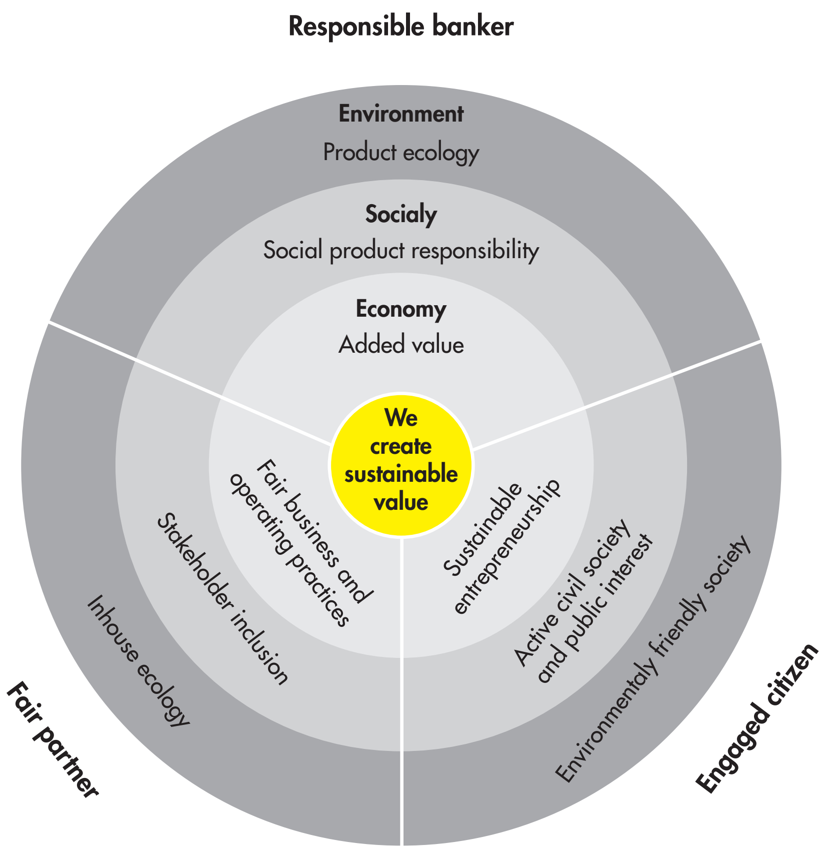
Health Management activities continued to be a focus in 2019 as well. The goal was to improve the health and wellbeing of employees in Raiffeisen Bank Kosovo by improving employee motivation and performance.



Sustainability and corporate responsibility

Sustainability has always been a fundamental principle for the RBI Group and a measure of corporate success. For 130 years Raiffeisen, has combined financial success with socially responsible action. The bank understands sustainability to mean responsible corporate activities for long-term economic success in consideration of key societal and environmental aspects. As a subsidiary of RBI, Raiffeisen Bank Kosovo is committed to comply with the UN Global Compact Principles. [1]

Raiffeisen Bank Kosovo therefore commits to aligning its management structures and processes with this attitude. In the three sustainability areas of “Responsible banker”, “Fair partner” and “Engaged citizen”, which are closely linked to its business activities, the bank endeavors to optimally apply its values and abilities to fostering sustainable development in the company and in society.



Our approach as designers of a sustainable company and society

Being led by its sustainability guiding principles, the bank works to make its business sustainable and wish to create sustainable value for its stakeholders. Its operational business activities are connected with environmental impacts that the bank strives to keep as low as possible by means of systematic environmental management. As an employer, the bank is responsible for ensuring safe and attractive working conditions for its employees. As a member of society, the bank wants to contribute to the common good even beyond its business activities and take action in line with its capabilities.

1 A call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. www.unglobalcompact.org

Responsible banker

Raiffeisen Bank Kosovo in 2019 had many activities that have the effect of being a responsible banker in Kosovo.

In terms of governance and compliance, the bank values responsibility and transparency, and applies these values in all its activities. The basis for this is the bank's Code of Conduct, which is applied across the Group, for all staff members and its business partners.

Lending policy and lending decision policy
The bank's business model is oriented around the high level strategic goal of creating long-term value. Responsible lending is a significant component of this model. The bank achieves this with a lending policy that is based on continuity. It remains a fair and reliable lender to businesses with future prospects, even in difficult times. In addition, the bank holds a clear position regarding the handling of sensitive areas of business. Raiffeisen Bank Kosovo has introduced an environmental and social management system, including the associated policy. This policy's aim is to conduct business as a good and responsible corporate citizen. Accordingly, the bank strives to comply with all the laws and regulations of Kosovo, including those dealing with environmental and social issues and is driven to improve environmental and social (E&S) risk management capacity to reduce credit and liability risks.

Sustainable lending
During 2019, under Project Finance, the bank continued to support and finance the development of real estate projects in prime locations, by developers who have shown a track record of qualitative building, timely delivering of the projects, and sustainable profitability. During the year, the bank also tackled renewable energy projects, building a pipeline of the projects by understanding and preparing for financing of small hydropower plants as well as other renewable energy sources such as solar.

Responsible lending
Raiffeisen Bank Kosovo is committed to responsible lending policies. This means that the bank seeks to lend customers only as much as their financial situation can bear. If customers nonetheless fall into financial difficulties, the bank supports them as best as it can with information and advice.

Customer satisfaction
The satisfaction of its customers is the bank's top priority. This is therefore measured regularly both in the retail and corporate businesses, in order to enable appropriate action when necessary. Customer satisfaction and service quality in the retail business have been measured for several years.

Responsible sales practices and marketing
Financial affairs are a matter of trust. Raiffeisen Bank Kosovo therefore strives for clear and transparent labeling of products and services for all customers and stakeholders. When advertising and marketing its products, the bank adheres to strict principles intended to protect its customers. False or misleading advertising is something the bank feels is unacceptable.

Fair partner

Corruption and money laundering
The bank takes all the actions in order to avoid any form of corruption, money laundering, fraud or insider trading. A prerequisite in its business and operational practices is the fair, ethical and legally compliant behavior of all members of staff. Mechanisms for complying with is through the Code of Conduct (CoC) and clear, detailed regulations contained in the Compliance Manual.

Human Resources
As of 31 December 2019, the bank had 870 employees (829 full time, 41 part time), with an additional 67 Direct Sales Agents. The number of new employees who joined was 86. During 2018, the Bank had a regular internship program and several other projects involving interns. The number of interns who partnered with program and the projects was 152. The aim of the internship programs is to support under-graduate, Master Degree students and Graduated candidates of Kosovo in their professional development.

Professional development
The bank offers its employees a variety of learning and development opportunities through on-job-training, internal and external classroom training, E-Learning, assignments and involvement in challenging local and international projects, blended learning, rotations etc. A specific focus was given to the concept of self-development and own initiative for online self-learning in 2019 and an important investment was made with the upgrading of the online Learning Management System, which offers high quality services for learners using the latest technology. The bank cooperates with various training providers in and out of Kosovo for specific training programs. Training needs identification is done continuously in order to have tailored programs that meet

employees' needs. There are also individual development plans supported by individual coaching for a number of employees, which focus specifically on the competencies of an individual and increase the chances of personal development.

Engaged citizen

The bank consider itself an engaged corporate citizen, which actively champions sustainable development in society. The commitment as a corporate citizen goes beyond the core business and aims to develop the young population of Kosovo in culture, sports, technology and education. In addition, the bank also contributed to the social welfare projects, with a particular focus on children and mothers in Kosovo.

Supported projects and initiatives
During 2019, Raiffeisen Bank Kosovo continued to be traditional sponsor of different projects in five main areas: social welfare, culture, education, health and sport. Regarding the social welfare, the bank continued to support the organization Action for Mother and Children that works on increasing the awareness and supporting the new mothers in Kosovo.

Culture remained one of the key areas that the bank continued to be engaged. The main cultural projects that the bank is supporting for over ten years in a row are the two well-known festivals: the Chopin Piano Festival and Prishtina Film Festival The Chopin Piano Festival offers concerts, master courses for students and a symposium dedicated to the life and work of the composers or pianists being commemorated each year around the world. While, one of the most important events of the PriFest is the event series "PriFORUM Regional Coproduction", which brings filmmakers from different countries of Europe and the world to Kosovo. Separate workshops and master courses for young artists were also part of these two main festivals.

Raiffeisen Bank Kosovo traditionally has supported the National Gallery in the two main exhibitions "Muslim Mulliqi" and "Gjon Mili" that is positioning the bank as the main supporter of visual art. The National Gallery of Kosovo is the most active cultural public institution in Kosovo. Being the only public institution for the presentation of visual arts in Kosovo, this institution deals with the promotion of contemporary art in general (conceptual art, the performance, installation, video, painting and sculpture). The exhibition "Gjon Mili Award" is the most important exhibition of contemporary art in Kosovo. The 2019 "Gjohn Mili Award" attempted to play the role of a medium in transition and photography in its extended notion - while recording the movements, transitions and changes inherent in today's world, especially in a region that is said to be is "in transition". To do this, the exhibition aimed to explore a thought of photography - as an image, object, installation, projection and visual data.

In addition, the bank continued to promote art with *Raiffeisen Gallery*. The idea was to give young, upcoming artists the opportunity to present their works to the public. For this purpose, the bank has rented a space in Albi Mall, the Kosovo's biggest shopping center, and this space was transformed into an innovative space where new works by young artists are exhibited every month. This helps the community to have a place where they can have an exhibition without any costs.

In terms of education and innovation in 2019, Raiffeisen Bank Kosovo supported Atomi project that focuses on identification and supporting people with extraordinary intelligence, gifted and talented people in Kosovo. More precisely, the goal of Atomi is early identification of students with extraordinary intelligence, gifted and talented students (hereafter: atomist) in order to offer proper possibilities, conditions, care and special schooling (enrichment) for these students based on their intellectual potentials, giftedness, talent, personality, ambitions, interests, motivation and their socio-economic conditions and circumstances. All these services and activities are provided in order to enable these students to develop and realize their full intellectual potential and therefore contribute firstly to their personal development and at the same time to social and national interest.

As a part of the support for education and innovation in 2019, the bank continued cooperation with BoneVet. Kosova Makers League aims to create an environment of innovation and creativity for elementary school children who are interested in science and technology. The project encourages children to develop their cognitive abilities by solving various problems with the help of robots. Another activity in the area of innovation is the cooperation with Innovation Center of Kosovo (ICK) in the areas of Cyber Security and Fintechs, the bank offered mentorship and educational sessions regarding these subjects in order to help start-up businesses that plan to invest in this area. In addition, Raiffeisen Bank in Kosovo through H. Stepic CEE Charity Fund donated over 500 bags donated by Raiffeisen Bank International employees in Vienna and school supplies for students with poor economic status of lower secondary schools in the municipality of Prishtina and invested in the entrance and planting of trees in the yard of the primary school "Naim Frashëri".

During 2019, Raiffeisen Bank Kosovo also supported different projects from the regional cities of Kosova such as Festivali i Teatrove in Ferizaj, Autostrada Bienale in Prizren and Anibar – a short movies animated festival in Peja.

Financial statements

The Independent Auditor's Report and Separate Financial Statements for the year ended 31 December 2019 are prepared in accordance with International Financial Reporting Standards (IFRS)

Statement of Management's Responsibilities

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

We have prepared the financial statements as at 31 December 2019 and for the year then ended, which presents fairly, in all material respects the financial position of Raiffeisen Bank Kosovo J.S.C. (the "Bank") as at 31 December 2019 and the results of its operations and its cash flows for the year ended. Management is responsible for ensuring that the Bank keeps accounting records that comply with the Kosovo banking regulations and can be suitable amended to disclose with reasonable accuracy the financial position of the Bank and the results of its operations and cash flows in accordance with International Financial Reporting Standards that include International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for related accounted periods. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Bank and prevent and detect fraud and other irregularities.

Management considers that, in preparing the financial statements, the Bank has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgment and estimates, and the appropriate International Financial Reporting Standards have been followed.

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

Pristina, Kosovo
08 April 2020

The Management Board

Robert Wright
Chief Executive Officer
Management Board Chairman

Shukri Mustafa
Chief Operations Officer
Management Board Member

Iliriana Toçi
Retail Banking
Management Board Member

Anita Kovacic
Chief Risk Officer
Management Board Member

Johannes Riepl
Corporate Banking
Management Board Member

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Independent Auditors' Report

To the Shareholders of Raiffeisen Bank Kosovo J.S.C.

Opinion

We have audited the separate financial statements of Raiffeisen Bank Kosovo J.S.C. (the "Bank"), which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, 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 matter

The separate financial statements of Raiffeisen Bank Kosovo J.S.C. as of and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion in their report on 25 April 2019.

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton LLC
Prishtina,
08 April 2020

Suzana Stavrikj
Statutory auditor

GRANT THORNTON L.L.C. KOSOVO

Separate statement of financial position

(amounts in € 000)	Notes	As at December 31, 2019	As at December 31, 2018
Assets			
Cash and cash equivalents and mandatory reserve	8	123,677	112,032
Due from banks	9	35,483	24,733
Financial assets at fair value through profit or loss	10	6,060	27,882
Financial assets at fair value through other comprehensive income	10	143,979	95,840
Loans and advances to customers	11	669,498	593,202
Other assets	12	1,713	3,097
Investments in subsidiaries	13	2,234	2,234
Property, equipment and intangible assets	14	39,258	29,893
Total assets		**1,021,902**	**888,913**
Liabilities			
Due to banks	15	7,602	618
Deposits from customers	16	858,717	729,467
Financial liabilities measured at fair value	17	687	812
Other liabilities	18	7,351	10,236
Provisions	18	579	537
Current tax liability		-	-
Deferred tax liability	26	230	254
Subordinated loan	19	19,325	19,325
Total liabilities		**894,491**	**761,249**
Shareholders' equity			
Share capital		63,000	63,000
Fair value reserve		480	(386)
Retained earnings		63,931	65,050
Total shareholder's equity	**20**	**127,411**	**127,664**
Total liabilities and shareholder's equity		**1,021,902**	**888,913**

Financial Statements are approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 8 April 2020.

Fatos Shllaku
Head of Finance

Robert Wright
Chief Executive Officer
Management Board Member

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 46 to 110.

Separate statement of comprehensive income

(amounts in € 000)	Notes	For the year ending December 31, 2019	For the year ending December 31, 2018
Interest income at effective interest	21	44,667	43,245
Interest expense	21	(2,653)	(2,413)
Net interest income		**42,014**	**40,832**
Dividend income	13	804	1,074
Fee and commission income	22	18,174	17,569
Fee and commission expense	22	(7,875)	(6,810)
Net fee and commission income		11,103	11,833
Net trading income/(expense)		113	(178)
Impairment losses on financial assets	6	(5,737)	(4,893)
Recoveries from loans previously written off		961	1,740
Net gains on financial assets at fair value through profit or loss	17	81	115
Other operating income	23	1,404	1,134
Net operating income		49, 939	50,583
Personnel expenses	24	(13,518)	(12,815)
Depreciation of property and equipment and ROU	14, 25	(2,870)	(1,611)
Amortisation of intangible assets	14, 25	(1,909)	(1,639)
Other operating expenses	25	(11,132)	(11,495)
Profit before income tax		**20,510**	**23,023**
Income tax expense	26	(2,229)	(2,517)
Profit for the year		**18,281**	**20,506**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Net change in fair value of Financial assets through other comprehensive income		866	(660)
Total comprehensive income for the year		19,147	19,846

The separate statement comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 46 to 110.

