Annual Report 2020

Raiffeisen BANK Kosovo

Survey of key data

Raiffeisen Bank Kosovo J.S.C.			
Monetary values are in € million	2020	2019	Change
Income statement	1/1-31/12	1/1-31/12	
Net interest income after provisioning	38.1	37.3	2.2%
Net commission income	9.4	10.3	-8.5%
Net income from financial instruments at fair value through profit or loss	0.1	0.1	-13.9%
Trading profit/loss	(0.0)	0.1	-113.2%
Other operating income	1.7	2.2	-21.0%
General administrative expenses	(30.8)	(29.4)	4.7%
Profit before tax	18.5	20.5	-9.9%
Profit after tax	16.7	18.3	-8.9%
Earnings per share	N/A	N/A	N/A
Balance sheet			
Loans and advances to banks	28.6	35.5	-19.5%
Loans and advances to customers	709.5	669.5	6.0%
Deposits and borrowings from banks	26.9	7.6	253.6%
Deposits from customers	915.6	858.7	6.6%
Equity (incl. minorities and profit)	144.1	127.4	13.1%
Balance-sheet total	1,116.0	1,021.9	9.2%
Local regulatory information			
Risk-weighted assets B2, incl. market risk and ops. risk	835.1	791.6	5.5%
Total own funds	129.2	128.0	1.0%
Total own funds requirement	100.2	95.0	5.5%
Excess cover ratio	28.9%	34.7%	-5.8 PP
Core capital ratio (Tier 1)	13.7%	14.3%	-0.6 PP
Total own funds ratio	15.5%	16.2%	-0.7 PP
Performance			
Return on equity (ROE) before tax	14.5%	17.7%	-3.3 PP
Return on equity (ROE) after tax	13.1%	18.4%	-5.3 PP
Cost/income ratio	54.1%	53.7%	0.4 PP
Return on assets (ROA) before tax	1.8%	2.2%	-0.4 PP
"Net provisioning ratio (average risk-weighted assets B3 in banking book)"	1.4%	0.9%	0.5 PP
Risk/earnings ratio	21.0%	11.2%	9.8 PP
Resources			
Number of staff (FTE)	802	870	-7.8%
Business outlets	41	45	-8.9%

Content

Report of the Supervisory Board

Ladies and Gentlemen,

Given the unprecedented and unpredictable consequences of the COVID-19 pandemic the financial performance of Raiffeisen Bank Kosovo in 2020 exceeded expectations. The bank maintained its number one market position on all key performance indicators such as market share on loans and deposits, net profit, branch network and number of customers.

During the 2020 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 88 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 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 close contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the 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.

The most important issues consistently discussed at each Supervisory Board meeting during 2020 were the consequences and management of the COVID-19 pandemic. These discussions included staff welfare and safety, the new working environment, the accelerated development of digital banking services, the risk management issues created by the pandemic, the macro-economic environment and the political situation.

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

On behalf of the Supervisory Board,

Peter Lennkh,
Chairman of the Supervisory Board

Report of the Management Board

2020 was an unprecedented year where the main priorities were the health of our staff and the uninterrupted provision of banking services for our all our customers in the challenging environment created by the COVID-19 pandemic. Given this background, the performance of Raiffeisen Bank Kosovo J.S.C exceeded expectations and this was reflected in not only in our financial performance but also in our measures of customer satisfaction where we achieved the highest Net Promoter Score of any bank in Kosovo in 3 of our 4 customer segments and were second best in the remaining segment.

Kosovo's Gross Domestic Product in 2020 fell to a negative 5.1 per cent at the end of third quarter and this was a major factor in the reduction of the bank's net profit compared to 2019. The 2020 net profit after tax was €16.7 million compared to €18.3 million in 2019.

Despite the lockdown of the country for several months during 2020 our loan portfolio increased by 6.7 per cent year on year and deposits increased by 8.1 per cent to € 983 million creating a very acceptable loan deposit ratio of 78.2 per cent.

Of particular note in 2020 was our proactive and socially responsible loan moratorium program which enabled all our borrowers to temporarily defer loan payments for up to 15 months. At one point during the year more than 60 per cent of our loan portfolio was in the moratorium and it was a key factor in finishing the year with a low Non Performing Loan Ratio of 3.27 per cent.

The operating environment in 2020 also created a significant increase in non branch activities with 21 per cent of private individual customers using our new internet and mobile banking platform Raiffeisen Plus. We also launched a real-time online 24/7 banking platform for our Corporate and SE customers and 394 thousand e-banking transactions were processed during the year representing 90 per cent of all payments. These new practices will continue in 2021 and enable our branch staff to spend more time engaging with customers and dealing with more complex and value creating activities.

Customer service continued to be a very important competitive advantage in 2020 and played a key role in helping us achieve our vision of being the most recommended financial institution in Kosovo. We continued to invest in technological developments and staff training so that we deliver a memorable experience at every transaction. We also continued to be very active on a wide range of social media which given the pandemic situation, became a very valuable and appropriate communication channel in all customer segments.

Sustainability management and corporate responsibility has also been a priority for our Bank. Raiffeisen Bank International (RBI) is the first Austrian Bank to become an official Signatory of the UN Principles for Responsible Banking – a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and United Nations Environment's Finance Initiative. In order to follow the responsibilities that derive from these principles, we developed our sustainability strategy which consists of three areas within which we focus our sustainability management: responsible banking, fair partner and engaged citizen.

Finally, on behalf of the Management Board I would like to thank all our staff for their commitment and dedication in an extraordinary year when our values of collaboration, proactivity, learning and responsibility were demonstrated and implemented on many occasions throughout the bank.

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

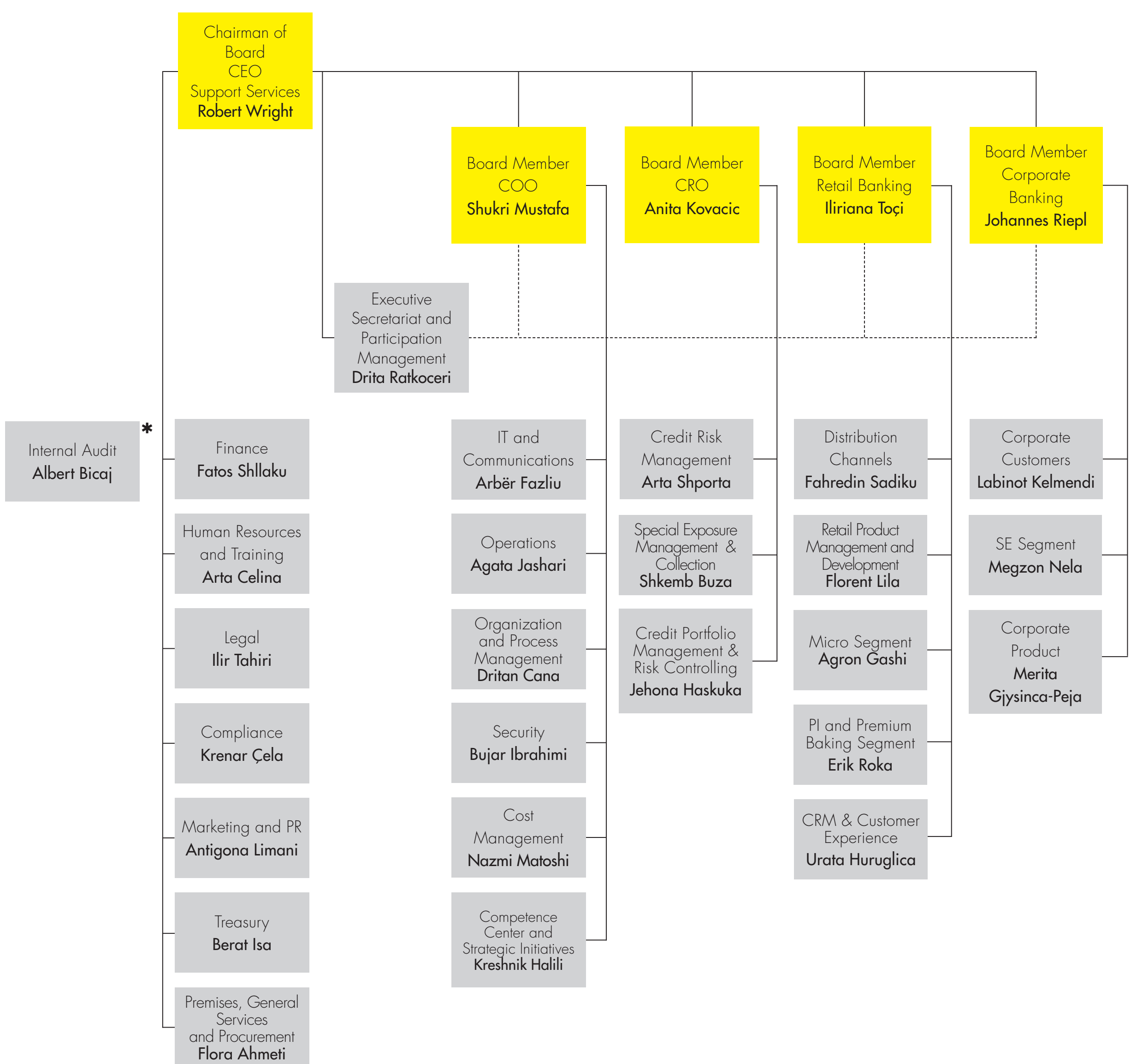
Member of the
Management Board
Risk Management

Shukri Mustafa

Member of the
Management Board
Operations and IT

Raiffeisen Bank Kosovo Organisation Structure

As of 31 December 2020



* Internal Audit reports directly to Audit Committee of Supervisory Board

Raiffeisen Bank Kosovo Vision and Mission

Vision
We are the most recommended financial services group.

Mission
We transform continuous innovation into superior customer experience.

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, around 45,000 RBI employees serve 17.2 million customers from more than 1,800 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2020, RBI's total assets stood at around € 166 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

Developments in the economy of Kosovo

The economy of Kosovo was negatively affected by the COVID-19 pandemic and measures to prevent it. The economic decline in the first three quarters of 2020 averaged 5.1 per cent, reflecting a significant downturn in the construction, "trade, transport, accommodation, and food service", and entertainment activities. Gross capital formation and export services had the greatest impact on the economic downturn, while restrained domestic demand led to a decline in imports. Eased restrictions in the fourth quarter and preliminary data on the export of services, capital expenditures, domestic demand indicate that the economic decline was around 5.1 per cent in 2020. Despite all the uncertainty that exists regarding the evolution of the pandemic and the developments related to the SARS-Cov-2 vaccine, it is expected a better year in 2021, driven by growth in the third and fourth quarters.

Due to this subdued economic performance inflation slowed down especially because of the expected low demand in the domestic market and the drop of oil prices in the international market. Average inflation in 2020 fell to 0.2 per cent, from 2.7 per cent in 2019, with the largest negative contribution of transport prices (- 0.9 pp) and vegetables (- 0.2 pp). When removing the categories with high fluctuations such as food and fuel, the core inflation resulted around 0.5 per cent on average in 2020, remaining at low levels but better than the overall inflation.

The second quarter clearly reflected the impact of the pandemic on the labor market where the unemployment rate peaked at 27 per cent from 25 per cent in the first quarter when the economy closed down at the beginning of March 2020. Labor market participation reached a minimum of 33.2 per cent at the end of the second quarter 2020, while job seekers peaked around 185,371 in June, showing an annual expansion of 82.2 per cent. However, with the easing of restrictions the third quarter improved, labor market participation rose to 40 per cent and the employment rate increased to 30.1 per cent from 24.1 per cent in second quarter 2020. The unemployment rate also followed suit improving to 24.6 per cent in third quarter 2020. However, the labor market remains a structural weakness of the economy.

Public sector intervened heavily to shoulder the burden of the pandemic in the economy. As a result, the budget revenues reached € 1.7 billion at the end of 2020, marking an annual decrease of 8.8 per cent, due to sluggish economic activity reflecting of the severe restrictions, while budget expenditures amounted to € 2.2 billion representing an annual growth of 6.5 per cent. As a result, Kosovo's budget recorded a primary budget deficit of € 484 million or 2.7 times higher than in the previous year.

The recovery program will continue in 2021 with a € 224 million injection of funds into the economy, circa € 44.5 million of which will be dedicated to Kosovo fund for loan guarantees (KCGK) with the goal of increasing new loans and facilitating the financing process. Furthermore, Kosovo closely collaborated with the international community to immediately cope with the financial consequences of the pandemic. IMF supported Kosovo with around € 51 million financing (around 0.7 per cent of GDP) under the Rapid Financing Instrument. The EU offered € 5 million for the health sector and € 63 million for social and economic recovery. In addition, € 100 million (1.4 per cent of GDP) were provided from the adopted package of the macro-financial assistance (MFA) of the European Commission and emergency lending of the World Bank which tendered about € 180 million (2.5 per cent of GDP).