Separate statement of changes in equity

(amounts in € '000)	Share capital	Retained earnings	Fair value reserve	Total shareholder's equity
Balance at 1 January 2018	**63,000**	**62,041**	**274**	**125,315**
Impact of adopting IFRS 9 Note 6	-	3	-	3
Restated balance at 1 January 2018	**63,000**	**62,044**	**274**	**125,318**
Profit for the year	-	20,506	-	20,506
Net change in fair value of financial assets through other comprehensive income	-	-	(660)	(660)
Total comprehensive income	**63,000**	**82,550**	**(386)**	**145,164**
Contributions and distributions				
Dividends to equity holders	-	(17,500)	-	(17,500)
Balance at 31 December 2018	**63,000**	**65,050**	**(386)**	**127,664**
Restated opening balance under IFRS 9	**63,000**	**65,050**	**(386)**	**127,664**
Profit for the year	-	18,281	-	18,281
Net change in fair value of financial assets through other comprehensive income	-	-	866	866
Total comprehensive income	**63,000**	**83,331**	**480**	**146,811**
Contributions and distributions				
Dividends to equity holders	-	(19,400)	-	(19,400)
Balance at 31 December 2019	**63,000**	**63,931**	**480**	**127,411**

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 46 to 110.

Separate statement of cash flow

(amounts in € 000)	Notes	For the year ending December 31, 2019	For the year ending December 31, 2018
Cash flows from operating activities			
Interest received on loans		43,109	39,706
Interest paid on placements		116	144
Interest received on investment securities		(833)	1,222
Dividends received		804	1,074
Interest paid on deposits and subordinated loan		(2,528)	(2,909)
Fees and commissions received		18,174	17,569
Fees and commissions paid		(7,875)	(6,881)
Other income from non-banking activities		2,360	2,874
Staff costs paid		(13,463)	(12,762)
Other operating expenses paid		(16,319)	(10,575)
Income tax paid		(2,500)	(3,900)
Cash flow from operating activities before changes in operating assets and liabilities		**21,045**	**25,562**
Changes in operating assets and liabilities			
Mandatory liquidity reserve		(11,492)	293
Due from banks		(9,942)	14,818
Loans and advances to customers		(83,548)	(72,858)
Other assets		1,386	(735)
Due to customers		129,230	(5,757)
Deposits from banks		2,432	(202)
Other liabilities		(752)	563
Net cash flow from / (used in) operating activities		**48,359**	**(38,315)**
Cash flows from investing activities			
Acquisition of property, equipment & intangibles assets	14	(9,474)	(14,021)
Proceeds from Investments securities		60,003	138,037
Investment in securities		(84,367)	(67,094)
Net cash (used in) / from investing activities		**(33,838)**	**56,921**
Cash flows from financing activities			
Repayment of borrowings		-	(8,354)
Proceeds from borrowings		5,046	-
Dividends paid		(19,400)	(17,500)
Net cash flow (used in) financing activities		**(14,354)**	**(25,854)**
Effect of exchange rate changes		(14)	(34)
Net decrease in cash and cash equivalents		**153**	**(7,283)**
Cash and cash equivalents at the beginning of year	8	40,703	47,986
Cash and cash equivalents at 31 December 2019	**8**	**40,856**	**40,703**

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 46 to 110.

Notes to the separate financial statements for the year ended 31 December 2019

1 Reporting entity

Raiffeisen SEE Region Holding GmbH is the 100 per cent shareholder of Raiffeisen Bank Kosovo J.S.C. Raiffeisen SEE Region Holding GmbH is a 100 per cent indirect subsidiary of Raiffeisen Bank International AG, the ultimate parent.

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

As at 31 December 2019 the Bank has 8 branches and 37 sub-branches within Kosovo (31 December 2018: 8 branches and 38 sub-branches). The Bank's registered office is located at the following address: Robert Doll Street 99, 10000 Prishtina, Republic of Kosovo.

2 Basis of preparation

2.1 Basis of accounting

The separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board (IASB).

2.2 New and amended standards and interpretations

IFRS 16 effective for reporting period beginning 01 January 2019

In these financial statements, the Bank has applied IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time. Details are provided in Notes 3.6.2. and 14.

Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of Good Bank and the subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Bank.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Bank.

Other Standards and amendments that are effective for the first time in 2019 are:

- IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These amendments do not have impact on these financial statements and therefore the disclosures have not been made.

2.3 New standards and interpretations not yet adopted by the Bank

The following new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank:

- IFRS 17 Insurance Contracts
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

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

2.4 Functional and presentation currency

The Bank's functional currency used in preparing the financial statements is Euro as it is the currency of the primary economic environment in which the Bank operates and it reflects the economic substance of the underlying events ("functional currency"). All amounts have been rounded to the nearest thousands, except when otherwise indicated.

2.5 Use of judgments and estimates

In preparing these separate financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

3 Significant accounting policies

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the separate financial statements are described in note 3.4, 4 and 5.

The accounting policies set below have been applied consistently to all the periods presented in these separate financial statements.

3.1 Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. Control exists as the Bank is exposed, or has rights, to variable returns from its involvement with the investee (subsidiary) and has the ability to affect those returns through its power over the investee.

These financial statements represent the result and financial position of the Bank alone and do not include those of its subsidiaries, as detailed in Note 13.

The Bank prepares only separate financial statements in accordance with IFRS. The exemption from consolidation has been made as the Bank is itself a wholly-owned subsidiary and the ultimate parent Raiffeisen Bank International produces consolidated financial statements available for public use at http://www.rbinternational.com, in accordance with International Financial Reporting Standards.

Interests in subsidiaries are accounted for at cost in the separate financial statements.

3.2 Foreign currency transactions

Foreign exchange transactions are recorded at the rate ruling at the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date.

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

3.3 Financial assets and financial liabilities

3.3.1 Classification Financial assets

From 1 January 2018, the Bank classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- amortized cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

3.3.2 Classification Financial liabilities

Under IFRS 9, all financial liabilities are classified as subsequently measured at amortized cost except for the following items which are measured at FVTPL:

- Financial liabilities that are held for trading – including derivatives;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition or when the continuing involvement approach applies;
- Financial guarantees and below market rate interest loan commitments;
- Contingent consideration recognized by an acquirer in a business combination;
- Financial liabilities that are designated as at FVTPL on initial recognition.

The Bank classifies its financial liabilities at amortized cost and at fair value (Interest Rate Swap Payable).

3.3.3 Business Model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- 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, in particular, the way those risks are managed;

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

However, the Bank's expectations is that the highest level of aggregation possible is the Bank department Level. Further sub-portfolios should be used so that each portfolio has the same or similar below characteristics;

- Business area;
- Performance evaluation KPI's;
- Key Management Personal (B-1);
- Risks and risk management processes;
- IT Infrastructure.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.3.4 Contractual cash flow characteristic

Once the Bank determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or by both collecting contractual cash flows and selling financial assets), it assesses 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 (for example liquidity) and costs (for example administrative), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest the bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Bank considers:

- Prepayment, extension terms;
- Leverage features;
- Claim is limited to specified assets or cash flows;
- Contractually linked instruments.

This assessment needs to be carried out on an instrument by instrument basis on the date of initial recognition of the financial asset.

3.3.5 Modification of Time Value of Money and the Benchmark Test

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). That 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.

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

- Reset rate frequency does not match interest tenor;
- Lagging indicator;
- Smoothing clause;
- Grace period;

- Secondary market yield reference.

The benchmark test for any applicable product in the bank level is conducted by RBI HO in Vienna.

3.3.6 Recognition of financial assets and liabilities

The Bank initially recognises loans, receivables, and other financial liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.3.7 Derecognition of financial assets and liabilities

3.3.7.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.3.7.2 Derecognition other than substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset;

or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates,
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients,
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.3.8 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

3.3.9 Amortised cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

3.3.10 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The objective of using a valuation technique is to establish what the transaction price (ie an exit price) would have been on the measurement date in an orderly transaction between market participants. Fair value is estimated on the basis of the results of a valuation technique that takes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if:

a) it reasonably reflects how the market could be expected to price the instrument; and

b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Therefore, a valuation technique

a) incorporates all factors that market participants would consider in setting a price; and

b) is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Other methodologies include comparing the fair value of that instrument is by comparison with other observable current market transactions in the same/similar instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include data from observable markets. The discounted cash flow approach is a technique used to link future amounts (cash flows) to the present through a discount rate.

Present value concepts are central to the development of techniques for estimating the fair value of financial instruments because the market exit price of a financial instrument represents market participant's collective estimate of the present value of its expected cash flows. Therefore, cash flows and discount rate should reflect only factors that are specific to the financial instrument being measured and should reflect assumptions that market participants would use in their estimates of fair value. Also, as the cash flows used are estimates rather than known amounts, a fair value estimate, using present value, is made under conditions of uncertainty. As market participants generally seek compensation for bearing the uncertainty inherent in cash flows (risk premium), the effect of variability (risk) in the cash flows should be reflected either in the cash flows or in the discount rate.

In applying discounted cash flow ("DCF") analysis, the Bank has to use discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to the principal's repayment and the currency in which payments are to be made. The cash flows used in the DCF model should "fit" to the discount rate and they should also take into consideration the characteristics mentioned above (e.g. remaining term of the contractual interest rate and of the principal).

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.3.11 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and under IFRS 9 – an ECL provision. The premium received is recognized in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 26 and corresponding ECLs are disclosed in Note 6.

3.3.12 Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9. IFRS 9 uses an expected credit loss model to recognise impairment in contrast to IAS 39 which uses an incurred loss model. The expected credit loss model applies to debt instruments at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime expected credit losses - LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 4). The bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

There are 3 main approaches which can be used to calculate expected credit losses these are:

A. General approach;

B. Simplified approach;

C. Purchase or originated credit impaired financial assets.

A. General Approach

Using the general approach the amount of expected credit losses recognised as a loss allowance or provision depends on the assessment of the extent of credit deterioration since initial recognition.

The general approach is applied for ECL estimation for loans and advances to customers, due from banks and financial investments which requires the use of complex models and significant assumptions about future eco-nomic conditions and payment behaviour.

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.
- Expected credit losses should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition irrespective of whether a financial instrument has been repriced to reflect an increase in credit risk. 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.

Definition of default

The bank considers a financial instrument defaulted and therefore Stage 3 when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The borrower is more than 90 days past due on a material credit obligation. Following the requirements to the materiality threshold of past due retail credit obligation.

As per this policy in place, the materiality threshold consists of an absolute and relative component:

- The absolute threshold component equals to € 100
- The relative threshold component equals to 1 per cent of the total amount of the on-balance sheet exposure. The numerator of the relative threshold calculation has to include all past due amount that exist for a facility/an obligator (calculated based on the used level of default application). The denominator of the relative threshold calculation has to include the obligator's on balance exposure, including all past due amounts considered in the numerator.

In PI Exposure, the past due materiality threshold is calculated on facility level (with respect to each individual loan/limit). In case of Micro – SME the materiality of any past due is always assessed on obligator level, i.e. with regard to all existing obligation of an obligor.

In non-retail portfolio the absolute threshold component equals to € 500 and the relative threshold component decreased from 2.5 per cent to 1.0 per cent of the total amount of the on-balance sheet exposure.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Qualitative criteria

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

- A credit obligation is put to a non-accrual status due to its deteriorated credit quality;
- Specific Credit Adjustments (SCRA) due to a decline in the credit quality of an obligor.
- A credit obligation is sold at a material economic loss;
- A credit obligation is subject to a distressed restructuring;
- An obligor is bankrupt/insolvent;
- An obligor committed credit fraud;
- An obligor is deceased;
- A credit contract was prematurely terminated due to obligor's non-compliance with contractual obligations.
- The customer's source(s) of recurring income is (are) no longer available to meet the payment of installments
- The customer's financial situation of payment discipline deteriorated
- Breach of Contractual Covenants
- Foreclosure of Collateral or Call of Guarantee
- Purchase of Origination at a Material Discount (POCI)

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

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

Significant increase in credit risk

A number of factors are relevant when assessing significant increase in credit risk. The list of SICR triggers contains mostly information which is in Bank part of the internal rating model, i.e. used as an input for credit rating assignment. Having the information already embedded in the internal rating, the quantitative staging method is sufficient for accurate assessment of significant increase in credit risk.

The quantitative staging criterion is applied individually for every facility. No grouping of exposure is performed, which means that the measurement of a significant increase of credit risk is not performed on a collective basis. For this purpose if the borrower is more than 30 days past due on a material credit obligation.

Qualitative criteria

The qualitative criteria used by Bank regarding to SICR include:

- Changes in the entity's credit management approach in relation to the financial instrument;
- Expected changes in the loan documentation (i.e., changes in contract terms);
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.

Internal rating

Bank include also internal rating to determine SICR;

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception;
- An actual or expected significant change in the financial instrument's external credit rating;
- An actual or expected internal credit rating downgrade for the borrower;
- Existing or forecast adverse changes in business, financial or economic conditions;
- An actual or expected significant change in the operating results of the borrower;

- Significant increases in credit risk on other financial instruments of the same borrower;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower;
- Significant changes in the value of the collateral supporting the obligation;
- A significant change in the quality of the guarantee provided by a shareholder;
- Significant changes, such as reductions, in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement;
- Significant changes in the expected performance and behaviour of the borrower;
- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date.

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), exposure at default (EAD) and discount factor (D).

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 margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The 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:

- Sovereign, 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 de-fault using the Vasicek one factor model.
- 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 mortgages and other retail lending: 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.

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 bank's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default rates are estimated under each asset class as follows:

- Sovereign: The loss given default is found by using market implied sources.
- 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: 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, benchmarking of inputs and expert judgement is used for the calculation.

Exposure at Default (EAD)

Exposure at default is based on the amounts bank expects to be owed at the time of default, over the next twelve months or over the remaining lifetime. The twelve-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a twelve-month or lifetime basis. Where relevant, early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory mar-gins 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

In general for on balance sheet exposure which is not leasing or POCI the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

Calculation

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 effectively 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 of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings: the Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate;
- Retail mortgages: the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs and by calculating the dis-counted collateral realization value;
- Other retail lending: the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

Shared credit risk characteristics

Almost all of the Expected credit loss under IFRS 9 are measured collectively. Only for non-retail Stage 3 are most of the ECL individually assessed. For expected credit losses provisions modelled on a collective basis a grouping of exposures is per-formed on the basis of shared credit risk characteristics so that the exposures within each group are similar. Retail exposure characteristics are grouped on accounting classification (households and SMEs), product level (e.g. mortgage, personal loans, overdraft facilities or credit cards), PD rating grades and LGD pools/loan-to-value bands. For each combination of the above characteristics an individual model was developed.

Expected credit loss – non-retail portfolio

Exposure at default (EAD)

Total exposure is defined as outstanding exposure, including accrued interest and accrued fees according to the IFRS definition. For securities in the banking book, it is the book value. For off balance- sheet items (issued guarantees, letter of credits, undrawn facilities) total exposure is exposure before the application of credit conversion factors. For facilities, total exposure includes only committed facilities (immediately cancellable or cancellable with notice period). Uncommitted facilities in the sense of additionally internally approved facilities are not included.