The pandemic situation increased the public debt from 17.5 per cent of GDP in 2019 to 21.8 per cent in 2020 or 23.4 per cent year on year, which was expected as a response to the consequences of pandemic.

The external position of Kosovo deteriorated in 2020, as the current account deficit, which amounted to € 429.4 million at the end of the year, expanded by 7.5 per cent compared to 2019. Expansion of the current account deficit is mostly attributed to services account which narrowed by 53.5 per cent year on year because of the pandemic and travel restrictions while the increase of secondary incomes by 13.5 per cent year on year and improvement by 9.4 per cent of the trade deficit offset the decline in services up to a certain level.

Contrary to the expectations for a drastic reduction of remittances due to the pandemic, the negative impact lasted only in March and April, while the trend resumed its upward trajectory in the following months. The remittances peaked at € 997.3 million at the end of 2020, marking an increase of 17.1 per cent year on year, the best year ever. Even FDIs increased to about € 322 million by the end of 2020, or 26.4 per cent higher than the previous year, but still far from its potential.

Overall, 2020 was a difficult year for the economy of Kosovo with stringent containment measures taking their toll on private demand. The vaccination process underway in Europe and the one in Kosovo expected to start in 2021 might support the recovery of the country. Diaspora, which continues to play a very important role in the economy of Kosovo, and the lifting of the restrictions before summer will be the biggest contributors to the healing of the scars that the pandemic left in 2020.

Source: Central Bank of Kosovo, Kosovo Agency of Statistics, Ministry of Finance

Banking Sector in Kosovo

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

2020 has been characterized by the COVID 19 pandemic crisis which started with one victim in early January to over one million victims at the end of December. Kosovo was also impacted by this global pandemic, thus having a huge impact in the everyday life of all people and businesses.

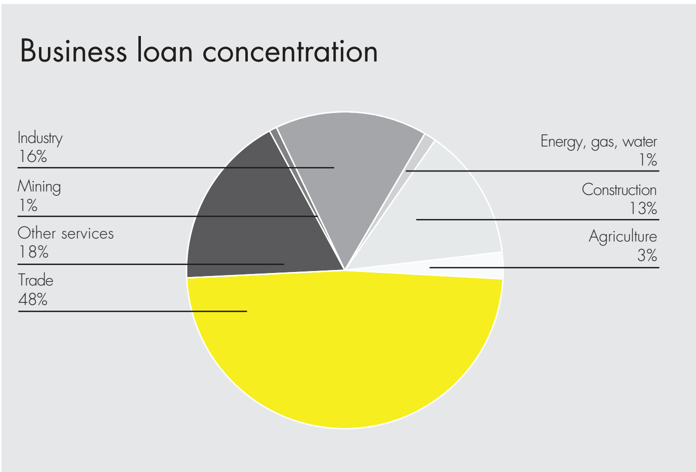
The Kosovo banking sector was also affected by this situation in many ways. Beside taking measures to protect its employees from infection, banks had to take few measures to manage the new situation it was found on. This means continuing to offer uninterrupted banking services for its customer base, manage liquidity, credit risk and take a proactive role with the Kosovo Central Bank and Kosovo Banking Association to support local businesses which were having difficulties or had to shut down temporarily during the lockdown. Several measures were introduced by the Kosovo Central Bank and all those were also supported by banking sector. The main measure being introduction of a payment moratoria on all loans for those bank customers hardest hit by the pandemic.

There were eleven banks operating in the Kosovo market as of 31 December 2020. Out of this number, nine are with foreign capital. The number of bank branches was 211 while the total number of employees of the sector was 3,391.

Total assets of the banking sector reached € 5.4 billion on 31 December 2020 (2019: € 4.8 billion). The growth of total assets in 2020 was 12.6 per cent and it was slightly lower compared to the increase from last year at 13.9 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.

Total loans of the banking sector continued to grow during 2020, though the growth was slightly lower than the rate of growth in the previous year. The COVID-19 pandemic had an impact in this slow down especially during the second quarter of 2020, when the whole economy of Kosovo was locked down. It was during this period that the volume of new loans decreased. The overall loan balances did not decrease as result of loan restructurings as result of loan payment moratoria. Total loans and advances reached a value of € 3.2 billion (2019: € 3.0 billion), which is an annual increase of 7 per cent compared to 2019 growth of 10 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 non-financial corporations with 7 per cent and individuals with a similar percentage of 7 per cent. Loans and advances to other financial corporations grew by 10 per cent year on year, however, the outstanding of those loans is relatively low at € 7.7 million. The percentage composition of the banking sector loans and advances portfolio as of 31 December 2020 was 64 per cent non-financial corporations and 36 per cent individuals. The percentage composition of loans to other financial corporations is still under 1 per cent. This percentage distribution between non-financial corporations and individuals has remained stable for the last five years.



The economic sector concentration of loans and advances to businesses continued to be dominated by the trade sector with an overall share of 48 per cent, followed by services sector with18 per cent and industry with 16 per cent. *(Source: CBK, Monthly Statistics Bulletin, December 2020, No. 232).*

Banking sector investments in securities including bonds and T-bills was € 584.4 million on 31 December 2020 (2019: € 526.5 million), an increase of 11 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.

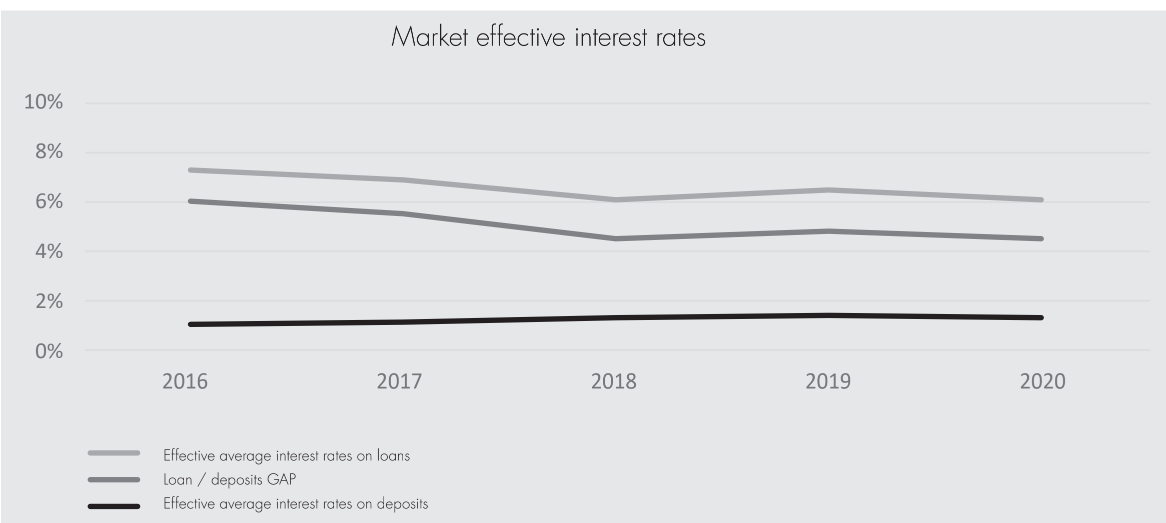
Customer deposits continued to be the main contributor to the financing of banking activities. As of 31 December 2020, customer deposits comprised over 80 per cent of total banking sector liabilities. A high reliance on financing from local deposits, especially from private individuals makes it the most 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 € 4.4 billion, with an annual increase of € 450 million or 11.5 per cent (2019: 16.2 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 2020, demand deposits accounted for 64 per cent of total deposits with the rest being term deposits and savings deposits. Most customer deposits are Euro deposits with over 95 per cent of banking sector deposits being in Euro, the official currency of Kosovo.

The average rate for term deposits decreased by 0.1 percentage points in 2020 to1.5 per cent compared to 1.6 per cent in December 2019. The interest rate for saving accounts remained at 0.4 per cent, a similar rate as at 31 December 2019. The average rate for individual's and busines term deposits was 1.5 per cent. Current accounts continued to pay zero interest.

The trend of decreasing interest rates for loans has continued in 2020 as well and this is important given the fact that in the period of after war interest rates had been higher than the ones in the region. The average effective interest rate for loans decreased to 6 per cent from 6.4 per cent as of 31 December 2019. This rate is similar with the market average in 2018. The interest rates for loans decreased during 2020 for businesses as well as for individuals. The average interest rate for businesses as at 31 December 2020 was 5.9 per cent down from 6.2 per cent as of 31 December 2019. The average interest rate for households also decreased during 2020. The average interest rate at 31 December 2020 was 6.2 per cent compared to 6.8 per cent in 31 December 2019. *(Source: CBK, Monthly Statistics Bulletin, December 2020, Nr. 220).*



In 2020, the banking sector in Kosovo achieved good overall performance in key financial indicators even though the overall pandemic conditions were not favorable for the sector and show certain signs of slow down. Banking sector income increased in 2020 to € 279 million from € 263 million in 2019. The largest portion of income is generated from interest income which increased from € 201 million to € 212 million in 2020. The overall sector profitability was lower due to higher general & administrative costs and loan provisioning. The total expenses increased in 2020 to € 199 million from € 177 million in 2019.

Interest expenses increased slightly in 2020 to € 20.9 million from € 21.5 million in 2019. Net profit of the sector was € 79.9 million down from € 86.2 million a year before.

The banking sector return on average assets decreased in 2020 by 0.6 percentage points to 1.6 per cent (2019: 2.2 per cent) and the return on average capital also decreased to 14 per cent from 18.9 per cent in 2019.

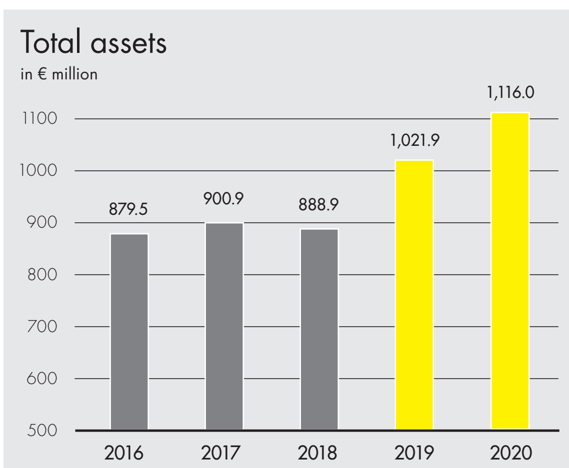
The banks' loan to deposit ratio was 74.5 per cent as of 31 December 2020, down from 77.6 per cent on 31 December 2019. Capital adequacy ratio (regulatory capital /risk weighted assets) was 16.5 per cent up from 15.9 per cent on 31 December 2019.

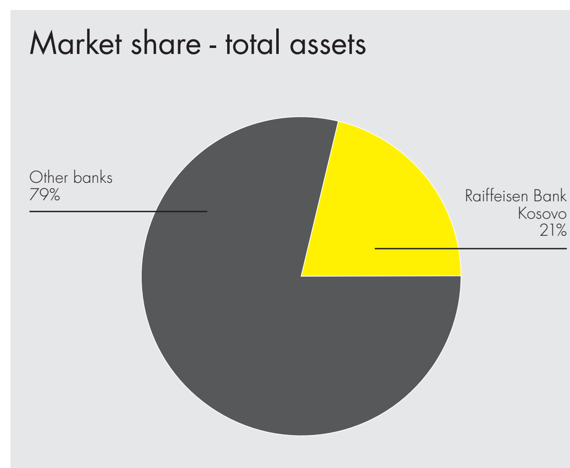
In 2020 the non-performing loan ratio increased by 0.7 percentage points from 2 per cent in 2019 to 2.7 per cent at the end of 2020. The NPL loan coverage ratio also decreased to 141 per cent from 163.5 per cent in 2019.

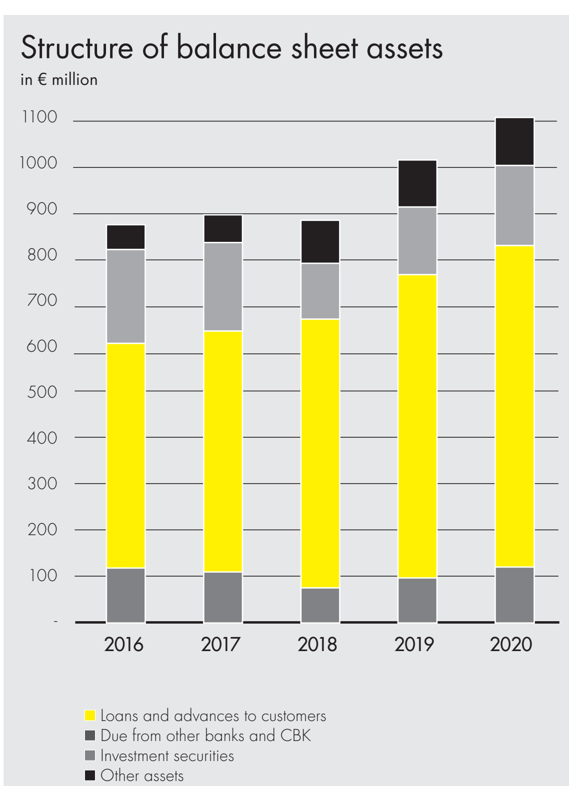
Raiffeisen Bank Kosovo performance and financials

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 2020 were € 1,116 million. This is an increase of 9 per cent when compared to the previous year (2019: € 1,022 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 21 per cent (2019: 21.5 per cent).