Off-balance sheet financial instruments are also in scope of impairment calculation. To reflect possible risk arising from drawing off-balance sheet exposure, the bank uses models predicting the likelihood of drawing a particular off-balance sheet position and converting it into an on-balance financial instrument.

Collateral

Collateral plays a limited role in assessing whether there has been a significant increase in credit risk. Staging methods are based on the credit risk parameters without consideration of the collateral. In contrast to staging, the collateral does affect the measurement of expected credit losses. If a loan is guaranteed by a third party, it will receive an impairment resulting from the combined credit risk of the original customer and the guarantor if also applied in Risk-Weighted Assets – (RWA) calculation. The expected credit loss will be measured based on the PD of the guarantor and not of the original customer. If the collateral exceeds the exposure amount, the expected loss on that financial instrument will be zero. Collaterals in impairment model are expressed in terms of weighted collateral value (WCV), which is the collateral value according to the internal collateral evaluation.

Unsecured exposure

If expected from collateral proceeds (i.e. if we assume the correct internal collateral valuation), impairment applies only to unsecured part of financial instrument. For each asset in the impairment relevant portfolio, such calculation of the unsecured exposure is performed. What impairment calculation model needs is, eventually, a run-off exposure profile of the unsecured part. Since cash flow amounts comprise a repayment of full gross exposure from both, a secured and an unsecured part, we adjust the original repayment schedule by using scaling factors to model cash flows covering only unsecured part of exposure. In this way the cash flows timing is preserved and only the cash flow amounts are proportionally adjusted.

Loss given default LGD

In case of a default event the parameter LGD indicates how much of the outstanding exposure will be lost. In case sufficient loss data is available the LGD can be estimated by comparing the outstanding exposure with discounted cashflows ('workout LGD'). If the available loss data is limited external data can be used ('Implied Market LGD').

Effective interest rate (EIR)

Effective interest rate is determined on contractual cash flows. For a fixed-rate financial asset, the EIR on the initial recognition should be used, while for a floating-rate financial asset, the current EIR should be applied. For a POCI financial asset, the credit-adjusted EIR determined on the initial recognition is required. For a financial asset in default, the last available EIR before the reclassification is to be used.

Stage 1

Impairment stage 1 represents expected credit losses from default events possible within 12 months after reporting date. Stage 1 expected loss is defined as a portion of the lifetime expected credit loss. A 12-month expected credit loss is recognized in two cases:

- if no significant increase in credit risk on financial instrument has occurred or
- at initial recognition of financial instrument.

Stage 1 covers expected loss from default events expected until 12 months after balance sheet date. It does not cover losses on financial instruments likely to default in 12 months. Or expressed differently, it does not cover expected cash shortfalls over 12 months. In stage 1, the maximum period to consider when calculating expected losses is 12 months. For all long-term financial instruments (maturity longer than 1 year), the impairment is based on the 12-month ECL instead of the lifetime ECL, which is the main advantage of the stage 1. Parameters included in the ECL calculation have the 12-month horizon, which is to a certain extent similar to the IAS 39 portfolio loan loss calculation model. Nevertheless, all short-term financial instruments (maturity in less than 1 year) are treated according to the lifetime expected loss approach. In contrast to IAS 39, it is allowed to apply a maturity based expected loss calculation instead of a 12-month expected loss calculation. Practically speaking, short-term financial instruments are in stage 1 measured with the lifetime expected credit loss which represents only the portion of the 12-month expected credit loss. In such cases, stage 1 and stage 2 expected credit losses will be lifetime expected credit losses and, therefore, equal. For off-balance sheet financial instruments an estimate of 12-month expected credit loss (or lifetime for shortterm maturities) is based on the expectations of the portion of the off-balance sheet position that will be drawn down within 12 months from the reporting date. The expected loss calculation does not differ between stage 1 and stage 2. Only the time horizon is different.

Stage 2.

The Standard defines credit loss as the difference between all contractual cash flows that are due in

accordance with the contract and all the cash flows that the bank expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI assets). The lifetime expected credit losses are defined as the expected credit losses that result from all possible default events over the expected life of a financial instrument. The risk of a default occurring on the financial instrument during its expected life needs to be estimated.

The calculation of the expected credit loss (ECL) for stage 1 and stage 2 is using the same equation. The only difference between stage 1 and stage 2, besides the different time perspective, is that for stage 2 the expected credit loss is discounted with the effective interest rate (EIR) for all financial instruments, whereas in stage 1 only expected losses for financial instruments maturing in 12 months are discounted with EIR.

Stage 3

When determining lifetime ECL for stage 3, the same requirements apply as for stage 2 assets. The ECL is a probability-weighted best estimate of credit losses considering relevant reasonable and supportable information that is available at the reporting date without undue cost or effort.

A credit loss is defined as the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate.

As a general principle, lifetime expected losses have to be established, whenever the RBKO becomes aware, that not all of the customer's obligations towards the bank will be fulfilled / repaid and consequently, the bank will incur a loss in terms of:

(a) Forgiveness of principal repayments;

(b) Forgiveness of interest;

(c) Sale of exposure below book value;

(d) Loss incurred by the bank when closing FX or other off-balance sheet items concluded;

with the customer and the customer does not and/or is unable to fulfil its obligation

(e) Granting of interest rates to the customer significantly below market (below funding cost of the bank or zero);

(f) Incurring non recoverable internal/external expenses;

(g) Recover less than the outstanding through realization of collateral.

Lifetime expected losses have to be considered in case:

(a) Amounts are past due for more than 90 days;

(b) Bankruptcy, insolvency or similar proceedings against the customer have been started;

(c) Economic difficulties of the customer which will most likely result in recoveries for the

bank less than the amount outstanding (irrespective of the timing of the probable – partial – repayment).

Forward Looking Information and Macroeconomic Adjustment of the Default Probability Parameter PD(t)

The probability of default is, where relevant, adjusted for the current status of the macroeconomy and its future outlook. Via this adjustment, forward looking information enters the ECL calculation. The adjustment of the default probabilities is performed via a macroeconomic model, which describes the status of the credit cycle. This macroeconomic model is represented by the single risk factor, for time . The macroeconomic model consists of several macroeconomic variables. These variables are updated regularly and frequently to reflect the current status of the macroeconomy and forward looking information.

The macroeconomic adjustment of the default probability is performed for the expected credit loss calculation and the quantitative staging criterion.

Estimation of One-Factor and Macroeconomic Model

Within each **estimation bucket**, the model is estimated in the following way:

- Using default data an estimate for each bucket X_{bucket} and ρ_{bucket} is obtained via maximum likelihood. The estimate X_{bucket} of the single risk factor can be interpreted as the status of the credit cycle, based on the level of default rates, which are observed for the respective time period.
- For each estimation bucket, a linear model for the estimates X_{bucket} using macro data is obtained, e.g. $X_{bucket}(s)=\beta_0+\beta_1\ GDP_{(bucket,s)}$. The estimate X_{bucket} obtained in step 1 serves therefore as the dependent variable for the Linear Regression model, while macroeconomic variables serve as the explanatory variables. The aim of this step is therefore to explain the status of the credit cycle, i.e. the level of default rates, via macroeconomic variables.

Expected credit loss- Retail portfolio

The bank measures expected credit losses of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions reflected through macroeconomic overlay.

Stage 1 & 2

PD approximation

In certain cases the full-fledged survival analysis modelling methodology described above is either not applicable (e.g. low amount of data in the rating grades) or leads to uninterpretable results (e.g. poor fit for low-default rating grades). If for any reason, the generic survival analysis method described above is dropped, the PD curves may be approximated using simpler methodologies.

Option 1: In case survival analysis fails on the level of rating grades (e.g. due to low amount of data), apply it on the full portfolio level to derive product level PD and PFP curves. This is applicable even if the entity has never had a Rating System. The difference for these smaller portfolios would thus be that they will have only one PD curve for the whole portfolio, rather than different curves based on rating grade. This can be considered a simplified version of the survival analysis, but one which is consistent with the methodology for the other portfolios and allows also for macroeconomic overlay. For ECL calculation, the sum of marginal losses approach shall be kept.

Option 2: If Option 1 fails, the entities have the possibility to use own average realized 12-month Default Rates (Long-Run Average PD with Observation Weights and Real Data).

Option 3: If Option 2 cannot be utilized, for example because of insufficient default history, data unavailability or in case of new products, the last option is to use a benchmark for 12-month PD. The Benchmarks are created by RBI HO in Vienna Retail Risk using average PD values of the accounts with existing PD estimates. The calculation is based on actual data available in Head Office, excluding Defaulted and Not Rated accounts and using simple averages. The benchmarks used for the bank are the ones which include countries from the South eastern Europe (SEE) region. The Benchmarks are grouped by Product and Geographic Region and rounded with a step of 50bps. They will be revaluated annually and updated if necessary by RBI Retail Risk. The currently valid 12-month PD Benchmarks are:

Segment	Product Type	SEE
PI	Mortgage	2,0%
	Personal Loans	5,5%
	Credit Cards	3,5%
	Overdrafts	2,5%
	Car Loans	2,5%
	Other Products	5,0%
MicroSME	All Products	5,5%

Macroeconomic overlay

IFRS 9 estimates should include forecasts of future economic conditions. This is handled through a so-called "macroeconomic overlay" which will be applied on the estimates. As a result, a vector of cumulative PDs and PFPs will be adjusted for each macroeconomic scenario.

LGD

LGD approximation

In case no Basel LGD estimate exists, the IFRS 9 compliant LGD estimate can be approximated by simpler models.

Option 1: Vintage recovery model;

Option 2: Simple 12-month actual recovery rate;

Option 3: LGD Benchmarks.

If none of the other models are applicable, LGD benchmarks will be used. The Benchmarks are created by RBI Head Office in Vienna -Retail Risk using average LGD values of the accounts with existing LGD estimates. The calculation is based on actual data available in Head Office, excluding Defaulted and Not Rated accounts and using simple averages. The Benchmarks are grouped by Product and Geographic Region and rounded with a step of 5pp. They will be revaluated annually and updated if necessary by RBI Retail Risk. The currently valid LGD Benchmarks for SEE region are:

Segment	Product Type	SEE
PI	Mortgage	30%
	Personal Loans	50%
	Credit Cards	40%
	Overdrafts	50%
	Car Loans	50%
	Other Products	50%
MicroSME	All Products	50%

Macroeconomic overlay

As requested by IFRS 9, the LGD estimate needs to take into account relevant macroeconomic forecasts for the next years if there is reasonable and supportable evidence that the relationship between recovery rates and macroeconomic factors exists for the portfolio under consideration. For secured exposures, this LGD may be further adjusted to reflect expected developments in collateral values over the next years where this has an impact on recoveries.

Macroeconomic adjustments will be applied on a monthly basis. The resulting final LGD estimates with macroeconomic overlay will thus become a vector of values (dependent on the macroeconomic scenario).

EAD

The exposure at default is another key component of the ECL calculation. Although IFRS 9 does not explicitly require banks to model EAD, understanding how loan exposures are expected to change over time is crucial to an unbiased measurement of ECLs. This is particularly important for Stage 2, where the point of default may be several years in the future. Ignoring an expected fall in exposure (e.g. on a loan repayable in instalments) could lead to measurements of ECLs being too high. Ignoring an expected increase in exposure (drawdowns within an agreed limit on a revolving facility) could lead to measurements of ECLs being too low.

CCF approximation

In case of missing CCF estimate, CCF benchmark values should be used (derived from EU Directive 575 (CRR), Chapter2 "Standardized approach" and Annex I). The most relevant ones for Retail are:

- 100 per cent for guarantees having the character of credit substitutes;
- 50 per cent for trade finance off-balance sheet items;
- 20 per cent for trade finance off-balance sheet items.

Expected credit loss for exposures in default (Stage 3)

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

In case of undrawn commitments still existing for a defaulted exposure, they will be considered with CCF=100% when determining EAD.

If reasonable and supportable information to measure ECL is not available on an individual instrument basis, lifetime ECL for assets in Stage 3 shall be recognised on a collective basis that considers comprehensive credit risk information (IFRS 9.5.5.4) - same treatment as for assets in stages 1 and 2. The three methods to be used in Retail segment are:

- Collective assessment for Unsecured Exposures – Best Estimate of Expected Loss;
- Collective assessment for Secured Exposures – Discounted Weighted Collateral Value;
- Individual assessment.

Collective assessment for Unsecured Exposures - Best Estimate of Expected Loss (BEEL)

In this sense, the Bank Retail Risk considers that the most appropriate way to reflect the historical loss experience in the estimation of the expected cash flows of a defaulted unsecured exposure is by using the so called Best Estimate of Expected Loss (BEEL) parameter. By definition, this parameter reflects the most probable loss potential for accounts in default which have similar risk and recovery profile and provides a statistically derived estimated level of loss for such accounts. Therefore, it has to be ensured that the use of BEEL to adjust the contractual cash flows to their estimated recovery is applied on a homogeneous group of accounts.

The estimation model for BEEL considers discounted recoveries for exposures which are already in default. As the model is designed to provide a best estimate of the loss potential until the end of the workout period, accounts for which the observation point coincides with the end of the workout period are assumed to have zero recovery, i.e. the Best Estimate of Expected Loss is 100 per cent. In order to be appropriate for provisioning purposes, it has to be ensured that at each reporting period each defaulted account is associated with an estimate which reflects the most current recovery experience for this account and thus determines the expected recovery potential. BEEL values must be updated monthly.

B. Simplified Approach

There is a simplified approach which has some operational simplifications and has to be applied or is a policy choice for trade receivables, contract assets and lease receivables. This includes the requirement or policy choice to apply the simplified approach that does not require entities to track changes in credit risk and the practical expedient to calculate expected credit losses on trade receivables using a provision matrix. For any such exposures for which the simplified approach is applied the bank will recognize the lifetime expected credit losses in profit and loss.

C. Purchase or originated credit impaired financial assets

For financial assets which are credit impaired on initial recognition a unit shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Stage 2 triggers

Significant increase of credit risk for the purpose of stage 2 allowance is perceived in terms of:

- A quantitative measure, where calculable;
- A qualitative measure in other cases; and
- Backstop indicators.

There is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition, at the latest when contractual payments are more than 30 days past due. The presumption can be rebutted if a unit has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since initial recognition. It could therefore be the case that the presumption is rebuttable when contractual payments are more than 30 days past due if:

- Non-payment was an administrative oversight;
- The bank has access to historical evidence that demonstrates that a correlation between significant increases in the credit risk and more than 30 days past due exists.

In cases where the rebuttable presumption is rebutted it should be noted that bank cannot align the timing of significant increases in credit risk and the recognition of lifetime expected credit losses to when a financial asset is regarded as credit-impaired or when the financial instrument is considered to have defaulted. In cases where the 30 days past due has been rebutted it will be necessary to establish a limit for a new backstop which will not be higher than 90 days past due and provide evidence of this.

Assessment of stage-transfer on a collective basis

It may not be possible to assess whether there has been an increase in credit risk on an individual basis and therefore this assessment can also be carried out on a collective basis. For example this might be the case for retail loans where there is little or no updated credit risk information that is routinely obtained and monitored on a individual instrument until a customer breaches the contractual terms. If the bank only relies on past due information this will likely not faithfully represent the changes in credit risk since initial recognition. In such cases lifetime expected credit losses shall be recognised on a collective basis that considers comprehensive credit risk information. This comprehensive credit risk information must incorporate not only past due information but also all relevant credit information, including forward looking macroeconomic information, in order to approximate the result of recognizing lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, the bank will group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis.