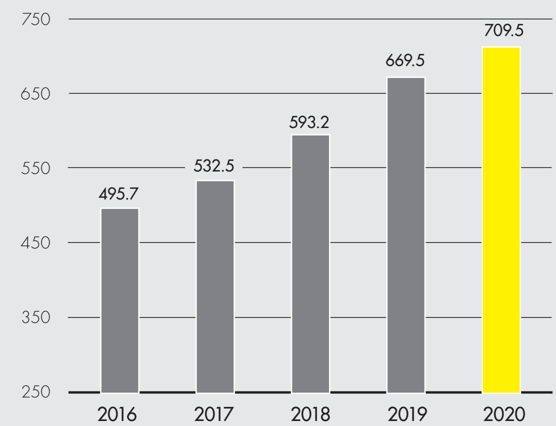


The structure of Raiffeisen Bank Kosovo assets continued to be dominated by loans and advances to customers. As of 31 December 2020, 64 per cent of total assets were concentrated in loans and advances to customers after provisioning for loan losses. That was followed by 16 per cent in investment securities. Investment securities include investments in Government and Corporate bonds of EU countries and the US, as well as treasury bills issued by Kosovo Government.

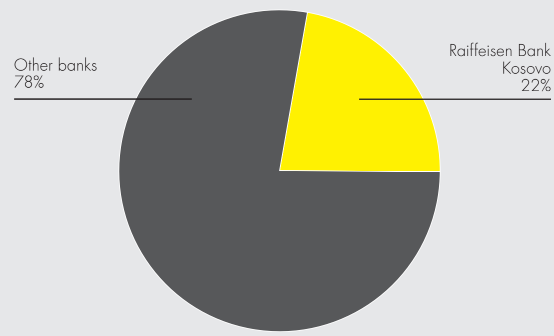
The investments in securities increased in 2020 by 18 per cent. This increase is reflecting the overall liquidity position of the bank impacted by an increase in customer deposits. Total investments in securities as of 31 December 2020 were € 177 million. Investments in Kosovo Government treasury bills were € 25 million (2019: € 37.1 million) and investments in other OECD country government and corporate bonds was € 152 million (2019: € 113 million).

Customer loans and advances - gross

in € million



Market share - customer loans and advances



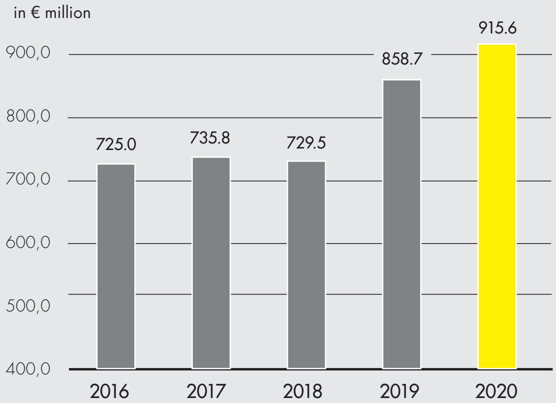
Total loans and advances of Raiffeisen Bank Kosovo as of 31 December 2020 were € 709.5 million (2019: € 669.5 million). The market share in loans and advances as of 31 December 2020 was 22 per cent (2019: 22.7 per cent). The bank did take a number of measures to address the challenges due to COVID-19 thus offering the customers the option to benefit from the from loan repayment moratoria. During the first half of the year, the bank modified up to 60 per cent of its outstanding loan portfolio. Initially, the payments where deferred for a period of three months, but as the crisis continued the moratoria was extended up to a total of nine months.

Raiffeisen Bank Kosovo also made allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 24 million (2019: € 17.9 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 2020. An increase in provision during the year is a direct result of global pandemic crisis as the credit deterioration of a number of businesses is expected to have lasting effects. It has been estimated by applying a holistic approach where no individual impairment on customer level has been detected. The total credit loss allowances to nonperforming loans in 2020 was 104 per cent (2019: 96 per cent).

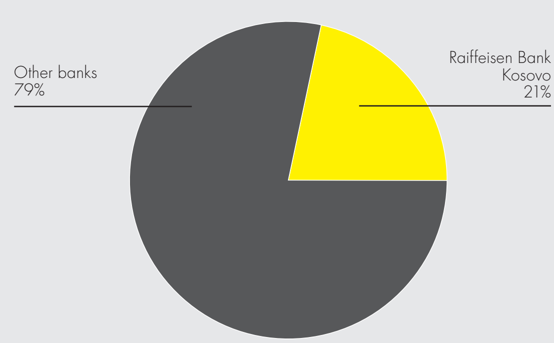
Total customer deposits of Raiffeisen Bank Kosovo reached € 916 million as of 31 December 2020 up from € 859 million on 31 December 2019. That is an increase of 6.6 per cent. The domestic generation of finances also contributed towards greater stability in the banking sector and reduced the impact of any volatility from the international markets.

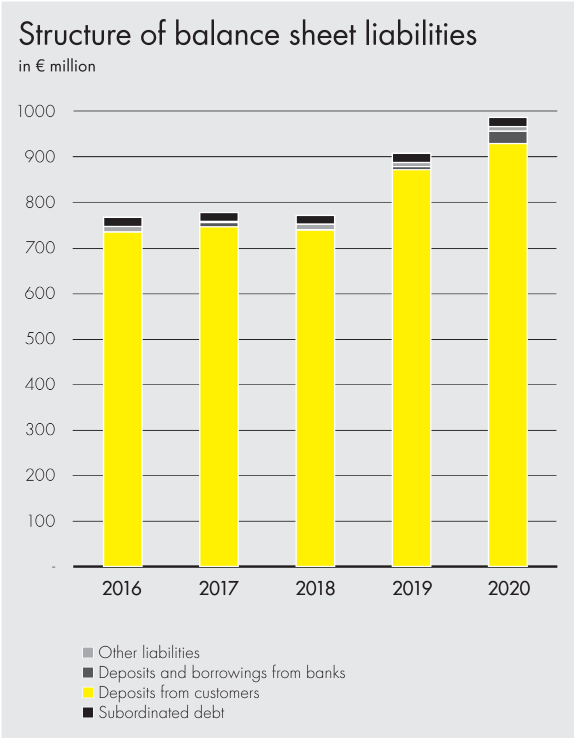
Customer deposits

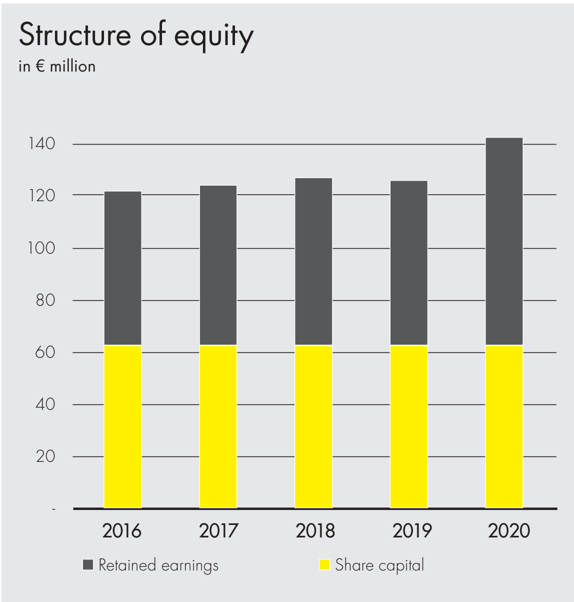
in € million



Market share - customer deposits







The largest contributor to deposits from customers was current accounts with a share of 85 per cent. Savings accounts have a share of 14 per cent of total bank customer deposits. Term deposits from customers and other accounts contain equate 1 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.

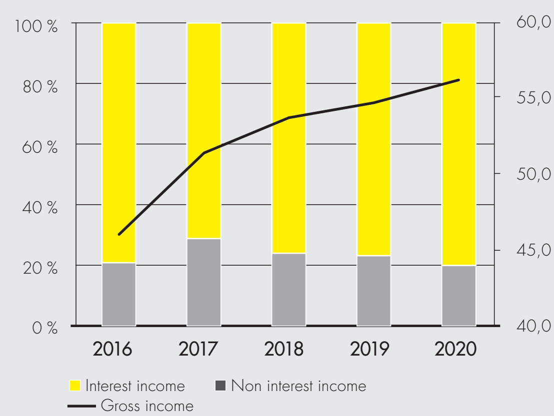
In 2020, Raiffeisen Bank Kosovo's share capital remained unchanged at € 63 million. The total equity as at 31 December 2020 was € 144 million (2019: € 127.4 million), also including € 80.6 million in the form of retained earnings. Raiffeisen Bank Kosovo did not make any dividend distribution during the year as a response to calls from regulators to avoid such payments due to the global pandemic crisis.

Raiffeisen Bank Kosovo continued to be well capitalized which was reflected in the 2020 regulatory capital ratios of Tier 1 to total risk weighted assets ratio of 13.7 per cent (legal requirement over 9 per cent) and a total capital (including Tier 2) to risk weighted assets ratio of 15.5 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 60 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 2020 was € 16.7 million (2019: € 18.3 million). This result is calculated based on IFRS Financial Statements as included in this report. Raiffeisen Bank Kosovo also did prepare financial reports based on IFRS reflecting additional requirements from the Central Bank of Kosovo Regulations until the closure of 2019 financial year. However, as of 01 January 2020, the CBK did approve a new regulation on full application of IFRS. IFRS statements are sent to Central Bank on regular monthly basis and are also published on a quarterly basis on the Raiffeisen Bank Kosovo website and in local e-news portals. More details on the transition and the effects of such transition from CBK rules to full IFRS statements are disclosed in the section containing IFRS financial statements.

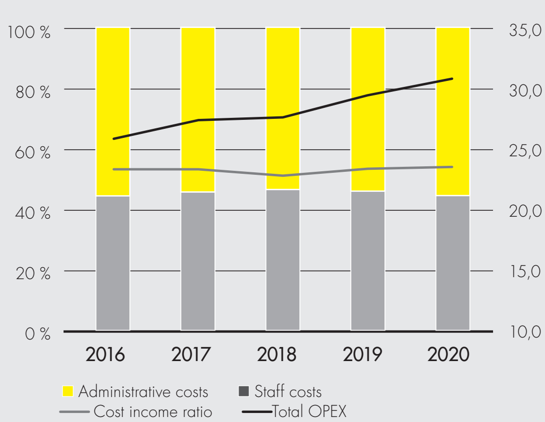
Gross income development and structure

in € million



General administrative expenses development

in € million



Raiffesen Bank Kosovo income was strongly dominated by income generated from loans and advances to local customers. Income from interest on loans and advances continues 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.

In 2020, the net interest income increased compared to the year before by 5 per cent even though the economy was going through tough times with the pandemic crisis. The sector implemented a major loan payment moratoria program in accordance with CBK guidelines which meant that interest and principal payments where deferred. However, the interest income is calculated regardless of moratoria considering the accrual principle of accounting.

Fee and commission income and other income also remained strong despite the crisis as most of the fee income is generated on the branch business requiring sometimes physical presence. While other income increased despite the crisis as result of increased activity from the bank 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 2020 were € 30.8 million (2019: € 29.4 million). The cost income ratio was 54 per cent (2019: 53.3 per cent). Higher costs are reported in bank running costs and in depreciation expenses mainly as a result of bank investments in the new head office located in Prishtina. Staff costs also include costs, such as training and other professional development. These costs continued to represent a significant part of operational expenses. This year, the bank also recognized a loan modification loss of € 170 thousand which calculated as result of payment deferrals in loan moratoria imposed by the COVID-19 pandemic.

Treasury, asset and liability management

Asset and liability management

2020 will be remembered as a year of the pandemic. However, Kosovars retained their trust in the banking system as a safe haven for their savings and took out loans for their businesses and households, with slightly lower growth than in 2019. The overall banking sector balance sheet exceeded € 5.35 billion and the loans reached around € 3.246 billion, equating to 47 per cent of GDP. Total deposits reached € 4.34 billion and the market retained a healthy loan deposit ratio of less than 75 per cent as at the end of 2020. The banking sector in Kosovo is self-sufficient in terms of funding, having € 2.94 billion in funding from households as of 31 December 2020.