Shared credit risk characteristics may include, but are not limited to, the following:

- Instrument type;
- Credit risk ratings;
- Collateral type;

- Date of initial recognition;
- Remaining term to maturity;
- Industry;
- Geographical location of the borrower.

The value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, nonrecourse loans in some jurisdictions or loan-to-value ratios).

It is required that lifetime expected credit losses are recognised on all financial instruments for which there has been significant increases in credit risk since initial recognition. In order to meet this objective, if the bank is not able to group financial instruments for which the credit risk is considered to have increased significantly since initial recognition based on shared credit risk characteristics, the bank will recognize lifetime expected credit losses on a portion of the financial assets for which credit risk is deemed to have increased significantly. Furthermore when using historical credit loss experience in estimating expected credit losses, it is important that information about historical credit loss rates is applied to groups that are defined in a manner that is consistent with the groups for which the historical credit loss rates were observed. Consequently, the method used shall enable each group of financial assets to be associated with information about past credit loss experience in groups of financial assets with similar risk characteristics and with relevant observable data that reflects current conditions.

Reversal of stage-transfer

If the bank has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the change in the credit risk from initial recognition is no longer significant, the bank shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date. It should be noted that the reversal of stage transfer when it is certain that there has been a reduction in credit risk to a level that it is no longer significant and furthermore that the flags such as forbearance no longer exist.

Stage-transfer for modified financial assets

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was derecognized the asset is considered a "new" financial asset and the date of modification is considered to be the date of initial recognition. This means measuring the loss allowance at an amount equal to 12-month expected credit losses until the requirements for the recognition of lifetime expected credit losses are met. However in some cases where the modification results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognised as an originated credit-impaired financial asset and lifetime expected losses should be used as a basis to measure expected credit losses.

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the bank shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- The risk of a default occurring at the reporting date (based on the modified contractual terms);
- The risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

Furthermore, evidence that the criteria for the recognition of lifetime expected credit losses are no longer met may include a history of up-to-date and timely payment performance against the modified contractual terms. Typically a customer would need to demonstrate consistently good payment behavior over a period of time before the credit risk is considered to have decreased. For example, a history of missed or incomplete payments would not typically be erased by simply making one payment on time following a modification of the contractual terms.

Stage 3 triggers

According to the deterioration model, a financial instrument has to be transferred to stage 3 (i.e. is credit-impaired) when one or more events that have a detrimental impact on the estimated future cash flows have occurred. If the requirements for stage transfer are not fulfilled anymore (i.e. the instrument is no longer credit-impaired) it shall be transferred back to stage 1 or 2 (i.e. the approach is symmetrical).

The following list is taken as "Credit-impaired" indicators:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Due to the changed scope of IFRS 9 compared to IAS 39, also loan commitments and financial guarantee contracts shall be covered by the same process (replacement of IAS 37 assessment). There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless the bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

Due to the changed scope of IFRS 9 Impairment compared to IAS 39, the following aspects shall be considered. Firstly, loan commitments and financial guarantee contracts shall be covered by the same process (replacement of IAS 37 assessment), if not already covered in the current processes. Secondly, equity instruments are not in the scope of IFRS 9 Impairment. All instruments in scope of IFRS 9 Impairment where the counterparty is in default shall be transferred to stage 3. Furthermore, fully collateralised loans with zero risk provision, where the counterparty is in default, shall be assigned to stage 3 (if the 'credit deterioration model' applies).

Approach to off-balance items

For loan commitments and financial guarantee contracts, the date that the unit becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements. For loan commitments, a unit considers changes in the risk of a default occurring on the loan to which a loan commitment relates. For financial guarantee contracts, a unit considers the changes in the risk that the specified debtor will default on the contract. In both cases for a financial asset/s, a credit loss is the present value of the difference between the contractual cash flows that are due to a unit under the contract and the cash flows that the unit expects to receive. In the case of undrawn loan commitments, a credit loss is the present value of the difference between the contractual cash flows that are due to the unit if the holder of the loan commitment draws down the loan and the cash flows that the unit expects to receive if the loan is drawn down.

Bank's estimate of expected credit losses on loan commitments shall be consistent with its expectations of drawdowns on that loan commitment, i.e. it shall consider the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month expected credit losses, and the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment when estimating lifetime expected credit losses.

For a financial guarantee contract, the unit is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the unit expects to receive from the holder, the debtor or any other party.

If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognizing the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date that the unit became a party to the irrevocable commitment.

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

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

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

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

3.3.13 Forward looking information

Bank incorporates forward looking information into its impairment calculation. This is done via the macroeconomic models, which leads to a direct adjustment of the default probabilities. To be precise forward looking information is incorporated via the macroeconomic input parameters of the macroeconomic model. Since Bank will not know future realizations of these macroeconomic parameters with certainty, the inherent uncertainty makes it necessary to consider a scenario calculation.

Bank considers three scenarios: A base scenario, an optimistic scenario and a pessimistic scenario. The latter two scenarios are attached with a weight of 25 per cent. The base scenario has an attached weight of 50 per cent in the calculation. The purpose of the scenarios is also to take care of any nonlinearity present in the (expected loss) calculation. The interpretation of the three scenarios is that each of the three scenarios is a representative scenario of the optimistic quartile, for the pessimistic quartile and for the remaining 50 per cent. This interpretation is necessary since the probability that a certain scenario occurs is always 0 per cent.

For each scenario a set of values for the relevant macroeconomic variables is delivered by RBI Raiffeisen Research. This set is used as an input for the macroeconomic model, which subsequently is applied to adjust the relevant input parameter.

Sensitivity analysis

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

- Gross domestic product;
- Unemployment rate;
- Long term government bond rate;
- Inflation rate.

3.3.14 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off. From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 4.

The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing,
- The probation period of two years has passed from the date the forborne contract was considered performing,
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period,
- The customer does not have any contract that is more than 30 days past due.

3.3.15 Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Below is the bank's internal credit rating grades information as used for internal purposes and the respective comparative data:

Internal rating grade	Internal rating description	12 month Basel II PD range		S&P rating
		Lower PD bound	Upper PD bound	
1A	Excellent	>0.0000%	≤0.0026%	AAA
1B		>0.0026%	≤0.0088%	AA+
1C		>0.0088%	≤0.0300%	AA, AA-
2A	Strong	>0.0300%	≤0.0408%	
2B		>0.0408%	≤0.0553%	
2C		>0.0553%	≤0.0751%	A+, A, A-
3A		>0.0751%	≤0.1019%	
3B		>0.1019%	≤0.1383%	
3C		>0.1383%	≤0.1878%	BBB+, BBB
4A	Good	>0.1878%	≤0.2548%	
4B		>0.2548%	≤0.3459%	BBB-
4C		>0.3459%	≤0.4694%	
5A		>0.4694%	≤0.6371%	BB+
5B		>0.6371%	≤0.8646%	
5C		>0.8646%	≤1.1735%	BB
6A	Satisfactory	>1.1735%	≤1.5927%	BB-
6B		>1.5927%	≤2.1616%	
6C		>2.1616%	≤2.9338%	
7A		>2.9338%	≤3.9817%	B+
7B		>3.9817%	≤5.4040%	
7C		>5.4040%	≤7.3344%	B
8A	Substandard	>7.3344%	≤9.9543%	B-
8B		>9.9543%	≤13.5101%	
8C		>13.5101%	≤18.3360%	CCC+
9A		>18.3360%	≤24.8857%	CCC
9B		>24.8857%	≤33.7751%	CCC-
9C		>33.7751%	<100%	CC, C
10	Credit impaired	100%	100%	D

3.3.16 Amortized cost Category

Bank requires that, on initial recognition, financial assets and financial liabilities are measured at fair value plus eligible transaction costs.

- the best evidence of fair value at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received for the financial instrument; and
- if there is a difference between the entity's estimate of fair value at initial recognition and the transaction price, then:
- if the estimate of fair value uses only data from observable markets, then the difference is recognised in profit or loss; or,
- in all other cases, the difference is deferred as an adjustment to the carrying amount of the financial instrument.

Bank's loan and advances portfolio is carried at amortized cost and the interest income is recognized in profit and loss using effective interest rate.

3.3.17 FVOCI Category

A financial asset is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets and meets the SPPI criterion.

The fair value of financial instruments is determined in accordance with IFRS 13.

Where it is not possible to determine a financial instrument's fair value by reference to market prices (e.g. for loans), the Bank uses other valuation techniques (pricing models and methodologies). As they require more estimation and assumptions, they are necessarily more subjective than the market price approach. Two valuation techniques that are widely used are the discounted cash flow (present value) approach and option pricing models (e.g. Black and Scholes).

Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.

3.3.18 FVTPL Category

All other financial assets – i.e. financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss.

In addition, the Bank 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 recognising the gains and losses on them, on different bases.

At initial recognition the financial assets classified as at fair value shall be measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset .

After initial recognition the financial assets classified as at fair value shall be measured at fair value and transaction costs are recognised in Profit and Loss.

For debt instruments all gains or losses arising from changes in fair value of these financial assets are recognized in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- expected credit losses and reversals; and
- foreign exchange gains and losses stemming from revaluation of the amortised cost amount.

3.3.19 Derivative financial instruments

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

The Bank uses derivative financial instruments such as over the counter (OTC) interest rate swaps to manage its risk arising from fluctuations of market interest rates. No hedge accounting is applied for derivative instruments.

3.3.20 Cash and cash equivalents and mandatory reserves

Cash and cash equivalents include notes and coins on hand (including restricted reserves – see below), unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

3.4 Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Significant accounting judgments and accounting are described in the following notes:

- 3.3.12 Impairment of financial assets
- 3.3.16 Impairment losses on financial assets;
- 3.3.17 Amortized cost and Category;
- 3.3.18 FVOCI Category;
- 3.3.19 FVTPL Category;
- 3.8 Repossessed property.

3.5 Mandatory liquidity reserves

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. The liquidity requirement is calculated on a weekly basis as 10 per cent of the deposit base, defined as the average total deposit liabilities to the non-banking public in euro and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the euro deposits with the CBK and 50 per cent of the euro equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5 per cent of the applicable deposit base. As the respective liquid assets are not available to finance the Bank's day to day operations, they have been excluded from cash and cash equivalents for the purposes of the cash flow statement.

3.6 Property and equipment

3.6.1 Owned property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any.

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

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

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

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating units (CGU) to which the asset belongs.

Impairment losses are recognized in profit or loss.

Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as per the table below:

Leasehold improvements within property are depreciated over the shorter of useful life and the lease term. Work in progress is not depreciated until the asset is put in use.

ATMs, other bank and office equipment	5-10 years
Computer hardware	3-5 years
Buildings used for own purposes	50 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

3.6.2 Leased property and equipment

IFRS 16 applicable for the reporting periods after 01 January 2019 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases of low value assets. The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 14.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, 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 received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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 a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. 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 Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank 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 the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "other liabilities" in the statement of financial position (note 17).

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5 per cent_.

The Bank uses one or more of the following practical expedients according to IFRS 16.C10, applying it on a lease -by-lease basis:

- Using a single discount rate to a portfolio of leases with similar characteristics;
- Adjusting the right-of-use asset for any recognized onerous lease provisions, in-stead of performing an impairment review;
- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets (For this purpose the bank has chosen a threshold of around € 5 thousands). The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term;
- Excluding initial direct costs from the measurement of the right-of-use asset;
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a 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 Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
- the Bank has the right to operate the asset; or
- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank measured the Right of Use Asset equals to the Lease Liability. In determining whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - i) the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - ii) the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - iii) facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

3.7 Intangible assets

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

3.8 Repossessed property

Repossessed assets are acquired through enforcement of security over non-performing loans and advances to customers that do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time.

Repossessed assets are initially recognised using the bailiff set amount in the last auction, and are subsequently measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss.

3.9 Deposits. borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are part of the Bank's sources of debt funding.

Deposits, borrowings and subordinated liabilities are initially recognized at fair value, net of transaction costs incurred. Subsequently are stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period using the effective interest method.

3.10 Provisions

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

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

3.11 Employee benefits

The Bank pays only contributions to a publicly administered pension plan on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

3.12 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

3.13 Equity reserves

Equity reserves are comprised of Fair value reserves and Retained earnings.

The reserves recorded in OCI within the equity on the Bank's statement of financial position include:

- Fair value reserve which comprises changes in fair value of financial assets at fair value through other comprehensive income.

Retained earnings include the cumulative non distributed earnings and are distributable upon approval of the Bank General Shareholder and regulatory approval of the Central Bank.

3.14 Interest income and expense

Under both IFRS 9 and IAS 39 Interest income and expense for all interest-bearing financial instruments are recognized through profit or loss for the period within 'interest income' and 'interest expense' using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

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

Interest income and expense presented in profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on FVPL measured investment securities calculated on an effective interest basis.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets. The Bank also holds investments in assets issued in countries with negative interest rates. The Bank discloses interest paid on these assets as an interest expense, with additional disclosures in Note 21.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/(losses) on financial assets at fair value through profit or loss, respectively.

3.15 Fee and commission

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

Other fees and commission income – including account servicing fees, sales commission, placement gain, fees– are 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 fees are recognised on a straight-line basis over the commitment period.

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

3.16 Operating leases

Payments made under operating leases are charged to expenses on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lesser by way of penalty is recognized as an expense in the period in which termination takes place.

3.17 Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.18 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of 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 recognized 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 recognized 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 realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

4 Financial risk management

4.1 Overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

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

From January 2008, the Bank has been complying with and reports based on Basel II requirements at the Group level covering credit and market risks. The implementation of Basel II requirements should ensure a better management of the capital.

The simple financial and market environment in Kosovo allows for the use of simple analysis method. Future more complex factors and risks in the banking industry will be supported by the development of new methods to better manage them.

Based on the Bank policies, the Bank's total assets are classified and analysed as follows:

- Analysis of assets based on the class of asset / product (the assets are classified based on the Group Product Catalogue);
- Analysis of assets based on the credit quality (the assets are classified based on the Group Directives);
- Analysis of assets in line with the measurement basis;

Analysis of assets based on age, which means analysis performed for assets that are past due but not impaired;

- Individual analysis of assets determined as impaired by impairment factors;
- Analysis of assets based on the collateral type and with consideration to the recoverable estimated amount;
- Analysis of assets based on the concentration of risks for industry / sector / segment / certain exposure amount.

4.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a monthly or more frequent review. Limits on the level of credit risk by borrower are approved by Management.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Bank holds different types of collateral as security for the credit risk. Additionally, other credit enhancement methods are applied. The main types of collateral are listed below:

- Property (land, buildings)
- Apartments
- Vehicles
- Equipment
- Personal Guarantee

The collateral value is calculated according to specified methods which include standardized calculation formulas based on market values, predefined discounts, and expert assessments.

Collateral evaluation and re-evaluation is direct responsibility of Collateral Specialist of the bank, for all type of collaterals. Real estate appraisal is updated once a year. This yearly update is performed internally by the respective Collateral Specialist. If the update of the revaluation is not done once every 18 months, the WCV of the respective mortgage is reduced by at least 10 per cent per year as long as there is no actual update performed. More frequent monitoring is required where the real estate market is subject to significant changes in conditions.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category until sustained performance is observed. Sustained performance is defined as three consecutive contractual payments of principal and/or interest.