The loans to households ratio is around 110 per cent, which points to a healthy, reliable and self-sustainable funding source for banks in Kosovo. The market consists of eleven banks, and the top three banks hold 55.8 per cent of total assets, and the nine banks which are under foreign ownership equate to 86.5 per cent of total assets. The average loan rate is set at 6 per cent in the banking sector and return on assets is 1.6 per cent in 2020. Average ROE is 14 per cent and the liquidity ratio in the market is 39.8 per cent. The performance of the banking sector is solid and therefore has managed to support the economy, despite the pandemic year, and the banking sector as of now is well capitalized. Interest income is higher nominally however the drop in loan interest rates continues, supported by low NPLs and cost of funds for the banks operating in Kosovo.

The Central Bank of Kosovo (CBK) report on key ratios

Banking sector key parameters	**2019**	**2020**
Loan growth	10%	7.1%
Deposit growth	16.2%	11.5%
Loan to deposit ratio	77.6%	74.5%
Liquidity ratio	38.7%	39.8%
NPL	2%	2.7%
NPL coverage ratio	163.5%	141.4%
Return on assets	2.2%	1.6%
Return on equity	18.9%	14%
No. of employees	3,331	3,391
No. of banks	10	11
Profit	86.2	79.9
Income	**263.2**	**279.3**
Of which interest income	200.9	212.2
Interest expense	-21.5	-20.9
Admin costs	-107.1	-108.1
Loan interest rate	6.4%	6%

Despite a solid banking performance, the IMF in its February 2021 report, predicts 2020 an estimated economic contraction of - 6.4 per cent and a current account deficit of around - 7.5 per cent. Inflation expectations look anchored to around 1.5 per cent until 2022, as per IMFs expectations.

In 2020 the bank increased its deposits by 8.8 per cent and its customer loans portfolio by 6.7 per cent. The bank focuses on stable household deposits 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 amounting to 85 per cent of total deposits of the bank. The compound effect of a high liquidity position and a high stickiness position produced a stable liquidity position.

Liquidity

As at the end of 2020, the bank had a Net Stable Funding Ratio (NSFR) above 139 per cent, and Liquidity Coverage Ratio (LCR) of 497 per cent. Both ratios are an increase compared to year end 2019. The liquidity of the bank is comprised of holdings of investment in cash in branches, Government Bonds, FI Corporate bonds, Money Market investments.

Interest rate risk in Banking Book and strategy

The bank has in some parts increased its interest rate duration on bonds, and its strategy does provide for positive maturity transformation of the bank in an environment of lower yields. This approach was exceptionally helpful in the volatile pandemic situation. Furthermore, 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. The bank maintains long fixed and long variable as descried in the table below. The bank is not currently engaged in active ALM but offers and maintains variable rate products to improve the sensitivity of the assets of the bank.

Exposure BPV

Currency	**Exposure per CCY**	**Up to 1Y**	**Up to 3Y**	**Up to 5Y**	**Up to 10Y**	**Above 10Y**
Total BPV	15,204					
CHF	(2)	(2)	-	-	-	-
EUR	12,895	(11,129)	40,644	25,731	(41,073)	(1,279)
GBP	(5)	(5)	-	-	-	-
USD	2,303	(932)	705	2,530	-	-

The interest rates basis point value (BPV) in 2020, showed an end of year BPV position of around 15.2 thousand and increase of approximately 2.7 thousand compared to year end 2019. Value at risk 99 Day at the end of 2020 stood at € 443 thousand.

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. However, the overall effect of the IRS has been reduced to less than € 6.63 million notional amount as of 31 December 2020. The bank relies on natural hedge of its interest rate position using variable rate products.

Government/Corporate FI securities

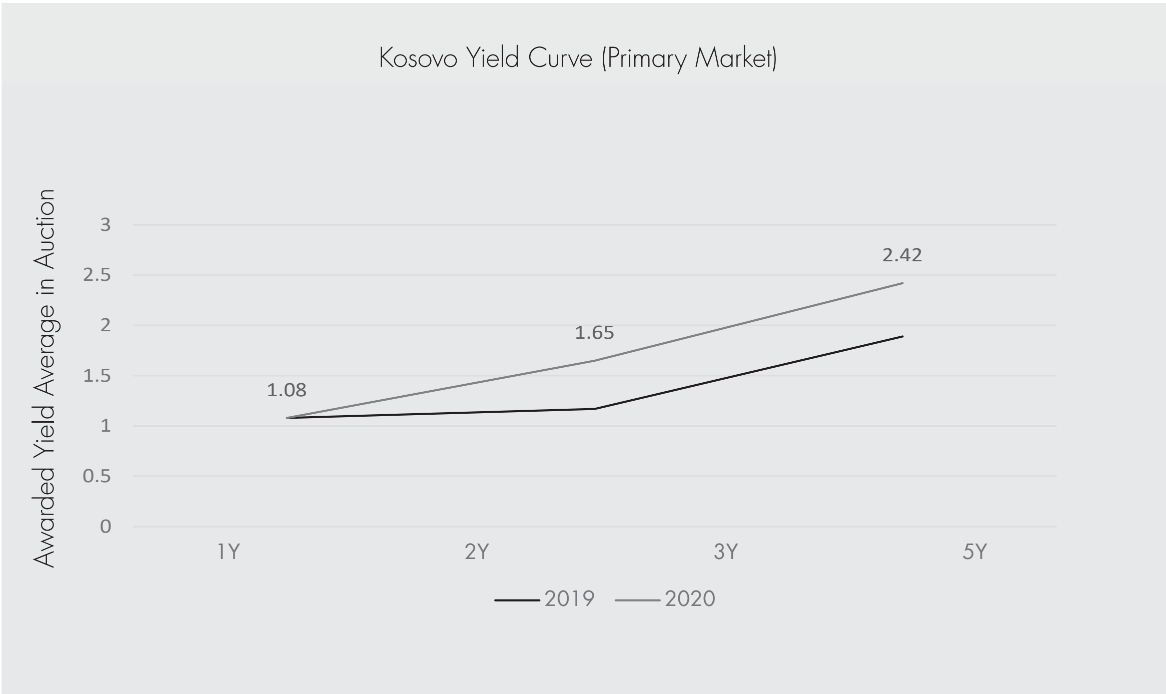
The bank increased its holdings of financial investment in 2010 by € 26.7 million, ending the year with a volume of € 177 million. The increase in volume is similar to the increase experienced in 2019. The banks must maintain majority of the assets in High Quality Liquid Assets in order to fulfill its mandatory (legally required) liquidity. However around 20 per cent of this portfolio is allocated into Corporate and FI bonds in order to improve the overall yield performance. The below table represents its current allocation as at the end of year 2020.

Moody's Rating system used as a % of Bond Allocation in the table below:

Ccy / Yrs	**<0.5Y**	**<1Y**	**<2Y**	**<3Y**	**<=5Y**
EUR					
Aaa	5.77	2.88	2.88	-	-
Aa1	-	13.27	8.08	-	-
Aa2	-	8.65	5.54	-	-
A2	-	2.71	-	1.73	-
A3	16.44	-	-	-	-
Non.R	4.03	-	5.53	2.17	2.43
USD					
Aaa	6.77	4.23	4.94	1.95	-

(*)% 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 the last couple of years. The Bid to Cover in Kosovo Auction market regularly exceeds a ratio of 2, pointing to a very liquid market in the primary auctions. The secondary market is still underdeveloped.



Markets sales

The bank is a leader in foreign exchange sales since 2002 in Kosovo. Albeit being a Euro currency country, Raiffeisen Bank Kosovo retains its position as market leader in FX sales and brokerage sales in the secondary market for Treasury Bills and equities sales. In late 2019, the bank has introduced electronic trading system for its customers, and the electronic sales account for the majority of the FX sales business in 2020.

In addition, the number of customers trading in equities and funds increased in 2020. Customers used the opportunity to invest in mature equity markets in 2020 and Raiffeisen Bank Kosovo continues to be the leading provider of an international market gateway since 2012.

Business segments

Corporate

The combination of financial strength, high capital base and deep knowledge and expertise of the corporate relationship and product managers enables corporate business of Raiffeisen Bank Kosovo to have a unique position compared to the competition. As a result, 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 2020.

One of the key priorities of the bank was the process of the loan payment moratorium with the aim to help customers overcome the difficult and unpredictable situation created by COVID-19, ensuring compliance with regulation and proactively managing delinquency prevention. Despite the pandemic situation, corporate business continued to have very good performance during 2020 and increased its loan portfolio by 8 per cent. A very good quality portfolio was also maintained with an NPL ratio of 2.67 per cent.

In 2020, corporate business maintained a record high lending portfolio at € 240 million, with very good asset quality improvement resulting in non-performing loans of only 2.67 per cent of loan portfolio. A very well collateralized portfolio also resulted in a sustainable Return on Risk Adjusted Capital (RoRAC) of 131.23 per cent. 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.

Small enterprises

2020 was a very challenging year for the small enterprises overall in Kosovo given the impact of the COVID-19 pandemic. Thus, the main focus of the bank was to identify the possibilities of how to provide support to SE customers to overcome this unpredicted situation in the best way possible. The bank offered two phases of moratorium for its customers. At the same time the Small Enterprises (SE) segment continued to foster customer relationships through its experienced relationship managers located in four regions of Kosovo. As a result, the bank managed to maintain a relatively stable SE portfolio and of good quality.

Several initiatives in process efficiency were taken during 2020. Most of these initiatives were focused on the simplification of the customer experience, making it leaner or appropriate to the size and complexity of the applications. Consequently, the SE Segment in Raiffeisen Bank Kosovo has been recognized as the Best Network Bank in SE Efficiency improvement in 2020 by Raiffeisen Bank International (RBI).

During 2020, the bank has launched one of the most important projects, SE Retailization. In addition to increasing simplicity, the aim of this initiative was to digitalize the process for SE customers to apply for loans enabling SE Relationship Managers to have a 360 degree view on the customer file, and much faster approval times, which are expected to have a significant increase in efficiency and improvement of the customer experience.

Micro enterprises

When the state of lockdown was declared by government in March 2020 due to COVID-19, immediate restrictions were imposed for doing business which significantly impacted micro-businesses in Kosovo. Given these circumstances, the bank had to adapt and change its business model, from the model that was focused on business growth into a model of how to best support the customers and manage the quality of the portfolio. During this period, Raiffeisen Bank has initiated and handled two waves of loan payment moratoria for micro businesses with up to 70 per cent of the portfolio under the moratoria process.

In addition to the changes that the state lockdown and moratoria brought, the bank started parallelly the new concept of serving customers remotely through a newly developed application, Rai Connect. At a later stage, Rai Connect was also enriched with a remote advisory tool within this application providing financial services to micro businesses remotely. This approach has been well received by micro customers and it was acknowledged as the right tool at the right time for handling challenges created by the pandemic situation. Furthermore, the bank offered online account opening via digital acquisition initiative to enable customers to open accounts without a physical presence in the bank.

During 2020, the bank has continued to benefit from the continuous efficiency-oriented activities which enabled operational expenses to stay flat despite having to maintain increased volumes. 2020 ended with a slight increase of total volumes and this was achieved due to the campaigns that were lunched in the fourth quarter. It resulted in the overall improvement of income versus costs, hence significantly improving efficiency for which the bank was rewarded as Best Efficient Network Bank in RBI in Micro Segment. By launching successful campaigns, the bank managed to support its customers financial needs and maintain the quality of the portfolio.

Private individuals and premium banking

Raiffeisen Bank Kosovo managed to maintain a healthy individual business portfolio despite a high percentage of loan payments moratoriums in 2020. Loans and advances to individuals continued to have an important impact on the total loan portfolio growth with an increase of 10 per cent compared to 14.8 per cent the year before. Private individuals and premium banking segment increased assets by € 24.9 million compared to the year before. Liabilities grew by 12.6 per cent or € 76.4 million compared to 2019.

The bank continued to retain its leading market position in private individuals and premium banking with 27.2 per cent market share. During 2020, the bank offered banking services to more than 273 thousand individuals and 13,000 premium customers marking an increase of 8.4 per cent. In addition, the bank recorded a considerable growth in the mortgage portfolio of 31 per cent compared to 2019. At the same time, the bank also increased the credit card portfolio, both in volumes and new cards issued and launched Platinum Card for premium customers. These results were achieved due to preferential offers for customers who have a credit card following the successful campaigns with different merchants.

During 2020, the marketing campaigns were mainly focused on both secured and non-secured loans and limits, digitalization, and packages. From digitalization point of view, the bank has developed and successfully launched many applications, amongst which is RaiConnect, a new digital approach enabling remote communication with customers for advisory and sales purposes.

2020 was particularly successful for premium banking. The total assets of the premium banking service grew by 17.8 per cent while the number of customers grew by 8 per cent compared to 2019. In addition to the loan products, the bank continued to be focused on offering profitable solutions for savings by creating a holistic advisory approach for premium customers. It also continued to offer premium customers the possibility to trade treasury bills to maximize their savings.

Banking products and services

Corporate and SE

In terms of enhancing the financial products and services, digitalization and innovation remained the top priority for corporate and SE customers in 2020. The unprecedented situation with COVID-19 only accelerated the need for digitalization and innovation, by reinforcing competitive pressures on banks. Thus, internally the bank was focused on advancing technologies, proper people management, for example identify, invest, and maintain talents, remain flexible to evolving business models and putting customers at the center. One important factor during the transformation journey is 'culture'. Therefore, by having relationship managers visiting customers regularly, the bank is continuously working on customer behavior change, moving from the traditional business model to a new way of working with digitalize services.

Digital transformation and innovation
In 2020, the bank rolled out the new internet and mobile banking to corporate customers providing a real-time online banking platform (24/7) for the first time. By introducing new features to customers, such as mobile banking, fully automatic salary processing, SWIFT confirmation, and so on, the bank aims to increase customer satisfaction with digital banking applications and services. New internet and mobile banking platform will continue to enhance the user experience and change the market.

By further strengthening the internal Agile Center of Excellence, the innovation team drawn by business needs continued to be tremendous. Within a short period, Factoring and Reverse Factoring products have been digitized and most of the manual work of processing invoices is automatized enabling a convenient customer experience and reducing processing time. During the pandemic time 'Cash In' Online Declaration of Source of Funds were designed and developed, making it possible for customers to fill Declaration of Source of Funds online without a need to visit the branch. In addition, the bank's newly in-house-built Sales Enablement Platform has given the Corporate and SE relationship managers an opportunity to communicate and to serve their customers with a unique, and a strong competitive position in the market.

During 2020, Raiffeisen Bank Kosovo was a pilot network bank within the Future CMI@web project which was developed by RBI Group. It will bring innovation to the market as this is the first online banking platform which offers the possibility to group customers to initiate a payment through a single-sign on platform with RBI and all other network banks, and process these payment within a few seconds.

Raiffeisen Bank Kosovo also further developed and implemented several new initiatives to enhance its banking services and products for corporates and small enterprises.

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 70 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 90 per cent of corporate and SE transactions processing was done in E-Banking compared to 10 per cent in branch.

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. During 2020, the bank has continued to support various projects and industries, including commercial real estate, residential real estate, and renewable energy projects, while the portfolio grew up by 45 per cent during 2020. In line with the EU and RBI vision, special attention was also given to sustainable financing, a key part of the Environmental, Social and Governance (ESG) initiative. Thus, the bank focused on identifying the potentials of the projects with environmental, social and governance impact, with the aim to increase investment in longer term and sustainable activities. In this regard, the training of the employees is ongoing, the screening of the current portfolio, and the administrative and technical part is being applied accordingly. In general, the focus of the bank will be on financing customers that will have a long-term positive effect on environment, climate, society and social affairs.

Trade finance
Raiffeisen Bank Kosovo continued to hold the leading position in Trade Finance compared to the competition. 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 2020 showed a significant increase of LC transactions compared to the previous year.

Factoring
In 2020, Raiffeisen Bank Kosovo continued to be the only bank in the market that offers Factoring. The portfolio showed an exceptional increase also during 2020. Factoring continued to complement the product range of working capital financing to corporate and small enterprise customers. Factoring contributes to the decrease of the level of trade receivables and improve the cash flow, which will nevertheless improve customer's balance sheet standing and the funds can be used according to the suppliers needs. Using factoring, the customer can provide better payment conditions to its customer and has the possibility to obtain discounts from its own suppliers in case of payment advance. As no tangible guarantees are needed, the product is available to the companies which are not able to secure the loan or which are using the collateral for other forms of credits – investments, projects, etc.

Reverse factoring launched for the first time
Reverse factoring is a deal between buyer, supplier, and the bank. Reverse factoring supports and meets the customer's working capital requirements and ensures 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.

Sales management and business analytics
Sales management continued their focus on business steering, portfolio analysis, lean credit processes and tools provided to our corporate and SE sales force to enhance their sales potential. The bank continued to simplify and streamline products and processes in line with changing customer needs. The product range was adapted to market and customer expectations by upgrading of the existing products.

Retail banking

In retail banking, the bank has been continuously focused on innovative and digitally offered products and services with the aim to make the customer experience superior and easy. Following the significant increase of the digital channels, ATM and internet banking share reached 96 per cent compared to 92 per cent the previous year. This increase in percentage is a comparison of transactions between ATM and internet/mobile banking transactions versus branch cash transactions and transfers. With digital developments making banking simpler and more convenient, the bank continued to offer a full range of products and services accessible across multiple channels.

Raiffeisen Plus
The bank's internet and mobile banking platform 'Raiffeisen Plus' enables customers to have complete control over their finances through web browser and their mobile device. Through this platform, customers receive services on a real time basis, 24/7, whenever they need it and wherever they are. The platform consists of simple and user-friendly interfaces, making our customers experience much easier. It is driven by a 'customer empowerment' approach by giving customers the possibility to enroll online and the opportunity to use the mobile app with biometric data, which is now being used in 85 per cent of customers logins. During 2020, there were more than 87 thousand retail customers registered on this platform. There were 55 thousand customers that used the mobile application at least one time for the last 30 days, which represents 21 per cent of the total active customers.

Rei-Raiffeisen Chat Bot
Raiffeisen Bank was the first bank in Kosovo to launch a chat bot named 'Rei-Raiffeisen'. Rei-Raiffeisen continued to be one of the most preferred channels by providing easy, instant and personalized responses to customers. Its relevance is also confirmed by a great increase in the customer requests during 2020. As all banking queries are important and need instant solutions, chatbot represents an efficient tool to enable the bank to improve the customer experience.

Online account opening - new platform for private individuals and legal entities
In 2020, Raiffeisen Bank Kosovo has launched an end to end online account opening platform for individuals under the governmental financial package. Among other enablers of the Raiffeisen Bank digital preposition, for example enrollment online in internet banking, ATM fleet, POS fleet, 24/7 Self Service areas and ecommerce, an online account opening process was crucial in order to complement further the digital offer. It was also important to provide convenience to the customer, especially in those times where several lockdowns took place and people still needed to have access in banking. The simplicity of this platform, in which KYC (Know Your Customer) and AML checks are also integrated enables customers to open an account from the comfort of their homes.

In addition to an online account opening platform, the bank's aim is to further expand the range of digitally offered products but also continuously improve the user journey. The bank's short-term plan includes offering of other basic products online (loans, cards and overdrafts) as well as mandatory services such as KYC through which the bank's customers can easily update their personal data in order to freely continue serving themselves. In the long term, the bank will develop further improvements of user journeys to reach the highest level of technological advancement with complete and up to date processes within its digital offerings.

Raiffeisen PLUS for business
In June 2020, the bank launched the new internet and mobile banking platform – Raiffeisen Plus for business. This advanced platform made the business customer experience much easier and this was reflected in the increase of the number of users with internet and mobile banking by 47 per cent.

RaiConnect, a remote advisory tool
Another milestone of Raiffeisen Bank was the implementation of the remote advisory tool named 'RaiConnect'. This service is unique in the Kosovo market and provides to customers a secure way to communicate online with their financial advisors in Raiffeisen Bank. Through RaiConnect, customers can talk, exchange documents, make appointments, have video calls and share their screen with bank employees, creating an easy interactive communication. RaiConnect can be used by both private individual and business customers and it runs on both Web and Mobile apps which can be downloaded directly from AppStore and PlayStore.

RaiPay, a digital wallet
In 2020, Raiffeisen Bank also developed the newest product/platform within its digital products and card services known as 'RaiPay'. Through the digital wallet application Raiffeisen Bank Kosovo introduced the first digital wallet on the market for VISA branded cards, and usage of the wallet with MasterCard is also available. Functional for devices running the Android operating system, the RaiPay application provides an easy and secure way of card payments from the mobile phone using the Contactless / Near Field Communication (NFC) communication technology which allows the registration of cards issued by Raiffeisen Bank and payments in POS terminals and ATMs that are compatible for contactless transactions.

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 the overall bank management. In addition to legal and regulatory requirements, the bank also considers 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 the available risk coverage capital.

With the rapid global spread of COVID-19 during the first quarter of 2020, countries, companies, and private individuals found themselves confronting entirely unprecedented challenges. Despite facing an increasingly difficult market environment due to the COVID-19 pandemic, Raiffeisen Bank Kosovo has been proactive in taking preventive measures and coped well with the crisis.

As the previously applied valuation model cannot adequately reflect extraordinary circumstances, such as the COVID-19 crisis, the bank added to the provisions (post model adjustments) over and above the result derived from the model. These adjustments were based on the Bank's internal estimates as well as is considered economy's development. This means that the shift in stages and the impairment provisions (taking post model adjustments into account) are, to a significant extent, based on assumptions and estimates.

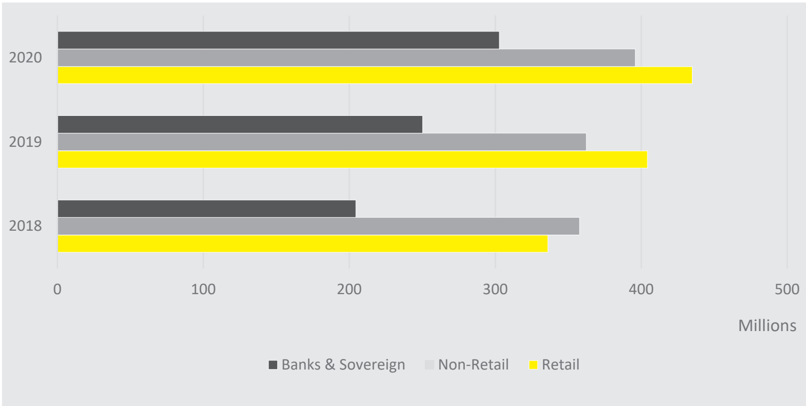
The risk committee also dealt with current material risk management topics. Due to COVID-19 pandemic, the committee thoroughly assessed the impact on bank's financial, risk, capital, and liquidity position. Committee members were kept informed of the bank performance and financials through regular reports given. In addition, the committee looked at the risk management measures taken to limit the effects of COVID-19 and took this opportunity to discuss the measures themselves as well as planning steps relating to the risk playbook. A return to normality and the start of a sustained economic recovery depends to a large extent on medical developments.

Credit portfolio management

Credit portfolio management in the bank is, among other aspects, based on an agreed 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 € 1,134 million as of 31 December 2020, which compared to a year-end 2019 increased by 11 percent, respectively increased by 13 percent compared to year-end 2018.

This portfolio is diversified between business and individual customer segments an 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.



Raiffeisen Bank Kosovo stands in a very good position by maintaining credit risk exposure within acceptable parameters. This effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of the bank. The bank had a moderate loan growth, as well fully compliant with regulatory measures regarding moratoriums, as an effective tool used to address short-term liquidity difficulties caused by the limited or suspended operation of many business and individual customers from COVID-19 impact.

Management of non-performing loans

Since November 2019, Raiffeisen Bank Kosovo has fully applied the new definition of default and the corresponding requirements of the EBA (EBA/GL/2016/07). The new definition of default results in changes on the materiality threshold of past due credit obligations for borrowers. Non-performing loans at the end of 2020 reached at level of 3.1 percent, which is higher than last year (2.7 percent) given the circumstances of pandemic crisis, is considered acceptable as a moderate increase in 2020 because of the economic slowdown. In addition, NPL coverage ratio is 72.89 percent that is higher than the coverage ratio of the previous year (71.21 percent).

Due to the COVID-19 outbreak, Raiffeisen Bank Kosovo has also implemented the latest CBK as aligned with EBA guideline on moratoriums for loan payments applied considering the COVID-19 crisis. This has supported the bank in providing the necessary relief measures to borrowers and mitigate the potential impact on the volumes of non-performing exposures with restructuring measures, forborne and defaulted/non-performing exposures and the income statement. At the peak during the lockdown, up to € 429mn of loans were subject to a moratorium. While moratoriums in some segments have already expired, there was still a volume of almost € 73million at the balance sheet date, mostly in corporate business where the moratorium was extended to the middle of 2021.

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 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 complies also 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 characteristic.

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 2020.