ECL

The Bank establishes a reserve for expected credit losses that represents its estimate of expected losses in its loan/security and off balance portfolio.

Write-off policy

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Overview of forborne loans

The following tables provide a summary of the Bank's forborne assets as of 31 December 2019 and 31 December 2018.

		Stage 2		Stage 3			
31 December 2019	Gross carrying amount	Permanent modifi-cations to T&Cs	Total performing forborne loans	Permanent modifica-tions to T&Cs	Total non-performing forborne loans	Total forborne loans	Forbearance ratio
Due from banks	35,483	-	-	-	-	-	0%
Loans and advances to customers							
Non-Retail	308,272	7,959	-	3,587	-	-	-
Retail	379,146	5,331	1,549	2,093	1,929	3,477	0.92%
Total loans and advances to customers	687,418	13,290	1,549	5,680	1,929	3,477	0.92%

		Stage 2		Stage 3			
31 December 2018	Gross carrying amount	Permanent modifi-cations to T&Cs	Total performing forborne loans	Permanent modifica-tions to T&Cs	Total non-performing forborne loans	Total forborne loans	Forbearance ratio
Due from banks	24,733	-	-	-	-	-	0%
Loans and advances to customers	-	-	-	-	-	-	-
Non-Retail	296,649	7,781	-	11,668	-	-	0%
Retail	318,544	2,829	2,832	768	768	3,600	1.13%
Total loans and advances to customers	615,193	10,610	2,832	12,436	768	3,600	1.13%

Overview of forborne loans

	Gross amount of forborne loans			ECLs of forborne loans		
31 December 2019	Stage 2	Stage 3	Total	Stage 2 Collective	Stage 3 Collective	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Non-Retail	-	-	-	-	-	-
Retail	1,549	1,929	3,478	210	1,406	1,616
Total loans and advances to customers	1,549	1,929	3,478	210	1,406	1,616

	Gross amount of forborne loans			ECLs of forborne loans		
31 December 2018	Stage 2	Stage 3	Total	Stage 2 Collective	Stage 3 Collective	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Non-Retail	-	-	-	-	-	-
Retail	2,832	768	3,600	333	716	1,049
Total loans and advances to customers	2,832	768	3,600	333	716	1,049

Credit risk

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2019 of financial assets by counterparty sector.

	Loans and advances to customers	
	2019	2018
Central Bank of Kosovo	60,931	45,300
Other Banks	38,158	32,358
Investments in subsidiaries	2,234	2,234
Sovereigns	107,184	81,126
International Corporates	43,002	42,635
Local Corporates	308,271	372,701
Local Retail customers	379,147	310,348
Total Financial Assets risk exposure	938,927	886,702

The tables below set out information about the credit quality of loans and advances to customers and the allowance for impairment/loss held by the Bank against those assets.

	Loans and advances to customers	
	2019	2018
Maximum exposure to credit risk		
Gross amount	687,418	615,193
Allowance for impairment	(17,920)	(21,991)
Net carrying amount	669,498	593,202
Loans with renegotiated terms		
Gross carrying amount	19,109	22,714
Allowance for impairment	(4,971)	(12,025)
Net carrying amount	14,138	10,689

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans and advances to customers			Fair value of collateral		
31 December 2019	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	767	10,558	11,325	617	5,880	6,497
Residential Real Estate	40,739	-	40,739	36,835	-	36,835
Movable	336,710	297,714	634,424	205,554	281,330	486,884
Unsecured	930	-	930	-	-	-
Total	379,146	308,272	687,418	243,006	287,210	530,216

	Loans and advances to customers			Fair value of collateral		
31 December 2018	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	821	4,933	5,754	786	4,871	5,657
Residential Real Estate	34,588	-	34,588	32,078	-	32,078
Movable	281,772	291,716	573,488	172,268	281,339	453,607
Unsecured	1,363	-	1,363	-	-	-
Total	318,544	296,649	615,193	205,132	286,210	491,342

Set out below is an analysis of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts:

			31 December 2019		
	Total gross carrying amount	Stage 1	Stage 2	Stage 3	Fair value of the collateral
Non-retail Customers	308,272	285,466	15,694	7,131	286,699
Retail Customers	379,146	357,908	9,527	11,692	243,518
Total Loans and Advances to Customers	687,418	643,374	25,221	18,823	530,217
			31 December 2018		
	Total gross carrying amount	Stage 1	Stage 2	Stage 3	Fair value of the collateral
Non-retail Customers	296,649	258,840	23,741	14,068	286,210
Retail Customers	318,544	298,780	13,757	6,007	205,132
Total Loans and Advances to Customers	615,193	557,620	37,498	20,075	491,342

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2019 and 31 December 2018 for loans and advances to customers past due and impaired – Stage 3 and POCI are presented below:

			31 December 2019		
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 month	Total
Non-retail Customers	2,472	-	2,416	2,243	7,131
Retail Customers	554	225	1,099	9,814	11,692
Total Loans and advances to customers impaired	3,026	225	3,515	12,057	18,823
			31 December 2018		
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 month	Total
Non-retail Customers	10,904	90	1,261	1,813	14,068
Retail Customers	397	87	861	4,662	6,007
Total Loans and advances to customers impaired	11,301	177	2,122	6,475	20,075

Due from Banks

Interbank exposures are closely monitored on a daily basis by risk management and the Treasury Department. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Moody's, Standard & Poor's (S&P) and Fitch except for exposures with Kosovo T-bills which are not rated. In order to represent the ratings of different international rating agencies the tables below have been prepared in accordance with Central Bank of Kosovo rating scales representing as below:

	Moody' or equivalent	
Ratings definitions	Long term rating scale	Short term rating scale
High credit quality	Aaa Aa1 Aa2 Aa3	P-1
Strong payment capacity	A1 A2 A3	P-2
Adequate payment capacity	Baa1 Baa2 Baa3	P-3

A function independent from the treasury department, usually risk management, has to monitor that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank.

In accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15 per cent of Tier I Regulatory Capital.

Due from banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings, which are all classified as Stage 1.

At 31 December	2019	2018
P-1	11,498	11,999
P-2	23,312	15,433
P-3	2,537	4,134
	37,347	31,566

Investment Securities

Investments in securities are mainly invested in government bonds with OECD Countries, Republic of Kosovo T Bills and corporate bonds. The investments are primarily for liquidity management of the bank and ensure sufficient risk diversification in terms of credit exposure with one sovereign also considering the local regulatory environment and limitation on large exposures.

The below table represents securities exposure based on Moody's rating:

	2019	2018
P-1	78,609	45,322
P-2	37,167	38,303
P-3	-	14,078
Not Rated	34,263	26,019
	150,039	123,722

The exposure reported as not rated reflects the bank exposure to Republic of Kosovo.

The table below represents the risk exposure based on the counterparty risk of the exposure.

	2019	2018
Kosovo Government Treasury Bills and Bonds	34,263	26,019
Other OECD Treasury Bills and Government Bonds	72,774	55,068
Corporate bonds	43,002	42,635
Total investment securities	150,039	123,722

4.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw downs and guarantees. The liquidity risk is managed by the Management of the Bank. The Bank holds mid to long term assets and due to market conditions, finances the majority of its portfolio with short term debt. In this process the Bank inherits liquidity risk pertaining to maturity mismatches. The risks if managed correctly are acceptable risks. The Bank issues long term assets, such as PI loans and Mortgages, and these portfolios are mainly financed by demand deposits and Term Deposits up to 1 year. The management receives on a daily basis the liquidity ratio information of the Bank, and also on a weekly basis receives a liquidity report sorted by Business segment. Since the Bank issues mid to long term assets, and finances it with short to mid-term debt, it is also exposed to interest rate risk. Regulatory liquidity reserve is calculated as 10 percent of the average liabilities due within one-year, which reserve is maintained by deposits at central bank and 50 percent of physical cash. As at 31 December 2019, the overage of liquidity reserve is € 8,903 thousand (2018: € 3,537 thousand). The table below shows net carrying amounts of assets and liabilities as at 31 December 2019 and 2018 by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example loans are frequently renewed and accordingly short term loans can have longer term duration.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Assets					
Cash and cash equivalents					
Cash and cash equivalents and mandatory liquidity reserve	40,856	-	-	82,821	123,677
Due from banks	35,483	-	-	-	35,483
Loans and advances to customers	6,054	20,213	121,130	522,101	669,498
Investment securities	149	21,770	16,900	111,220	150,039
Other assets	-	-	949	-	949
Total financial assets	**82,542**	**41,983**	**138,979**	**716,142**	**979,646**
Liabilities					
Deposits from customers	843,326	979	14,010	402	858,717
Due to banks	7,602	-	-	-	7,602
Subordinated debt	325	-	-	19,000	19,325
Other liabilities	-	-	7,888	-	7,888
Total financial liabilities	**851,254**	**979**	**21,898**	**19,402**	**893,532**
Net gap position at 31 December 2019	**(768,712)**	**41,004**	**117,081**	**696,740**	**86,114**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Assets					
Cash and cash equivalents and mandatory liquidity reserve	7,600	-	-	104,432	112,032
Due from banks	23,941	-	-	792	24,733
Loans and advances to customers	34,396	34,626	188,024	336,156	593,202
Investment securities	35	15,097	38,732	69,858	123,722
Other assets	-	-	2,502	-	2,502
Total financial assets	**82,542**	**41,983**	**138,979**	**716,142**	**979,646**
Liabilities					
Deposits from customers	710,815	1,275	16,982	395	729,467
Due to banks	618	-	-	-	618
Subordinated debt	325	-	-	19,000	19,325
Other liabilities	-	-	11,585	-	11,585
Total financial liabilities	**711,758**	**1,275**	**28,567**	**19,395**	**760,995**
Net gap position at 31 December 2018	**(645,786)**	**48,448**	**200,691**	**491,843**	**95,196**

The maturity analysis of loans to customers is based on the remaining maturity dates of the credit agreements, which means taking into account the instalments due on a monthly basis.

Liquidity reporting on a weekly basis at business segment level, monitoring of stickiness ratio separately for all business segments, banking book limits and reports, which measure the interest risks and gaps, are currently the tools applied to manage and limit the underlying risk of conducting business.

Mandatory liquidity reserves are included within demand and less than one month as the majority of liabilities to which this balance relates are also included within this category.

The maturity analysis for financial liabilities is analysed as follows:

- Based on earliest contractual maturity date – worst case scenario;
- Based on contractual undiscounted cash-flows;
- Determination of the time bands;
- Expected cash-flows are used as supplementary information.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace interest-bearing liabilities as they mature at an acceptable cost are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank has a significant maturity mismatch of the assets and liabilities maturing within one year. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2019 and 2018 was customer accounts being on demand and maturing in less than one month. Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

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

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

4.4 Market risk

Market risk is the risk that the value of an investment will decrease due to moves in market factors. The four standard market risk factors are:

- Equity risk or the risk that stock prices will change.
- Interest rate risk or the risk that interest rates will change.
- Currency risk or the risk that foreign exchange rates will change.
- Commodity risk or the risk that commodity prices (i.e. grains, metals, etc.) will change.

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk

The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2019 and 2018 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	116,077	7,600	-	123,677
Due from banks	-	35,483	-	35,483
Loans and advances to customers	669,498	-	-	669,498
Investment securities	37,032	64,217	48,790	150,039
Other assets	949	-	-	949
Total financial assets	**823,556**	**107,300**	**48,790**	**979,646**
Liabilities				
Deposits from customers	808,243	16,533	33,941	858,717
Deposits from banks	5,170	2,432	-	7,602
Subordinated debt	-	19,325	-	19,325
Other liabilities	7,201	-	687	7,888
Total financial liabilities	820,614	38,290	34,628	893,532
Net gap position at 31 December 2019	**2,942**	**69,010**	**14,163**	**86,114**

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	104,432	7,600	-	112,032
Due from banks	-	24,733	-	24,733
Loans and advances to customers	593,202	-	-	593,202
Investment securities	26,023	44,405	53,294	123,722
Other assets	2,502	-	-	2,502
Total financial assets	**726,159**	**76,738**	**53,294**	**856,191**
Liabilities				
Deposits from customers	685,949	16,679	26,839	729,467
Deposits from banks	123	495	-	618
Subordinated debt	-	19,325	-	19,325
Other liabilities	10,773	812	-	11,585
Total financial liabilities	696,845	37,311	26,839	760,995
Net gap position at 31 December 2018	**29,314**	**39,427**	**26,455**	**95,196**

Currency risk

This is a form of risk that arises from the change in price of one currency against another. The currency risk is managed through monitoring of open FX positions. These positions are set for daily positions and separately, for overnight positions. The sensitivity analysis is provided to the management on weekly basis.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currency and in total, which are monitored daily. The use of euro in Kosovo and limited exposure to other currencies results in a limited need to use derivatives to manage foreign currency risk.

The Market Risk Report encapsulating the Interest Rate Risk Report and the Open FX currency report is sent to the management on weekly basis. The respective report is produced by RBI Risk management based on the inputs that are provided from local reporting resources.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currency and translated into Euro '000.

	EUR	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	111,997	3,269	8,411	123,677
Due from banks	19,800	9,099	6,584	35,483
Loans and advances to customers	669,498	-	-	669,498
Investment securities	120,149	29,890	-	150,039
Other assets	949	-	-	949
Total financial assets	**922,393**	**42,258**	**14,995**	**979,646**
Liabilities				
Deposits from customers	800,104	45,333	13,280	858,717
Deposits from banks	6,282	-	1,320	7,602
Subordinated debt	19,325	-	-	19,325
Other liabilities	7,888	-	-	7,888
Total financial liabilities	**833,599**	**45,333**	**14,600**	**893,532**
Net gap position at 31 December 2019	**88,794**	**(3,075)**	**395**	**86,1148**
	EUR	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	102,201	5,080	4,751	112,032
Due from banks	12,791	1,488	10,454	24,733
Loans and advances to customers	593,202	-	-	593,202
Investment securities	92,447	31,275	-	123,722
Other assets	2,502	-	-	2,502
Total financial assets	**803,143**	**37,843**	**15,205**	**856,191**
Liabilities				
Deposits from customers	672,142	41,747	15,578	729,467
Deposits from banks	618	-	-	618
Subordinated debt	19,325	-	-	19,325
Other liabilities	11,585	-	-	11,585
Total financial liabilities	703,670	41,747	15,578	760,995
Net gap position at 31 December 2018	**99,473**	**(3,904)**	**(373)**	**95,196**

Foreign currency risk

The foreign currencies to which the Bank is mainly exposed are US Dollar (USD), Swiss Franc (CHF) and British Pound (GBP). The limit for aggregate foreign currency open position is maintained within regulatory requirements. This reduces the risk exposure to any market fluctuations on the market and minimizes the potential FX revaluation impact in the profit and loss of the bank.