The Central Bank of Kosovo Regulatory Liquidity Ratio:

	2020	2019	2018	Minimum Requirement
All currencies	34,71%	35,36%	35.00%	25.00%
Euro currency	28.48%	27,76%	27.00%	20.00%

The liquidity position is monitored on bank level and is restricted by means of a comprehensive limit system. Limits are defined both under a business as usual as well as under a stress perspective. In accordance with the defined risk appetite, Raiffeisen Bank Kosovo demonstrated a survival horizon of several months (TTW) in a severe, combined stress scenario (reputational and market stress). This can be ensured either by a structurally positive liquidity profile or by a sufficiently high liquidity buffer. In a normal going concern environment, maturity transformation must be fully covered by the available liquidity buffer in the medium term. This means that the cumulative liquidity position over a period of up to one year must be positive. In the long term (one year or more), maturity transformation is permitted up to a certain level. The internal model limits are supplemented by limits for compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR) and Liquidity Maintenance Ratio (LMR). All limits must be complied with on a daily basis.

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 daily 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 de-clustering 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.
The following measures are being taken by market risk management in order to counter the COVID-19 crisis. Market trends and position changes in the individual portfolios for Raiffeisen Bank Kosovo were monitored more intensely. In addition, trends on local markets are updated daily and risk management is actively controlled to be able to respond quickly to changes. The aim is to adapt limits to the risk appetite, close positions where necessary, build up liquidity buffers where market conditions are more favorable, and adapt models to local measures (moratoriums) where necessary.

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 defence concept has been implemented where Business Line Managers 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).

The COVID-19 pandemic and the resulting consequences for business continuity represent an operational loss event. As part of loss data reporting, all relevant direct and indirect effects were therefore reported. The direct effects included, for example, hygiene products such as masks, disinfectants, additional cleaning costs, additional security personnel, equipment for work areas protection and additional technical infrastructure such as notebooks.

• *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*
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 2020. The Kosovo banking sector remains very dynamic with changes in legislation in line with EU. 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.

Amid COVID 19 pandemic, the Central Bank of Kosovo provided flexibility to financial institutions in Kosovo by temporarily suspending the requirements derived from the following regulations, with respect to asset quality deterioration, Non-performing loans, default recognition, forbearance, loan classification and provisioning. Raiffeisen Bank Kosovo followed strictly these temporary relief measures approved by the CBK, which are seen as very positive in capital and operational relief.

The Central Bank of Kosovo jointly with the Kosovo Banking Association have decided to suspend loan instalment payments for individuals and businesses, to mitigate financial difficulties caused by COVID-19 pandemic. According to the regulations, suspension of the loan instalment payments in Raiffeisen Bank Kosovo is evaluated on a case- by-case basis to support borrowers to easier overcome COVID-19 crisis.

Distribution channels

During 2020, the bank operated with 41 branches and sub-branches, the largest branch network in Kosovo. Given the pandemic situation, the focus of the bank was to manage the branches to make it possible for customers to use banking services whenever needed despite the overall restrictions imposed by the country, particularly in the first half of the year. The bank also took continuous prevention measures that contributed to the health and safety of the branch employees as well as customers.

The bank's branch digital transformation program, which started in 2017, also included 24/7 self-service areas which have been implemented in most of the branches. Following the specifics of the situation after the pandemic emerged in 2020, the availability of the self-service areas in most of the branches throughout Kosovo was a great opportunity and advantage for the customers to use banking services.

Customer experience

In 2020, Raiffeisen Bank Kosovo focused on adapting the customer experience in line with customer needs following the unprecedented measures taken by the country because of COVID-19. Hence, the bank reviewed the existing processes for more relaxed standards to simplify the customer journey across all channels and their access to banking services and products. The aim was to enable an easy and seamless experience to customers.

Furthermore, the bank actively reached out to customers for support and advice on digital interactions, innovated digital models to help customers fulfill their banking needs, expanded home delivery options, and successfully migrated customers to the newest digital platforms for an easy and stress free experience from home. Raiffeisen Bank Kosovo also offers all customers the opportunity to extend their loan payment moratoria and restructure payments for those in collection.

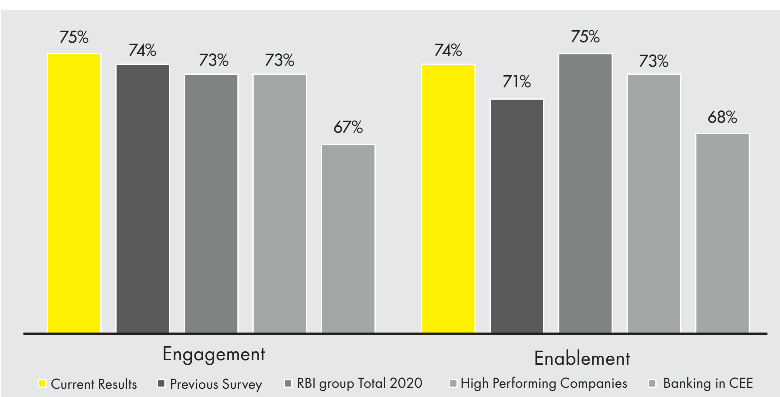
Simultaneously, Raiffeisen Bank Kosovo advanced the feedback collection tool to online surveys through SMS and for the first time by e-mail. The insights enable the bank to better understand the user experience and be aware of customers main pain points to enable constant improvement of the customer's journey.

Human resources and training

Being the employer of choice in Kosovo still remains the core objective of the bank. During the pandemic this became more important with a big focus on wellbeing and health management. Referring to employees statistics, the bank was stable with a slight decrease in headcount during 2020.

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

Employee engagement and contribution toward the bank strategy remain the priority for the bank, again all employees participated 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:

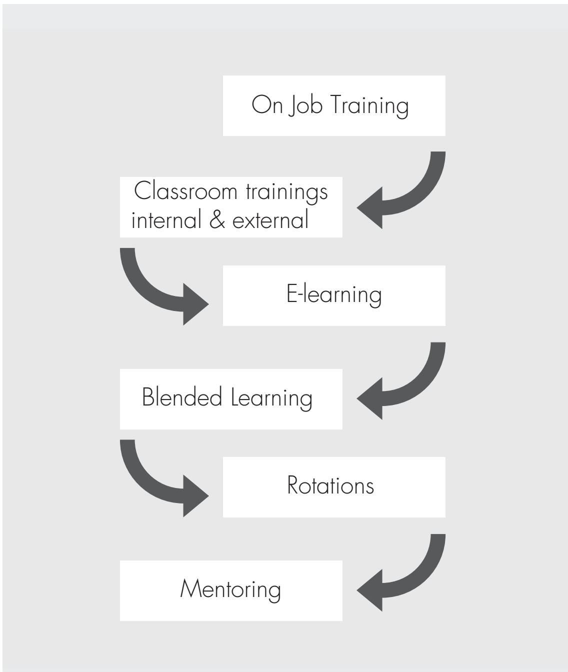


As seen from the chart, there is an increase in both factors which indicates the positive positioning of the bank and the high engagement of the people.

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, management topics, new ways of work and technology. 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 2020. 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 2020, there was an impressive level of interest and support by bank employees to attend and design internally created courses. The pandemic situation enhanced even more the usage of online learning, and in this way, eLearning became the main learning resource and methodology in our company. Additional focus was also given to externally provided 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. 2020 was an unusual year, beside technical and soft skills there was a higher focus on remote working tips, pandemic prevention, digital transformation, health, safety, managing mental health, dealing with stress and anxiety were some of the most important topics delivered mostly online with the aim to achieve an acceptable work-life balance and develop team spirit amongst employees.

In addition, during 2020 a fully online Learning Festival was organized, covering different relevant topics related to technology, innovation, entrepreneurship, remote work, health and wellbeing. External and internal speakers from Kosovo and Europe were invited to share their expertise with bank employees who participated via online tools. Excellent feedback was received by high number of participants.

Talent management
During 2020, the focus on increasing the awareness and skills of people managers toward human capabilities continued. 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
Health Management activities became more important in 2020 considering the pandemic situation. In a short period of time the bank has enabled a work from home concept for the Head Office employees and flexibility on work schedule with the shifts in branches by offering the chance to stay near their families and ease the work life balance. Special leave was allocated for parents to take care of their children, free from work for risk categories in order to prevent the infection in the working place. Preventive tools such as masks, gloves and other hygienic tools offered to the employees including the awareness campaign with posters, emails, intranet. New channels of communication have been introduced to offer real time data and ease the communication during these difficult times.

Sustainability management and corporate responsibility

The bank's understanding of sustainability

Sustainability has always been a fundamental principle for Raiffeisen Bank International (RBI) and Raiffeisen Bank Kosovo and as such has been a measure of corporate success. For over 130 years, Raiffeisen has combined financial success with socially responsible action.

• The bank understands sustainability to mean responsible corporate activities for a long-term, economically positive result in consideration of key societal and environmental aspects.

• The bank combines financial success with social responsibility by anchoring sustainability as a fixed component of its business and by practicing sustainability as an integral leadership and management responsibility, in addition to taking key sustainability aspects into consideration in its business activities.

• The bank therefore commits to aligning its management structures and processes with this attitude. In the three strategic sustainability areas of responsibility, "Responsible banker", "Fair partner", and "Engaged citizen", which are closely linked to its business activities, the bank endeavors to professionally and effectively apply its values and competences to fostering sustainable development both in the company and in society.

The bank's sustainability aim is to concentrate on those areas with a significant potential impact. This requires the bank to continuously improve the sustainability impact of its business activities and develop ways to measure and verify this impact. In doing so, the bank hopes to increase the long-term value of the bank while also actively contributing to the sustainable development of the society.

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.

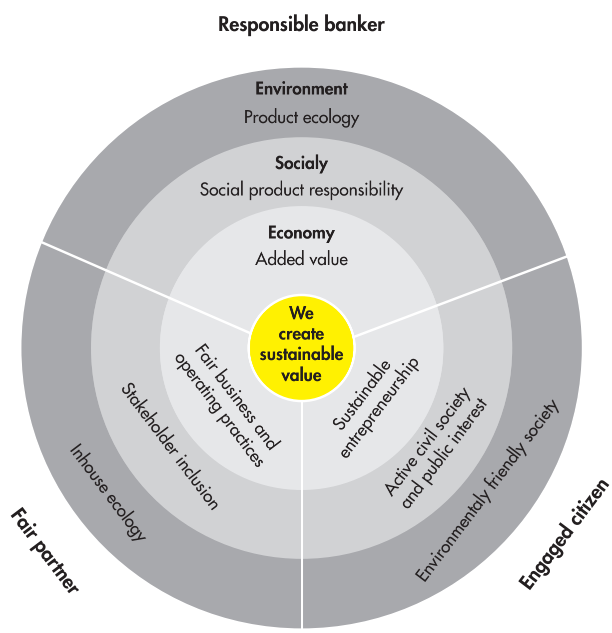
The ten principles of the UN Global Compact
Human rights
Principle 1: We support and respect the protection of international human rights within our sphere of influence.
Principle 2: We make sure that we are not complicit in human rights abuses.
Labour
Principle 3: We uphold the freedom of association and the effective recognition of the right to negotiations about Collective Bargaining Agreement.
Principle 4: We support the elimination of all forms of forced and compulsory labor.
Principle 5: We support the abolition of child labor.
Principle 6: We support the elimination of discrimination in employment and occupation.
Environment
Principle 7: We support a precautionary approach to environmental challenges.
Principle 8: We undertake initiatives to promote greater environmental responsibility.
Principle 9: We encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption
Principle 10: We work against corruption in all its forms, including extortion and bribery.

As a long-standing member of the UNEP Finance Initiative, RBI signed the "Principles for Responsible Banking" in early 2021, thereby committing to implement the six principles across its Group as well as in Raiffeisen Bank Kosovo. These principles provide the framework for sustainable banking and help the industry to show how it can make a positive contribution to society. They anchor sustainability at a strategic, portfolio and transaction level and in all areas of business.

The Principles for Responsible banking of UNEP Finance Initiative
Alignment
Principle 1: We will align our business strategy to be consistent with and contribute to individual's needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.
Impact and target setting
Principle 2: We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.
Clients and Customers
Principle 3: We will work responsibly with our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.
Stakeholders
Principle 4: We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.
Governance and culture
Principle 5: We will implement our commitment to these Principles through effective governance and a culture of responsible banking.
Transparency and accountability
Principle 6: We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Sustainability strategy

Raiffeisen Bank Kosovo's Sustainability strategy consists of nine core action areas within which the bank focuses its sustainability management. In order to systematically address these core areas, which are also important to its stakeholders, the bank continuously seeks to improve its sustainability strategy. In identifying the core action areas, the bank relies on the RBI perspective as well as the perspectives of its stakeholders that include its employees, customers, shareholders and suppliers, as well as non-governmental organizations and a number of other stakeholder groups. The bank carries out a multi-stage materiality analysis on a regular basis to prioritize these fields of activity. For this reason, as well as for the purpose of making any adjustments to its sustainability strategy, the bank places great value on maintaining a dialog with its stakeholders.



Our approach as designers of a sustainable company and society

Responsible banker

Raiffeisen Bank Kosovo in 2020 had many activities that have the effect of being a responsible banker in Kosovo. In terms of governance and compliance, the bank 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 risk management capacity to reduce credit and liability risks.

Sustainable lending
During 2020, the situation was different from other years since the situation of pandemics has affected other sustainable lending as well, and the bank's focus was to help its customers deal with the situation and help them overcome via moratoriums.

Responsible lending
Raiffeisen Bank Kosovo is committed to responsible lending policies. During 2020 with COVID-19, the bank's role was to help its customers to overcome their financial burden by offering to individuals and businesses moratorium. This meant that the bank was responsible to not let its customers default because of the pandemic's situation and their financial status.

Customer satisfaction
The satisfaction of the 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.

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 it are through the Code of Conduct (CoC) and clear, detailed regulations contained in the Compliance Manual.

Human Resources
Being the employer of choice in Kosovo remains the core objective of the bank. During pandemic this became more important whereas in focus was wellbeing and health management. Overall, the bank was stable with a slight decrease in headcount during 2020. The average age of employees remains 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.

Professional development
The bank is committed to grow and develop people, their knowledge and skills by offering a variety of learning and development opportunities. A specific focus was given to the concept of self-development and own initiative for online self-learning in 2020. The newly upgraded online Learning Management System offers high quality services and modern learning experience for learners using the latest technology.

Inhouse ecology
The management of climate risks – not just in inhouse ecology – is an increasingly important task for the economy. It was not without reason that the World Economic Forum classified climate change among the five greatest risks in the 2021 Global Risks Report. In Raiffeisen Bank Kosovo effective climate protection has therefore become a competitive factor and an important activity for the bank. The bank views environmental and climate protection as part of its responsibility toward society, and it sees itself as a fair partner to the environment.

Engaged citizen

The bank considers 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 2020, Raiffeisen Bank Kosovo continued to sponsor different projects in the 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 and this year due to the situation with pandemic COVID-19, bank provided equipment's and necessary materials for the unit under the Gynecological Clinic that has been created for the treatment of COVID-19 infected pregnant women through AMC with the main purpose of better treatment and protection of mother and their new born children from COVID-19.

As the COVID-19 pandemic continued to surge, one of the things that had become evident was that there wasn't enough personal protective equipment to go around to all the health professionals and caregivers who have put themselves at risk when treating people struck with the disease. Therefore, as part of social welfare, Raiffeisen Bank Kosovo during 2020 supported production of 1300 Face Shields by Bonevet for the doctors working in the regional medical health care centers.

Another collaboration in the area of welfare during 2020 was the signing of Memorandum of Understanding (MoU) with Unicef Office in Kosovo where bank and Unicef agreed to cooperate and support each other on socially important issues including but not limited to basic human rights, children care, health promotion and also aiming to develop a sustainable and protective environment for families in need that are affected by COVID-19. As part of the MoU with Unicef, the bank also donated two cars to the Health Care Centers in two regional health care centers as per highest number of visits and the cars will be used for home visits.

Culture remained one of the key areas that the bank continued to be engaged. The main cultural project that the bank is supporting for over ten years in a row is the well-known festival: Prishtina Film Festival. 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 the festival.

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 2020, 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.

Another activity in the area of education was donation of Tablets and school supplies for the children in need. Raiffeisen Bank in Kosovo in collaboration with H. Stepic CEE Charity Fund donated over 150 Tablets and over 250 school supplies for the students with poor economic status of lower secondary schools in the municipality of Prizren.

During 2020, Raiffeisen Bank Kosovo also supported Green Fest in Mitrovica with overall purpose to contribute in raising the public awareness on environmental protection and green entrepreneurship, through education program and cultural activism.

Financial statements

The Independent Auditor's Report and Separate Financial Statements for the year ended 31 December 2020 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 2020 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 2020 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
12 April 2021

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 2020, 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 2020, 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.

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 the International Financial Reporting Standards, 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 skepticism 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,
12 April 2021

Suzana Stavrikj
Statutory auditor

GRANT THORNTON L.L.C. KOSOVO

Separate statement of financial position

(amounts in € 000)	Notes	As at December 31, 2020	As at December 31, 2019
Assets			
Cash and cash equivalents and mandatory reserve	8	156,178	123,677
Due from banks	9	28,575	35,483
Financial assets at fair value through profit or loss	10	3,306	6,060
Financial assets at fair value through other comprehensive income	10	173,453	143,979
Loans and advances to customers	11	709,515	669,498
Other assets	12	3,428	1,713
Deferred tax asset	23	118	-
Investments in subsidiaries	13	2,234	2,234
Property, equipment and intangible assets	14	39,177	39,258
Total assets		**1,115,984**	**1,021,902**
Liabilities			
Due to banks	15	26,882	7,602
Deposits from customers	16	915,626	858,717
Financial liabilities measured at fair value	17	600	687
Other liabilities	18	8,211	7,351
Provisions	18	1,234	579
Deferred tax liability	26	-	230
Subordinated loan	19	19,298	19,325
Total liabilities		**971,851**	**894,491**
Shareholders' equity			
Share capital		63,000	63,000
Fair value reserve		550	480
Other reserves		1,955	-
Retained earnings		78,628	63,931
Total shareholder's equity	20	144,133	127,411
Total liabilities and shareholder's equity		**1,115,984**	**1,021,902**

Financial Statements are approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 12 April 2021.

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 48 to 114.

Separate statement of comprehensive income

(amounts in € 000)	Notes	For the year ending December 31, 2020	For the year ending December 31, 2019
Interest income calculated using the effective interest method	21	47,381	44,667
Interest expense calculated using the effective interest method	21	(2,395)	(2,653)
Net interest income		**44,986**	**42,014**
Dividend income	13	-	804
Fee and commission income	22	17,153	18,174
Fee and commission expense	22	(7,726)	(7,875)
Net fee and commission income		**9,427**	**11,103**
Net trading income/(expense)		(15)	113
Impairment losses on financial assets	6	(8,085)	(5,737)
Recoveries from loans previously written off		1,127	961
Net gains on financial assets at fair value through profit or loss	17	70	81
Other operating income	23	1,743	1,404
Net operating income		**49,253**	**49,939**
Personnel expenses	24	(13,687)	(13,518)
Depreciation of property and equipment and ROU	14, 25	(3,874)	(2,870)
Amortisation of intangible assets	14, 25	(1,884)	(1,909)
Other operating expenses	25	(11,334)	(11,132)
Profit before income tax		**18,474**	**20,510**
Income tax expense	26	(1,822)	(2,229)
Profit for the year		**16,652**	**18,281**
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		70	866
Total comprehensive income for the year		**16,722**	**19,147**

The separate statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 48 to 114.

Separate statement of changes in equity

(amounts in € '000)	Share capital	Retained earnings	Other Reserves	Fair value reserve	Total shareholder's equity
Balance at 1 January 2019	**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 / 1 January 2020 – as stated	**63,000**	**63,931**	**-**	**480**	**127,411**
Effect from transition from CBK reporting to IFRS reporting according to CBK requirements (note 20)	-	(1,955)	1,955	-	-
Balance at 31 December 2019 / 1 January 2020 – restated	**63,000**	**61,976**	**1,955**	**480**	**127,411**
Profit for the year	-	16,652	-	-	16,652
Net change in fair value of financial assets through other comprehensive income	-	-	-	70	70
Total comprehensive income	**63,000**	**78,628**	**1,955**	**550**	**144,133**
Contributions and distributions			-		
Dividends to equity holders	-	-	-	-	-
Balance at 31 December 2020	**63,000**	**78,628**	**1,955**	**550**	**144,133**

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 48 to 114.

Separate statement of cash flow

(amounts in € 000)	Notes	For the year ending December 31, 2020	For the year ending December 31, 2019
Cash flows from operating activities			
Interest received on loans		44,878	43,109
Interest paid on placements		(26)	116
Interest received on investment securities		940	(833)
Dividends received		-	804
Interest paid on deposits and subordinated loan		(2,366)	(2,528)
Fees and commissions received		17,153	18,174
Fees and commissions paid		(7,726)	(7,875)
Other income from non-banking activities		2,797	2,315
Staff costs paid		(13,053)	(13,463)
Other operating expenses paid		(10,739)	(16,319)
Income tax paid		(1,400)	(2,500)
Cash flow from operating activities before changes in operating assets and liabilities		30,458	21,000
Changes in operating assets and liabilities			
- Mandatory liquidity reserve		(4,505)	(11,492)
- Due from banks		48	(11)
- Loans and advances to customers		(48,636)	(83,548)
- Other assets		(1,716)	1,386
- Due to customers		58,606	129,230
- Deposits from banks		18,570	2,432
- Other liabilities		208	1,198
Net cash flow from / (used in) operating activities		53,033	60,195
Cash flows from investing activities			
Acquisition of property, equipment & intangibles assets	14	(5,308)	(10,625)
Income from property and equipment disposal		73	49
Proceeds from Investments securities		1,005	60,003
Investment in securities		(27,992)	(84,367)
Net cash (used in) / from investing activities		(32,222)	(34,940)
Cash flows from financing activities			
Repayment of borrowings		-	-
Proceeds from borrowings		709	5,046
Repayment of leased liabilities		(385)	-
Dividends paid		-	(19,400)
Net cash flow (used in) financing activities		324	(14,354)
Effect of exchange rate changes		2	(14)
Net decrease in cash and cash equivalents		21,137	10,887
Cash and cash equivalents at the beginning of year	8	75,532	64,644
Cash and cash equivalents at 31 December 2020	8	96,669	75,531

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 48 to 114.

Notes to the separate financial statements for the year ended 31 December 2020

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.

Raiffeisen Bank Kosovo (hereafter referred as 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 2020 the Bank has 7 branches and 34 sub-branches within Kosovo (31 December 2019: 8 branches and 37 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). These financial statements have been prepared using the going concern assumption.

More information about circumstances caused by the global pandemic of COVID-19 that affected Bank's operations and activities in 2020 is disclosed in Note 2.2. These circumstances did not affect the appropriateness of the going concern assumption of the Bank.

2.2 Significant events in the reporting period

Impact from the COVID-19 pandemic

The economic shutdown caused by the COVID-19 pandemic in March 2020, has had unprecedented economic repercussions. In rapid succession, most countries in Europe and US imposed restrictions to limit the transmission of COVID-19. In order to alleviate the economic consequences caused by such restrictions, policy interventions were enacted to assist individuals, households and businesses. Stabilization measures which affect the Bank include payment moratoriums, direct government assistance programs and subsidies to mitigate the economic impact, as well as restrictions on dividend payments. The measures introduced by many governments in March 2020 in order to restrict contact led to a lockdown of national economies.

Around the beginning of June 2020, Kosovo began a gradual and controlled reopening. Since the end of the summer, daily new infections in many countries rose above the levels recorded in the spring. By reintroducing measures to restrict contact, governments are endeavouring to bring the spread of the virus back under control. However, politicians have declared their intention to avoid a second comprehensive shutdown of the economy. Longer-term adverse effects on the economic situation in certain sectors are still to be expected. Due to the severe global recession, a significant decline in profit is expected for the current financial year. As a direct consequence in the 2020, additional expected impairment losses of around € 3.5 million were posted in excess of the ECL model. These were post-model adjustments to estimates of the expected credit losses. The adjustments were necessary as the models do not fully capture the speed of the changes and the severity of the pandemic's economic effects. Individual sectors such as Hotels & Restaurants and other small businesses have been hardest hit. Further information on the development in net provisioning for impairment losses can be found in the notes to the financial statements.

In addition to situation the CBK has introduced guidelines for a loan payment moratorium. Borrowers are granted a temporary deferral of obligations to make principal repayments as well as payments for interest and fees. Considering the situation created due to the infection caused by COVID 19, the Central Bank of the Republic of Kosovo (CBK) has taken adequate measures regarding the normal functioning of financial system.

The CBK together with the Kosovo Banking Association have jointly decided that for business and individuals who due to the situation in the country and the decline in the level of their income, to be able to suspend the payment of loan instalments, from March 16, 2020 to April 30, 2020 and the depending the situation, this suspension should be considered for longer.

During this crises Raiffeisen Bank Kosovo has managed seriously to consider all applications for moratoria and as of March 2020 in the total amount of € 394,344 thousand or 56 per cent, (April 2020: € 427,804 thousand or 61per cent) of gross portfolio was modified as per CBK Instructions.

The March decision was in force by the end of June 2020 and this was considered the phase 1 of loan modifications. During this period the penalty interest related to the loans was not be applied. During this period, no credit deterioration measures was applied to borrowers. During June 2020, the CBK has approved Guideline of loan restructuring during COVID 19.