Rates for major currencies used in the translation of the reporting date items denominated in foreign currencies were as follows (in euro):

Compared to €	31 December 2019	31 December 2018
1 USD	1.1206	1.144
1 CHF	1.0845	1.126
1 GBP	0.8540	0.898

Interest rate risk

This is the risk that the relative value of an interest-bearing asset will lose in value. The Bank's assets being largely in mid to long fixed term loans, and liabilities being mainly short term deposits, exposes the Bank to a mismatch in interest rates, and consequently the corresponding gaps exposed the Bank to interest rate movements in the market.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates. In practice interest rates are generally fixed on a short-term basis. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. Under the interest rate SWAP contracts, the Bank agrees to exchange the difference between the fixed and floating rate interest amount calculated on agreed notional principal amounts. Cash in hand and balances with CBK on which no interest is paid are included in the "non-interest bearing" column in the below table as well as non-interest bearing deposits of customers.

In order to hedge for the gaps in fixed-mid to long term loans vs. variable short to mid-term debt, financial derivatives called Interest Rate Swaps are used, whereby Raiffeisen Bank Kosovo is mainly a fixed side interest payer, whereas in return the counterparty is variable rate payer, and the variable side is indexed to 6 months EURIBOR, to ensure optimal sensitivity.

Raiffeisen Bank Kosovo applies active risk management to hedge against market risk positions. Interest rate risk is partially hedged through financial derivatives. In order to ensure long term stability in the cash flow from existing loan portfolios, maturing from between 2020 to 2029 these positions are hedged through Interest Rate Swaps.

The Interest Rate Swaps are accounted for as banking book derivatives without hedge accounting. Interest Rate Swaps are measured at market value on each reporting date and any changes resulting from this are recognized in Profit and Loss of the year. The positions are measured using basis point value method.

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	40,856	-	-	-	82,821	123,677
Due from banks	35,483	-	-	-	-	35,483
Loans and advances to customers	6,054	20,213	121,130	522,101	-	669,498
Investment securities	148	21,770	16,901	111,220	-	150,039
Other assets	-	-	-	-	949	949
Total financial assets	**82,541**	**41,983**	**138,032**	**633,321**	**83,770**	**979,646**
Liabilities						
Deposits from customers	131,905	979	14,010	402	711,421	858,717
Deposits from banks	5,170	-	-	-	2,432	7,602
Subordinated debt	325	-	-	19,000	-	19,325
Other liabilities	-	-	-	-	7,888	7,888
Total financial liabilities	137,400	979	14,010	19,402	721,741	893,532
Net gap position at 31 December 2019	**(54,859)**	**41,004**	**124,002**	**613,919**	**(637,971)**	**86,114**

Zero interest deposits from customers in the amount of € 721,741 thousand are mainly current accounts of businesses and individuals. They do not have any contractual re-pricing or maturity dates, however the interest rates would respond in a short amount of time in response to changes in market interest rates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory liquidity reserve	7,600	-	-	-	104,432	112,032
Due from banks	23,941	-	-	-	792	24,733
Loans and advances to customers	34,396	34,626	188,024	336,156	-	593,202
Investment securities	35	15,097	38,732	69,858	-	123,722
Other assets	-	-	-	-	2,502	2,502
Total financial assets	65,972	49,723	226,756	406,014	107,726	856,191
Liabilities						
Deposits from customers	135,419	1,275	16,975	395	575,403	729,467
Deposits from banks	123	-	-	-	495	618
Subordinated debt	325	-	-	19,000	-	19,325
Other liabilities	-	-	-	-	11,585	11,585
Total financial liabilities	135,867	1,275	16,975	19,395	587,483	760,995
Net gap position at 31 December 2018	**(69,895)**	**48,448**	**209,781**	**386,619**	**(479,757)**	**95,196**

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using annual effective rates.

In percentage	2019				2018			
	EUR	USD	CHF	GBP	EUR	USD	CHF	GBP
Assets								
Due from banks	(0.4)	1.9	(0.3)	0.6	(0.2)	1.6	(0.5)	(0.4)
Government Bonds HTM yield	N/A	N/A	N/A	N/A	(0.3)	N/A	N/A	N/A
Government Bonds AFV yield	0.6	1.7	N/A	N/A	0.5	1.8	N/A	N/A
Government Bonds AFS yield	0.2	1.7	-	-	-	-	-	-
Loans and advances to customers	6.7	N/A	N/A	N/A	7.3	N/A	N/A	N/A
Liabilities								
Customer accounts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Term deposits	0.3	1.0	(0.1)	0.0	0.6	0.0	0.0	0.0
Savings accounts	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1

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

- Risk evaluation
- Risk control

Interest rate risk evaluation

Interest rate risk sensitivity is measured to quantify dependence of the present value of a position on a risk factor. The interest rate sensitivities, often referred to as basis point values (BPV), give the change of the present value in units of the reference currency, under the assumption that interest rates change by 200 bps. The Interest Rate risk is measured using VaR (Value at risk) approach. This approach implies a measurement scenario using 10 days duration and 99 per cent confidence interval. The VaR is measured at stress of 1bps shift in the Yield curve. This Scenario assumes the implication on Profit and loss account of the Bank, in case the yield curve moves in one or the other direction by 200 basis point. Below are presented BPV data as per 2019 and 2018:

	+200bps		-200bps			+200bps		-200bps	
Total IS Sensitivity 2019	Year1	Year2	Year1	Year2	Total IS Sensitivity 2018	Year1	Year2	Year1	Year2
	-0,02	4,860	- 3,220	-9,790		1,500	5,300	-3,700	-8,700

Value at risk as of 31 December 2019 is € 133 thousand (31 December 2018: € 234 thousand). The effect of interest rate risk on equity is similar to that on Profit and Loss. The results of the sensitivity analysis are presented to the management on a weekly basis, and are independently reviewed by RBI Vienna Risk Management.

Interest Rate Risk Control

The mechanism of control interest rate risk is utilized through the daily Basis Point Value (BPV) reports. The Bank currently has a BPV limit of € 50 thousand. For the purpose of measuring BPV, administered rate products are modelled using replicating portfolio. The Basis Point Value is measured per currency and per time band. The limits are also set for each currency and for different time bands.

4.5 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action

- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

4.6 Capital risk management

Regulatory capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Bank's overall strategy remains unchanged from previous year. The capital structure of the Bank consists of debt, which includes borrowings, and equity attributable to equity holders, comprising issued capital and retained earnings.

Capital requirements for operational risk

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, off balance-sheet items and other risks, expressed as a percentage. The minimum required Capital Adequacy Ratio is 8 per cent for Tier 1 capital and 12 per cent for total own funds. The Bank has met these regulatory requirements during and at the year end of 2019 and 2018.

Capital adequacy ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, off balance-sheet items and other risks, expressed as a percentage. The minimum required Capital Adequacy Ratio is 8 per cent for Tier 1 capital and 12 per cent for total own funds. The Bank has met these regulatory requirements during and at the year end of 2018 and 2017.

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. Six categories of risk weights (0 per cent, 20 per cent, 50 per cent, 75 per cent, 100 per cent, and 150 per cent) 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. Property and equipment carries a 100 per cent risk weighting, meaning that it must be supported by capital (Tier 1) equal to 8 per cent of the carrying amount. Risk weighted assets are calculated based on local regulatory requirements.

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.

	31 December 2019	31 December 2018
Total risk weighted assets	709,263	622,256
Total risk weighted off balance exposures	27,102	29,915
Total risk weighted assets for operational risk	55,259	53,228
Total	**791,624**	**705,399**
Regulatory capital (Total Capital)	127,963	132,704
Capital adequacy ratio (Total Capital)	16.16%	18.81%

The Bank's policy is to maintain a strong capital base 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 Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Gearing ratio

The Bank's risk management committee reviews the capital structure on a continuous basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. The gearing ratio at the year ended was as follow:

	2019	2018
Debt	20,646	19,449
Equity	127,410	127,664
Net debt to equity ratio	16%	15%

5 Fair value of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

5.1 Financial instruments not measured at fair value

Cash and cash equivalents and mandatory reserve

Cash and cash equivalents include inter-bank placements and items in the course of collection. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

Due from banks

Due from banks are consisted of term deposits and guarantees from other banks. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

Subordinated loan

Long term subordinated loan due to Raiffeisen Bank International has an estimated fair value approximately equal to its carrying amount because of its underlying floating interest rate.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

Assets	Carrying value 2019	Fair value Level 3 2019	Carrying value 2018	Fair value Level 3 2018
Loans and advances to customers	668,498	651,156	593,202	594,885
Liabilities				
Deposits from customers	858,717	858,717	729,467	729,962
Deposits from banks	7,602	7,602	618	618

5.2 Financial instruments measured at fair value- fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

31 December 2019				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	150,039	113,057	36,982	-
Financial investments at fair value through profit or loss	6,060	-	6,060	-
Financial investments at fair value through OCI	143,979	113,057	30,922	-
Derivatives	**687**	**687**	**-**	**-**
Derivatives held for risk management	687	687	-	-

31 December 2018				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	123,722	97,704	26,018	-
Financial investments at fair value through profit or loss	27,882	6,581	21,301	-
Financial investments at fair value through OCI	95,840	91,123	4,717	-
Financial investments held to maturity	-	-	-	-
Derivatives	**812**	**812**	**-**	**-**
Derivatives held for risk management (Note 18)	812	812	-	-

6 Credit loss expense

The table below shows the ECL charges on financial instruments for the year 2019 recorded in the income statement:

Credit loss expense 2019	Stage 1 Individual	Stage 1	Stage 2 Individual	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents and mandatory reserve and Due from banks	25	-	-	-	-	-	**25**
Loans and advances to customers		(443)	-	396	(4,957)	(630)	**(5,634)**
Debt instruments measured at FVOCI	(107)	-	-	-	-	-	**(107)**
Financial guarantees	-	-	-	-	-	-	**-**
Loan commitments	-	(21)	-	-	-	-	**(21)**
Letters of credit	-	-	-	-	-	-	**-**
							-
Total impairment loss	**(82)**	**(464)**	**-**	**396**	**(4,957)**	**(630)**	**(5,737)**

Credit loss expense 2018	Stage 1 Individual	Stage 1	Stage 2 Individual	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents and mandatory reserve and Due to banks	(25)	-	-	-	-	-	**(25)**
Loans and advances to customers	-	(599)	-	(96)	(3,471)	(472)	**(4,639)**
Debt instruments measured at FVOCI	(39)	-	-	-	-	-	**(39)**
Financial guarantees	-	(16)	-	(1)	-	-	**(17)**
Loan commitments	-	(158)	-	(15)	-	-	**(173)**
Letters of credit	-	-	-	-	-	-	**-**
							-
Total impairment loss	**(64)**	**(773)**	**-**	**(112)**	**(3,471)**	**(472)**	**(4,893)**

7 Changes in liabilities arising from financing activities

	1 January 2019	Cash flows	Declaration of Dividends	31 December 2019
Interest bearing borrowings Note 16	124	7,479	-	7,603
Dividends payable	-	(19,400)	19,400	-
Total liabilities from financing activities	**124**	**(11,921)**	**19,400**	**7,603**

	1 January 2018	Cash flows	Declaration of Dividends	31 December 2018
Interest bearing borrowings Note 16	8,478	(8,354)	-	124
Dividends payable	-	(17,500)	17,500	-
Total liabilities from financing activities	**8,478**	**(25,854)**	**17,500**	**124**

8 Cash and cash equivalents and mandatory reserve

	2019	2018
Cash on hand	60,071	59,132
Balances with the CBK	60,931	45,300
Correspondent accounts with other banks	2,675	7,625
Allowance for accounts with other banks	-	(25)
Total	123,677	112,032

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of € 82,821 thousand (31 December 2018: € 71,329 thousand). The liquidity reserve balance requirement is calculated on the basis of a simple average over a week and should be maintained as 10 per cent of bank deposits payable within one year. It consists of balances with CBK and 50 per cent of cash on hand. As such the balance can vary from day-to-day. This balance is excluded from cash and cash equivalents for the purposes of the cash flow statement. As at 31 December 2019 and 2018 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2019	2018
Total cash and cash equivalents and mandatory reserve	123,677	112,032
Less: Mandatory liquidity reserve	(82,821)	(71,329)
Cash and cash equivalents for the purposes of cash flow statement	40,856	40,703

No interest is earned in balances with CBK above the required minimum as CBK has adopted the 0 per cent rate for these balances for current reporting year and previous reporting year.

9 Due from banks

Term deposits deposits are placed with banks operating in OECD countries. The balance of due from banks includes accrued interest for € 2 thousand (31 December 2018: € 2 thousand). Guarantee deposits include an amount of € 808 thousand as at 31 December 2019 (31 December 2018: € 792 thousand) which represent restricted deposits with UOB Bank as card cash collateral. The Bank does not have the right to use these funds for the purposes of funding its own activities.

	2019	2018
Term deposits	34,675	23,941
Guarantee deposits	808	792
Allowances for impairment	-	-
Total due from banks	**35,483**	**24,733**

10 Investment securities

	2019	2018
Financial Investments at fair value through profit or loss	6,060	27,882
Debt securities at fair value through OCI	144,125	95,879
Allowances for impairment	(146)	(39)
Total investment securities	**150,039**	**123,722**

Financial Investments at fair value through profit or loss and debt securities at fair value through OCI as at 31 December 2019 represent one month to-five year bonds and treasury bills denominated in EUR and US dollar issued by Germany, Republic of France, Austria, United States of America, Netherlands, Finland, Poland, Slovakia, Bulgaria, EIB, KFW, Luxembourg and Republic of Kosovo (Government Treasury Bills). The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

		2019		
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing	-	-	-	-
Excellent	75,912	-	-	75,912
Strong	37,170	-	-	37,170
Good	-	-	-	-
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	31,043	-	-	31,043
Total	**144,125**	**-**	**-**	**144,125**

		2018		
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing	-	-	-	
Excellent	53,868	-	-	53,868
Strong	37,288	-	-	37,288
Good	-	-	-	-
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	4,723	-	-	4,723
Total	**95,879**	**-**	**-**	**95,879**

The movements in gross carrying amounts and the corresponding ECLs for the debt securities at fair value through OCI are, as follows:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Fair value as at 1 January 2019	95,879	-	-	95,879
New assets originated or purchased	84,984	-	-	84,984
Assets derecognised or matured	(37,604)	-	-	(37,604)
Change in fair value	866	-	-	866
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not recognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**144,125**	**-**	**-**	**144,125**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Fair value as at 1 January 2018	102,726	-	-	102,726
New assets originated or purchased	60,349	-	-	60,349
Assets derecognised or matured	(66,918)	-	-	(66,918)
Change in fair value	(278)	-	-	(278)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not recognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**95,879**	**-**	**-**	**95,879**

	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	(39)	-	-	(39)
New assets originated or purchased	(107)	-	-	(107)
Assets derecognised or matured	-	-	-	-
Change in fair value (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	**(146)**	**-**	**-**	**(146)**

	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2018	-	-	-	-
New assets originated or purchased	(39)	-	-	(39)
Assets derecognised or matured	-	-	-	-
Change in fair value (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**(39)**	**-**	**-**	**(39)**

11 Loans and advances to customers

	2019	2018
Corporate Customers		
Current and restructured loans	262,691	253,593
Overdraft facilities	45,581	43,056
	308,272	**296,649**
Retail Customers		
Current and restructured loans	361,047	303,883
Overdraft facilities	18,099	14,661
	379,146	**318,544**
Loans and advances to customers	**687,418**	**615,193**
Less: Allowance for impairment	(17,920)	(21,991)
Loans and advances to customers, net	**669,498**	**593,202**

Loans and advances to customers include accrued interest income for € 2,524 thousand (31 December 2018: € 2,016 thousand).

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

Gross carrying amount and the corresponding loss allowances for total loans are, as follows:

					2019	2018
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	-	-	-	-	-	-
Strong	3,849	1	-	-	3,850	-
Good	285,093	1,808	-	13	286,913	267,106
Satisfactory	195,626	9,280	-	19	204,925	245,772
Substandard	15,503	11,951	-	155	27,610	35,222
Credit impaired	-	-	16,580	1,538	18,118	19,646
Unrated	143,303	2,181	-	518	146,002	47,447
Total	**643,374**	**25,221**	**16,580**	**2,243**	**687,418**	**615,193**

An analysis of changes in the gross carrying amount and the corresponding loss allowances for total loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2019	557,620	37,498	19,244	831	615,193
New assets originated or purchased	387,453	11,789	3,097	1,560	403,899
Assets derecognised or repaid	(216,635)	(19,836)	(2,446)	(73)	(238,990)
Transfers to Stage 1	6,711	(6,603)	(108)	-	0
Transfers to Stage 2	(9,852)	9,969	(117)	-	0
Transfers to Stage 3	(4,367)	(3,662)	8,029	-	0
Changes due to change in credit risk (net)	(77,477)	(3,932)	(1,504)	(65)	(82,978)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	0	-	-	-
Amounts written off	(79)	(2)	(9,615)	(10)	(9,706)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2019	**643,374**	**25,221**	**16,580**	**2,243**	**687,418**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 01 January 2019	2,466	2,155	16,803	567	21,991
New assets originated or purchased	1,707	788	1,740	635	4,870
Assets derecognised or repaid	(861)	(499)	(1,265)	(26)	(2,651)
Transfers to Stage 1	56	(54)	(2)	-	-
Transfers to Stage 2	(665)	675	(10)	-	-
Transfers to Stage 3	(2,630)	(2,774)	5,404	-	-
Changes due to change in credit risk (net)	2,837	1,468	(909)	19	3,415
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(78)	(2)	(9,615)	(10)	(9,705)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2019	**2,832**	**1,757**	**12,146**	**1,185**	**17,920**

An analysis of changes in the gross carrying amount and the corresponding loss allowances for total loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	492,359	32,443	29,001	166	553,969
New assets originated or purchased	334,593	-	-	687	335,280
Assets derecognised or repaid	(169,769)	(20,957)	(1,823)	(10)	(192,559)
Transfers to Stage 1	5,436	(5,428)	(8)	-	-
Transfers to Stage 2	(36,268)	37,981	(1,713)	-	-
Transfers to Stage 3	(2,961)	(1,591)	4,552		-
Changes due to change in credit risk (net)	(65,688)	(4,933)	(6,865)	(12)	(77,498)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(82)	(17)	(3,900)	-	(3,999)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2018	**557,620**	**37,498**	**19,244**	**831**	**615,193**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 01 January 2018	1,894	2,051	17,313	93	21,351
New assets originated or purchased	2,521	-	-	496	3,017
Assets derecognised or repaid	(512)	(501)	(582)	(7)	(1,602)
Transfers to Stage 1	33	(33)	-	-	-
Transfers to Stage 2	(1,418)	1,553	(135)	-	-
Transfers to Stage 3	(1,575)	(1,144)	2,719	-	-
Changes due to change in credit risk (net)	1,605	246	1,388	(15)	3,224
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(82)	(17)	(3,900)	-	(3,999)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2018	**2,466**	**2,155**	**16,803**	**567**	**21,991**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity, was nil at 31 December 2019 (2018: nil).

Non – retail loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

					2019	2018
Internal rating grade	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Performing	-	-	-	5,593	-	-
Excellent	-	-	-	-	-	-
Strong	3,849	3	-	-	3,852	-
Good	145,376	477	-	13	145,853	104,622
Satisfactory	124,372	5,817	-	19	130,189	153,456
Substandard	11,849	9,398	-	155	21,247	24,503
Credit impaired	-	-	5,593	1,538	7,131	14,068
Unrated	-	-	-	518	-	-
Total	**285,446**	**15,695**	**5,593**	**1,538**	**308,272**	**296,649**

An analysis of changes in the gross carrying amount and the corresponding loss allowances for non-retail loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2019	258,840	23,741	13,668	400	296,649
New assets originated or purchased	195,534	7,724	2,139	1,141	206,538
Assets derecognised or repaid	(136,604)	(17,059)	(1,666)	0	(155,329)
Transfers to Stage 1	3,139	(3,139)	-	-	0
Transfers to Stage 2	(6,163)	6,163	0	-	0
Transfers to Stage 3	(743)	(462)	1,205	-	0
Changes due to change in credit risk (net)	(28,556)	(1,273)	(985)	(3)	(30,817)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(1)	0	(8,768)	-	(8,769)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2019	**285,446**	**15,695**	**5,593**	**1,538**	**308,272**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2019	760	301	12,331	400	13,792
New assets originated or purchased	314	212	1,150	355	2,034
Assets derecognised or repaid	(510)	(208)	(817)	0	(1,534)
Transfers to Stage 1	5	(5)	0	-	0
Transfers to Stage 2	(109)	109	0	-	0
Transfers to Stage 3	(87)	(233)	319	-	0
Changes due to change in credit risk (net)	19	208	(578)	(2)	(356)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(1)	0	(8,768)	-	(8,769)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2019	**391**	**385**	**3,636**	**754**	**5,166**

An analysis of changes in the gross carrying amount and the corresponding loss allowances for non-retail loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	235,886	18,196	24,322	-	278,404
New assets originated or purchased	174,165	-	-	400	174,565
Assets derecognised or repaid	(98,177)	(12,641)	(1,188)	-	(112,006)
Transfers to Stage 1	1,896	(1,896)	-	-	-
Transfers to Stage 2	(20,544)	22,156	(1,612)	-	-
Transfers to Stage 3	(749)	(196)	945	-	-
Changes due to change in credit risk (net)	(33,637)	(1,878)	(5,953)	-	(41,468)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(2,846)	-	(2,846)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2018	**258,840**	**23,741**	**13,668**	**400**	**296,649**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018	219	280	13,760	-	14,259
New assets originated or purchased	905	0	-	400	1,305
Assets derecognised or repaid	(84)	(219)	(359)	-	(662)
Transfers to Stage 1	2	(2)	-	-	-
Transfers to Stage 2	(160)	285	(125)	-	-
Transfers to Stage 3	(410)	(103)	513	-	-
Changes due to change in credit risk (net)	288	60	1,388	-	1,736
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(2,846)	-	(2,846)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2018	**760**	**301**	**12,331**	**400**	**13,792**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity, was nil at 31 December 2019 (2018: nil).

Retail loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

Gross carrying amount and the corresponding loss allowances for retail loans are, as follows:

					2018	2017
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	-	-	-	-	-	-
Strong	-	-	-	-	-	-
Good	139,716	1,330	-	13	141,059	162,484
Satisfactory	71,255	3,463	-	19	74,737	92,317
Substandard	3,655	2,553	-	155	6,363	10,718
Credit impaired	-	-	10,987	-	10,987	5,578
Unrated	143,301	2,181	-	518	146,000	47,447
Total	**357,927**	**9,527**	**10,987**	**705**	**379,146**	**318,544**

An analysis of changes in the gross carrying amount and the corresponding loss allowances for retail loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2019	298,780	13,757	5,576	431	318,544
New assets originated or purchased	191,918	4,065	958	419	197,360
Assets derecognised or repaid	(80,031)	(2,776)	(779)	(73)	(83,659)
Transfers to Stage 1	3,572	(3,464)	(108)	-	0
Transfers to Stage 2	(3,689)	3,806	(117)	-	0
Transfers to Stage 3	(3,624)	(3,200)	6,824	(72)	(72)
Changes due to change in credit risk (net)	(48,921)	(2,659)	(520)	-	(52,100)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(78)	(2)	(847)	(0)	(927)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2019	**357,927**	**9,527**	**10,987**	**705**	**379,146**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2019	1,706	280	4,472	167	8,199
New assets originated or purchased	1,393	0	591	280	2,839
Assets derecognised or repaid	(351)	(219)	(449)	(36)	(1,127)
Transfers to Stage 1	51	(2)	(2)	-	0
Transfers to Stage 2	(556)	285	(10)	-	0
Transfers to Stage 3	(2,543)	(103)	5,085	-	0
Changes due to change in credit risk (net)	2,819	60	(330)	22	3,770
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(78)	-	(847)	(0)	(927)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2019	**2,440**	**301**	**8,509**	**432**	**12,754**

An analysis of changes in the gross carrying amount and the corresponding loss allowances for retail loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	256,473	14,247	4,679	166	275,565
New assets originated or purchased	160,428	-	-	287	160,715
Assets derecognised or repaid	(71,592)	(8,316)	(635)	(10)	(80,553)
Transfers to Stage 1	3,540	(3,532)	(8)	-	-
Transfers to Stage 2	(15,724)	15,825	(101)	-	-
Transfers to Stage 3	(2,212)	(1,395)	3,607	-	-
Changes due to change in credit risk (net)	(32,051)	(3,055)	(912)	(12)	(36,030)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(82)	(17)	(1,054)	-	(1,153)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2018	**298,780**	**13,757**	**5,576**	**431**	**318,544**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018	1,675	1,771	3,553	93	7,092
New assets originated or purchased	1,616	-	-	96	1,712
Assets derecognised or repaid	(428)	(282)	(223)	(7)	(940)
Transfers to Stage 1	31	(31)	0	-	-
Transfers to Stage 2	(1,258)	1,268	(10)	-	-
Transfers to Stage 3	(1,165)	(1,041)	2,206	-	-
Changes due to change in credit risk (net)	1,317	186	-	(15)	1,488
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(82)	(17)	(1,054)	-	(1,153)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2018	**1,706**	**1,854**	**4,472**	**167**	**8,199**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2019 (2018: nil).

As at 31 December 2019 the Bank has 527 borrowers (31 December 2018: 329 borrowers) with aggregated loan amounts above € 100 thousand. The aggregate amount of these loans is € 275,024 thousand or 40 per cent of the gross loan portfolio (31 December 2018: € 290,122 thousand or 47 per cent of the gross loan portfolio).

The Bank manages individual counterparty exposures in order to be compliant with the regulations of the Central Bank that require individual counterparty exposures not to exceed 15 per cent of Tier I Capital or € 17,031 thousands.

As at 31 December 2019, there is no counterparty (2018: no counterparty) with exposure above 15 per cent of the limit after obtaining regulatory approval. In addition, the cumulative exposure of the top 10 clients of the bank is € 120,144 thousand, (2018: € 104,892 thousand).

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

	2019	%	2018	%
Trade	158,156	23%	174,807	28%
Individuals	431,818	63%	364,464	59%
Manufacturing, chemical and processing	55,567	8%	47,684	6%
Service	13,548	2%	14,471	2%
Construction and construction servicing	7,879	1%	7,817	1%
Food industry and agriculture	19,810	3%	5,329	1%
Other	640	0%	621	0%
Total loans and advances to customers before allowance for loan impairment	**687,418**	**100%**	**615,193**	**100%**

12 Other assets

	2019	2018
Prepayments and advances for services	642	413
Due from Visa and MasterCard	949	2,502
Repossessed properties	122	182
Total other assets	**1,713**	**3,097**

Repossessed properties are booked using the purchase value during the repossession procedure. In case the assets are not sold the value of the assets will be depreciated by 20% on annual basis. This value is considered to reflect the fair value of these assets in absence of an active market. This treatment is in line with Central bank regulation for holding and valuation of repossessed assets.

13 Investments in subsidiaries

	2019	2018
Investment in Raiffeisen Leasing Kosovo	2,227	2,227
Investment in Raiffeisen Insurance Broker Kosovo	7	7
Total investments in subsidiaries	**2,234**	**2,234**

The table below provides details of the significant subsidiaries of the Bank:

		Ownership interest	
Subsidiary	**Principal place of business**	**2019**	**2018**
Raiffeisen Leasing Kosovo	Kosovo	100%	100%
Raiffeisen Insurance Broker Kosovo	Kosovo	70%	70%

The Bank does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. Banking subsidiaries must comply with rules and regulations applicable for other financial institutions and in consolidation level must comply in addition with banking rules and regulations.

Dividend received from Raiffeisen Leasing Kosovo LLC during 2019 is € 719 thousands (2018: € 647 thousands) and from Raiffeisen Insurance Broker is € 85 thousands (2018: € 427 thousands).

14 Property, equipment and intangible assets

There has been an investment of € 19,200 thousands in the current reporting year in the property to be used for Bank's own purposes. There has been no such investment in the previous year. The property is still under construction and has not been depreciated in the current year. The completion of the construction is expected in 2019 and the premises will be depreciated over the useful life of the asset.

	2019	2018
Property, plant and equipment owned	36,510	29,891
Right-of-use assets (ROU) IFRS 16	2,748	-
Property, Plant and Equipment	**39,258**	**29,891**

The Bank leases many assets including buildings, vehicles and IT equipment. Information about leases for which the Bank is a lessee is presented below.

	2019			
	Property	Vehicles	IT equipment	Total
Balance at 1 January	-	-	-	-
Correction of opening balances	2,676	-	-	2,676
Additions in current year	872	32	92	996
Depreciation charge for the year	(917)	(1)	(7)	(924)
Balance at 31 December	**2,631**	**31**	**85**	**2,748**

The following table presents the maturity analysis – contractual undiscounted cash flows of the lease liability:

	2019
Less than one year	1,055
One to five years	2,096
More than five years	20
Total undiscounted lease liabilities at 31 December	**3,171**
Lease liabilities included in Note 18 as at 31 December	**2,809**

Amounts recognized in the profit or loss of the Bank for the year ended 31 December 2019:

	2019
Interest on lease liabilities IFRS 16	(146)
Expenses relating to short-term leases & low-value leases	(848)
Depreciation of ROU	(924)
Total expenses from leases	**(1,918)**

	Buildings and Land used for own purposes	IT Equipment	Other Equipment and leasehold improvements	Intangible assets	Total
Cost Opening Balance as at 1 January 2019	21,676	13,233	8,439	17,178	60,527
Additions	2,885	2,244	3,556	1,940	10,625
Disposals	-	(884)	(1,581)	(135)	(2,601)
As at 31 December 2019	24,561	14,593	10,414	18,983	68,551
Accumulated depreciation and amortisation					
Opening Balance as at 1 January 2019	-	10,516	6,079	14,040	30,635
Depreciation/amortisation charge for the year (Note 25)	37	1,027	882	1,909	3,855
Eliminated on disposals	-	(862)	(1,556)	(18)	(2,449)
As at 31 December 2019	37	10,668	5,405	15,931	32,041
Net book value at 31 December 2019	24,524	3,925	5,009	3,052	36,510

	Buildings and Land used for own purposes - work in progress	IT Equipment	Other Equipment and leasehold improvements	Intangible assets	Total
Cost Opening Balance as at 1 January 2018	2,392	12,321	7,939	15,917	38,569
Additions	19,284	1,219	1,257	1,262	23,022
Disposals	-	(307)	(757)	-	(1,064)
Cost					
As at 31 December 2018	21,676	13,233	8,439	17,178	60,527
Accumulated depreciation and amortisation					
Opening Balance as at 1 January 2018	-	9,931	6,105	12,400	28,436
Depreciation/amortisation charge for the year (Note 25)	-	888	722	1,640	3,248
Eliminated on disposals	-	(302)	(747)	-	(1,050)
As at 31 December 2018	-	10,516	6,079	14,040	30,635
Net book value at 31 December 2018	21,676	2,719	2,360	3,139	29,891

As at 31 December 2019 and 2018 there are no property, equipment and intangible assets encumbered of pledged to secure bank liabilities.

15 Due to banks

	2019	2018
Borrowings		
Overdrawn accounts used for operational purposes with other commercial Banks – OECD Countries	5,170	124
Deposits		
Other commercial banks – non OECD Countries	2,432	494
Total due to banks	7,602	618

Interest on the overdrawn accounts as of 31 December 2018 is as follows (accounts based on ccy): EUR 0.661%, USD 7.25%, CHF 6.5%, GBP 2.8%

16 Deposits from customers

	2019	2018
Corporate customers:		
Current accounts	155,019	98,597
Savings accounts	3,087	5,762
Term deposits	10,030	11,913
	168,136	**116,272**
Retail customers:		
Current accounts	556,402	476,807
Savings accounts	128,256	129,142
Term deposits	5,923	7,246
	690,581	**613,195**
Total customer accounts	**858,717**	**729,467**

As at 31 December 2019, customer accounts include accrued interest for € 31 thousand (31 December 2018: € 11 thousand). As at 31 December 2019 the Bank has 862 customers each with balances above € 100 thousand (31 December 2018: 792customers). The aggregate balances of these customers are € 272,822 thousand or 32 per cent of total customer accounts (31 December 2018: € 237,847 thousand or 32 per cent of total customer accounts).

17 Financial liabilities measured at fair value

The Bank uses other derivatives, not designated in a qualifying hedge relationship to manage its exposure to interest rate risks. The instruments used are interest rate swaps.

The Bank pays fixed and receives variable interest rates. The net valuation result of these contracts for the year ended 31 December 2019 was a gain of € 81 thousand (2018: a gain of € 115 thousand). Fair value of SWAP contracts as at 31 December 2019 was loss of € 687 thousand and reported as liability (2018: loss of € 812 thousand). Details of related party balances are presented in Note 29.

	2018	2017
Opening balance 01 January	812	1,100
Accrued interest on the SWAP paid	(44)	(173)
Change from fair value	(81)	(115)
Fair value as of 31 December	**687**	**812**

18 Provisions and other liabilities

	2019	2018
Clearing deposits from payment transfer business	528	3,007
Deferred income	150	113
Accrued staff costs	367	1,188
Payables to suppliers	2,580	1,230
Payable to CBK from clearing business	-	2,804
Accrued operating expenses	417	451
Other taxes payable	344	260
Lease liability IFRS 16 (Note 14)	2,809	-
Other	156	1,183
Other liabilities	**7,351**	**10,236**
Provision for litigations and off balance sheet credit exposures (see below)	**579**	**537**

Clearing deposits comprise clearing accounts for debit and credit cards, payments and other items. Clearing deposits from payment transfer business comprise bank's suspense accounts which result in debit balance in amount of € 389 thousand as at 31 December 2019 (31 December 2018: € 407 thousand).

Deferred income as at 31 December 2019 and 31 December 2018 represents the amount of deferred fees for customer overdrafts.

Movements in the provision for litigations and off balance sheet credit exposures are as follows:

	2019	2018
Provision for litigations and off-balance sheet credit exposures at the beginning of the year	**537**	**248**
Provision / (release of provision) for off balance sheet credit exposures (note 6)	21	190
Provision / (release of provision) for legal litigations (note 25)	21	226
Usage of previous year provisions	-	(127)
Provision for litigations and off-balance sheet credit exposures at the end of the year	**579**	**537**

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

	2019	2018
Provision for off balance sheet credit exposures	370	349
Provision for litigations	209	188
Total Provision	**579**	**537**

For more details regarding off balance sheet credit commitments, refer to Note 28.

19 Subordinated loan

Subordinated loan consists of the loan issued by Raiffeisen Bank International, the following are the balances for year 2019 and 2018:

	2019	2018
Subordinated loan	19,325	19,325
Total	**19,325**	**19,325**

The subordinated loan bears an annual interest rate of 8.95 per cent (2018: 8.95 per cent). The subordinated loan is repayable on 22 August 2023. There are no covenants in relation to the subordinated loan. The loan is included in the bank's Tier 2 capital and reduced by 40 per cent as of 31 December 2019 based on CBK eligibility criteria.

20 Shareholder's equity

Share capital

Authorised and registered share capital of the Bank comprises 100 shares of common stock. Raiffeisen Bank International AG is ultimate parent. The structure of the share capital of the Bank as at 31 December 2019 and 2018 is as follows:

	2019			2018		
Shareholder	Number of shares	Amount in thousands EUR	Voting share	Number of shares	Amount in thousands EUR	Voting share
Raiffeisen SEE Region Holding GmbH	100	63,000	100%	100	63,000	100%

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

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets carried at fair value through OCI, until the assets are derecognised or impaired.

21 Interest income and expense

	2019	2018
Interest income at effective interest		
Loans and advances to customers	43,311	42,049
Financial investments	1,140	983
Due from banks	216	213
Total interest income	**44,667**	**43,245**
Interest expense		
Deposits from customers	(101)	(99)
Due to banks	(3)	3
Due from banks	(104)	(69)
Derivative financial instruments (non-trading)	(179)	(333)
Subordinated loan	(1,918)	(1,906)
Other interest expense	(348)	(9)
Total interest expense	(2,653)	(2,413)
Net interest income	**42,014**	**40,832**

22 Fee and commission income and expense

	2019	2018
Payments transfer business	15,732	15,090
Loan administration and guarantee business	898	870
Foreign currency business	1,522	1,570
Other banking services	22	39
Total fee and commission income	**18,174**	**17,569**
Payment transfer business	(6,868)	(5,966)
Other banking services	(1,007)	(844)
Total fee and commission expense	**(7,875)**	**(6,810)**

23 Other operating income

	2019	2018
Profit from fixed assets disposal	65	64
Profit from sale of repossessed assets	16	380
Other income	1,323	690
Total other operating income	1,404	1,134

Other income consists of non-banking support services provided to RBI & other RBI network subsidiaries primarily related to IT and Internal Audit function.

24 Personnel expenses

	2019	2018
Salaries and wages	12,261	10,909
Pension contributions	637	1,288
Other voluntary social expenses	620	606
Share incentives	-	12
Total personnel expenses	13,518	12,815

The Raiffeisen International management having regard to the performance of individuals and market trends determines the remuneration of directors and key executives. The Managing-Board-related expense for 2019 amounted to € 1,002 thousand (2018: € 827 thousand). The Share incentive program is also managed by Raiffeisen International HO in Vienna and the potential management remunerations are done based on the group performance policies.

25 Other operating expenses

	2019	2019
Office space expenses (rental, maintenance, other)	1,827	2,828
Depreciation of property and equipment and ROU	2,870	1,611
IT cost	2,140	2,098
Advertising, PR and promotional expenses	1,242	1,007
Security expenses	961	861
Amortization of intangible assets	1,909	1,639
Other administrative expense	482	247
Communication expenses	177	270
Office supplies	217	217
Legal, advisory and consulting expenses	1,900	1,706
Training expenses for staff	335	320
Deposit insurance fees	1,270	1,157
Car maintenance and running expenses	272	302
Travelling expenses	288	256
Expenses on provision for legal litigations	21	226
Total other operating expenses	15,911	14,745

26 Income tax expense

	2019	2018
Current tax charge	2,253	2,745
Deferred taxation	(24)	(228)
Income tax expense for the year	**2,229**	**2,517**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2018: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

		2019		2018
Profit before taxation		20,510		23,022
Tax charge for the year at the applicable statutory rate	10%	2,051	10%	2,302
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	1%	202	2%	443
Current tax charge (effective income tax rate)	**11%**	**2,253**	**12%**	**2,745**

Differences between IFRS financial statements and Kosovo statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 10 per cent. The temporary differences in impairment provisions is calculated as the difference between IFRS impairment provision and the impairment as per Central Bank Regulations which are also deductible for tax purposes. These differences are represented in the table below.

	2018	Movement during 2019	2019
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	(151)	151	-
Term deposits – accrued interest	1	-	1
Other legal provisions	19	2	21
Gross deferred tax asset/(liability)	(131)	153	22
Tax effect of taxable temporary differences			
Loan impairment provision	(47)	(43)	(90)
Provision for off-balance sheet credit exposure	(76)	4	(72)
Property, equipment and intangible assets	-	(90)	(90)
Total net deferred tax (liability)	**(254)**	**24**	**(230)**

	2017	Movement during 2018	2018
Tax effect of deductible temporary differences			
Leasehold improvements, equipment and intangible assets	(36)	(115)	(151)
Term deposits – accrued interest	51	(50)	1
Other legal provisions	-	19	19
Gross deferred tax asset/(liability)	15	(146)	(131)
Tax effect of taxable temporary differences			
Loan impairment provision	(366)	319	(47)
Provision for off-balance sheet credit exposure	(131)	55	(76)
Total net deferred tax (liability)	**(482)**	**228**	**(254)**

27 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. As at 31 December 2019, the Bank had a number of legal cases pending in the court. On the basis of internal judgement based on previous court rulings and Management decision, the Bank has made a provision of € 209 thousand (2018 € 188 thousand) as the nearest estimate of possible cash outflows arising from possible court decisions.

Capital commitments. As at 31 December 2019 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2018: Nil).

Operating lease commitments. The future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, and are excluded from IFRS 16 on the basis of short term or low-value leases are as follows:

	2019	2018
Not more than 1 year	247	312
More than 1 year and not more than 5 years	-	-
Total operating lease commitments	**247**	**312**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives. Unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, they are considered to be "regular way" transactions.

Outstanding credit related commitments are as follows:

	2019	2018
Commitments to extend credit	44,247	35,757
Guarantees (credit facility)	35,047	41,585
Guarantees (cash covered)	3,370	2,633
Letters of credit (credit facility)	3,383	3,887
Letters of credit (cash cover)	-	86
Trade Finance line of credit	8,535	5,819
Stand by letter of credit	2,152	80
Total credit related commitments	**96,734**	**89,8474**
Allowance for credit related commitments (Note 18)	(370)	(349)
Net credit related commitments	**96,364**	**89,498**

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

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

Tax Commitments

As of reporting date 31 December 2019 the bank was not subject to any ongoing tax inspection. However, the inspection for year 2009 (re-control), initiated in 2016 was closed in actual reporting year. The publication of public ruling from the tax administration on tax treatment of loan loss provisions has removed a number of existing uncertainties which where faced by Kosovo Banks.

Interest Rate SWAPS. The main purpose of these instruments is to mitigate the interest rate risk associated to the fixed rate lending. As of 31 December 2019, the Bank has six interest rate SWAP contracts with a notional amount of € 6,630 thousand (2018: € 28,930 thousand).

28 Related party transactions

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

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

	2019			2018		
	Parent	Subsidiaries	Other related party	Parent	Subsidiaries	Other related party
Assets	**1,355**	**3,243**	**88**	**2,339**	**5,298**	**-**
Cash and cash equivalents and mandatory reserve	863	-	-	631	-	-
Due from banks	-	-	-	-	-	-
Loans and advances to customers	-	1,009	-	-	3,061	-
Other Loans	-	-	-	-	-	-
Other assets	369	-	-	1,442	-	-
Investments in subsidiaries	-	2,234	-	-	2,234	-
Property, equipment and intangible assets - NBV	123	-	88	266	3	-
Liabilities	**20,493**	**-**	**896**	**20,044**	**-**	**132**
Customer accounts						
Due tobanks	1,320	-	896	124	-	122
Subordinated debt	19,325	-	-	19,325	-	-
Other liabilities	298	-	-	595	-	10

Statement of profit and loss and other comprehensive income	**(4,200)**	**844**	**(668)**	**(3,993)**	**1,119**	**(605)**
Interest income	-	37	-		45	-
Interest expense	(2,099)	-	(2)	(2,248)	-	-
Dividend Income	-	803	-	-	1,074	-
Net fees and commission		-	(1,099)		-	(947)
Net valuation result financial instruments carried at fair value	87	-	-	252	-	-
Other operating Income	772	4	507	874	-	342
Other operating Expenses	(2,489)	-	(74)	(2,355)	-	-
Off Balance Sheet		**3,989**	**-**	**-**	**2,149**	**-**
Guarantees		3,989	-	-	2,149	-
Letter of credit		-	-	-	-	-
Other commitments	-	3,989	-	-	-	-

In the following table are presented management remuneration for the year ended 31 December 2019 and 2018:

	2019	**2018**
Management Remuneration	1,002	827

29 Subsequent events

In the light of development of pandemic crises with COVID 19 on a global scale, the impact it will have in the global economy cannot be neglected and will continue for some time as the world is facing a new type of threat not seen before.

This crisis will also have a direct impact for businesses operating in Kosovo by government measures to close schools, close a number of non-essential businesses and limit people movement until a new notice. As result, the Central Bank of Kosovo jointly with Kosovo Banking Association have issued a statement on 16th of March 2020 in order to assist the government in addressing the potential difficulties of businesses. The statements calls for a moratorium on instalment payments for a period from agreement date until 30th of April 2020 with an open possibility that this period is further extended depending on the pandemic crisis development.

The bank has supported this initiative and has contacted bank customers with active credit products in order to make it possible for them to benefit from this principal payment moratorium, in case of Raiffeisen Bank a moratorium of 3 months until end of June has been pre-approved for all clients willing to make a simple application through email or SMS. Based on the joint statement the applications will be done on a case by case basis and no additional charges or penalties will be applied. Also, this moratorium will not be considered as trigger for credit impairment of loans and shall not be taken into consideration when reporting to the Credit Registry of Kosovo. The moratorium should not trigger a customer credit deterioration also based on a statement from EU regulators like EBA and ESMA, which issued a statement on the financial reporting aspects in light of COVID-19 measures on 25 March 2020. Both statements are consistent and should be read jointly as regards the aspects related to IFRS9.

IFRS 9 is based on a set of principles that, by nature are not mechanistic and require the application of a certain degree of judgment. The significant increase in credit risk is required to be assessed based on the identification of significant changes over the total expected life of the exposure.

Impact on the bank

The bank has taken a number of measures to manage the current global pandemic thus reduce the number of staff in the office, adjust working hours based on the authorities recommendations, make it possible for staff to work remotely from home and manage the business with priority on customer services and liquidity management.

The bank has adopted the CBK statement for loan payment moratorium and is modifying the payment schedules for all bank customers who did apply for this financial relief.

The bank is monitoring on daily basis its liquidity position and reporting to Central Bank of Kosovo. Our current liquidity position is favourable to deal with current crisis and we do not expect to have any liquidity difficulties during the crisis.

Based on actual data and current developments on the ground the bank continues to be above capital requirements and liquidity level requirements. The bank continues to offer all regular services for its customers and business as usual in all its physical presence throughout Kosovo.

There are no significant events after the reporting date, except for the above, that may require adjustment or disclosure in the separate financial statements.

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