Such a restructuring is done according to the following definitions:

- Include changes in the repayment period through the suspension, delay or reduction of principal, interest or full payments amounts, as agreed between the lending institution and the borrower taking into account the client's ability to overcome temporary financial difficulties.
- Regular interest calculated during the suspension period will be distributed over a minimum of the next six months, or until maturity, if the loan maturity period is less than six months.
- Restructuring or facilitating the payment of loan instalments (grace period, smaller principal, and similar) cannot be granted for a period longer than 12 months. Restructuring loans must be made and accepted from the date of entry into force of guideline until 31 August 2020.
- Loan restructuring does not necessarily mean that the borrower has failed, and the transaction is classified and considered non-performing. Lending institutions must count the days of delay based on the new payment plan resulting from the application of the moratorium.

As at 31 December 2020, € 331,807 thousand of loans outstanding were subject to a moratorium. A change in payment plans may lead to a net present value loss on an individual loan contract, which is generally recognized in the other result of Bank as a one-off adjustment to the gross carrying amount resulting from an immaterial modification of the contract. This NPV decrease of COVID 19 modified loans in mainly as result of payment moratoria of up to 9 months. The moratoria mean that any payment due has been deferred thus resulting in lower NPV than the loan before such moratoria implementation by the bank. In 2020, € 173 thousand was reflected in the income statement as loss for the period and decreasing balances receivable in this respect.

Direct government programs to counter the economic downturn caused by the COVID-19 pandemic, Kosovo adopted various support measures for the economy and to protect jobs. The measures include various forms of direct financial support for individuals, households and businesses to ensure that companies have sufficient liquidity during the COVID-19 pandemic.

2.3 New and amended standards and interpretations adopted by the Bank

Standards and amendments that are effective for the first time in 2020 are applicable to the Bank are:

• Definition of a Business (Amendments to IFRS 3)

In October 2018, the International Accounting Standards Board issued Definition of a Business (Amendments to IFRS 3). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

• Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Financial Statement Presentation and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify the definition of 'material' in the context of applying IFRS. As the concept of what is and is not material is crucial in preparing financial statements in accordance with IFRS, a change in the definition may fundamentally affect how preparers make judgments in preparing financial statements.

• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The International Accounting Standards Board ("IASB") published Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 representing the finalisation of Phase II of the project on 27 August 2020 to address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate, i.e. replacement issues. The accounting issues arising before an existing interest rate benchmark is replaced with an alternative risk free rate, i.e. pre-replacement issues, have been considered previously by the IASB and were addressed in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), published in September 2019 ("Phase I amendments"). These Phase I amendments provide temporary exceptions to specific hedge accounting requirements, to avoid entities having to discontinue hedging relationships solely due to the uncertainty arising from the reform.

• Amendments to Refences to the Conceptual Framework (Various Standards)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- a new chapter on measurement,
- guidance on reporting financial performance,
- improved definitions of an asset and a liability, and guidance supporting these definitions, and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

• *COVID-19 Rent Related Concessions (Amendments to IFRS 16)*The IA

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

These amendments do not have a significant impact on the Bank's Financial Statements and therefore additional disclosures have not been made.

2.4 New standards and interpretations not yet adopted by the Bank

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

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

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

2.5 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.

2.6 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 separate and consolidated financial statements in accordance with IFRS. The consolidated financial statements are prepared for local regulatory purposes and are not published 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 are 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 realized 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 (i.e. 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:

- it reasonably reflects how the market could be expected to price the instrument, and
- 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

- incorporates all factors that market participants would consider in setting a price, and
- 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 re-payment 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 three main approaches which can be used to calculate expected credit losses these are general approach, simplified approach and purchase or originated credit impaired financial assets

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 twelve-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 short term 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:

- Forgiveness of principal repayments,
- Forgiveness of interest,
- Sale of exposure below book value,
- 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,
- Granting of interest rates to the customer significantly below market (below funding cost of the bank or zero),
- Incurring non recoverable internal/external expenses,
- Recover less than the outstanding through realization of collateral.

Lifetime expected losses have to be considered in case:

- Amounts are past due for more than 90 days,
- Bankruptcy, insolvency or similar proceedings against the customer have been started,
- 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.

In determining the cash flows that the bank expects to receive it will adopt a sum of marginal losses approach whereby ECLs are calculated as the sum of marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the marginal probability of default (PD) for each period. The periodicity used will be monthly (i.e. marginal losses between months will be considered).

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	3,5%
	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.

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.

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 behaviour 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 separate financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

As a result of the COVID-19 pandemic, which affected the economy and financial markets, the Bank's Management conducted an additional assessment of the appropriateness of the accounting policies, estimates and assumptions used during 2020 and their impact on the possible impairment of assets and financial position, further cash flows and the result of the Bank's operations. The performed assessments do not indicate the existence of a materially significant impact on the adequacy of accounting policies, estimates and assumptions, nor the existence of indications for impairment of the Bank's assets.

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.

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.

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.

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
- operational 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 are 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 2020 and 31 December 2019.

		Stage 2			Stage 3				
31 December 2020	Gross carrying amount	Temporary modifications to T&Cs due to COVID 19	Permanent modifications to T&Cs	Total performing forborne loans	Temporary modifications to T&Cs due to COVID 19	Permanent modifications to T&Cs	Total non-performing forborne loans	Total forborne loans	Forbearance ratio
Due from banks	14,337	-	-	-	-	-	-	-	0%
Loans and advances to customers									
Non-Retail	324,994	103,714	3,354	-	3,320	2,195	4,542	4,542	1.40%
Retail	408,487	172,086	4,603	3,548	5,537	2,044	2,147	5,695	1.39%
Total loans and advances to customers	733,481	275,800	7,957	3,548	8,857	4,239	6,689	10,237	1.39%

		Stage 2		Stage 3			
31 December 2019	Gross carrying amount	Permanent modifications to T&Cs	Total performing forborne loans	Permanent modifications 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%

	Gross amount of forborne loans			ECLs of forborne loans		
31 December 2020	Stage 2	Stage 3	Total	Stage 2 Collective	Stage 3 Collective	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Non-Retail	3,214	3,068	6,282	205	-	205
Retail	3,548	2,147	5,695	357	1,944	2,301
Total loans and advances to customers	6,762	5,215	11,977	562	1,944	2,506

	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

The following table provides suspension of loan repayment instalments from March 2020 to June 2020:

Months	March	April	May	June
Total amount of Gross Portfolio	703,630	705,371	703,768	706,550
Total amount of modified loans	394,344	427,804	431,933	399,317
Percentage of modified loans	56%	61%	61%	57%

The following table provides restructured loans as per CBK guideline issued in June 2020:

Months	July	August	September	October	November	December
Total amount of Gross Portfolio	708,911	706,778	717,597	719,949	730,401	733,481
Phase 1 March Decision	263,462	263,575	251,275	237,462	253,228	249,637
Phase 2- Restructured Loans as per June Guideline	95,440	97,243	100,471	98,244	95,340	82,170
Percentage of modified loans- Phase 1	37%	37%	35%	33%	35%	34%
Percentage of Restructured loans- Phase 2	13%	14%	14%	14%	13%	11%

Loans and advances to customers

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2020 of financial assets by counterparty sector.

	Credit risk exposure	
	2020	2019
Central Bank of Kosovo	81,228	60,931
Other Banks	42,154	38,158
Investments in subsidiaries	2,234	2,234
Sovereigns	134,121	107,184
International Corporates	42,789	43,002
Local Corporates	324,994	308,271
Local Retail customers	408,487	379,147
Total financial assets risk exposure	1,036,007	938,927

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	
	2020	2019
Maximum exposure to credit risk		
Gross amount	733,481	687,418
Allowance for impairment	(23,966)	(17,920)
Net carrying amount	709,515	669,498
Loans with renegotiated terms		
Gross carrying amount	12,054	19,109
Allowance for impairment	(3,795)	(4,971)
Net carrying amount	8,259	14,138

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 2020	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	604	10,375	10,979	447	5,822	6,269
Residential Real Estate	47,385	-	47,385	40,693	-	40,693
Movable	359,719	314,619	674,338	175,873	294,732	470,605
Unsecured	779	-	779	-	-	-
Total	408,487	324,994	733,481	217,013	300,554	517,567

	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

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 2020		
	Total gross carrying amount	Stage 1	Stage 2	Stage 3	Fair value of the collateral
Non-retail Customers	324,994	249,807	65,714	9,473	300,554
Retail Customers	408,487	333,249	61,688	13,550	217,013
Total Loans and Advances to Customers	733,481	583,056	127,402	23,023	517,567
			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

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk as at 31 December 2020 and 31 December 2019 for loans and advances to customers past due and impaired – Stage 3 and POCI are presented below:

			31 December 2020		
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 month	Total
Non-retail Customers	3,856	250	875	4,492	9,473
Retail Customers	940	140	1,021	11,449	13,550
Total Loans and advances to customers impaired	4,796	390	1,896	15,941	23,023
			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

Set out below describe changes in loans classification and provisioning due to CBK the implementation of IFRS 9 affective 1 January 2020:

	31 December 2019					
	Standard	Watch	Substandard	Doubtful	Loss	Total
Gross loans and advances to customers	660,079	4,985	4,264	5,825	11,998	687,151
Impairment on Loans	2,963	314	853	2,913	11,998	19,041
Net loans and advances to customers	657,116	4,671	3,411	2,912	0	668,110

	Restated 31 December 2019			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances to customers	643,507	25,221	18,690	687,418
Impairment on loans	2,832	1,757	13,331	17,920
Net loans and advances to customers	640,675	23,464	5,359	669,498

Total change in Loan Gross Portfolio due to implementation of IFRS 9 is €267 thousand which is due to Unwinding interest (not recognized as income based on CBK regulations), whereas change in the provision of loans for year end 2019 is €1,121 thousand. The change in the adaption of IFRS 9 has had a regulatory impact in the retained earnings for the year end 2020 by creating an other reserve account from transition.

Off Balance Sheet items

Set out below describe changes in off balance items classification and provisioning due to CBK the implementation of IFRS 9 effective 1 January 2020

	31 December 2019					
	Standard	Watch	Substandard	Doubtful	Loss	Total
Total Off- balance exposure	96,035	50	8	-	641	96,734
Provision for Off-balance items	623	1	2	-	641	1,267
Net Off balance sheet items	95,412	49	6	-	-	95,467

	Restated 31 December 2019			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Total Off- balance exposure	88,242	7,277	1,215	96,734
Provision for Off-balance items	233	12	126	371
Net Off balance sheet items	88,009	7,265	1,089	96,363

Total change in provision of Off-balance sheet items due to the implementation of IFRS9 is €896 thousand, such change has affected other reserves included in equity of the bank.

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	2020	2019
P-1	19,528	11,498
P-2	18,351	23,312
P-3	4,275	2,537
	42,154	37,347

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:

	2020	2019
P-1	115,217	78,609
P-2	36,759	37,167
P-3	-	-
Not Rated	24,783	34,263
	176,759	150,039

The exposure reported as not rated reflects the Bank's exposure to Republic of Kosovo. The table below represents the risk exposure based on the counterparty risk of the exposure.

	2020	2019
Kosovo Government Treasury Bills and Bonds	24,783	34,263
Other OECD Treasury Bills and Government Bonds	123,781	72,774
Corporate bonds	28,195	43,002
Total investment securities	176,759	150,039

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 2020, the overage of liquidity reserve is € 24,588 thousand (2019: € 8,903 thousand).

The table below shows net carrying amounts of assets and liabilities as at 31 December 2020 and 2019 by their remaining contractual maturity.

However, the Bank expects that many customers will not request repayment of deposits on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history. In addition, the Bank is using EU LCR delegated act for liquidity management and is required to keep liquidity for 10 percent to 10.9 percent for retail uninsured deposits and percent for insured deposits. For non retail an outflow of 33 percent to 85 percent is planed based if account is operational or not. The EU LCR should be above 100 per cent. As of 31 December 2020, the Bank was well over this limit at above 400 percent.

	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	68,852	-	-	87,326	156,178
Due from banks	28,575	-	-	-	28,575
Loans and advances to customers	7,681	17,365	135,845	548,624	709,515
Investment securities	1,493	4,971	111,194	59,101	176,759
Other assets	-	-	3,034	-	3,034
Total financial assets	**106,601**	**22,336**	**250,073**	**695,051**	**1,074,061**
Liabilities					
Deposits from customers	912,080	941	2,197	408	915,626
Due to banks	5,879	-	21,003	-	26,882
Subordinated debt	298	-	-	19,000	19,298
Other liabilities	-	-	8,611	-	8,611
Total financial liabilities	**918,257**	**941**	**31,811**	**19,408**	**970,417**
Net gap position at 31 December 2020	**(811,656)**	**21,395**	**218,262**	**675,643**	**103,644**

	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	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	**851,253**	**979**	**21,898**	**19,402**	**893,532**
Net gap position at 31 December 2019	**(768,711)**	**41,004**	**117,081**	**696,740**	**86,114**

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 2020 and 2019 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 2020 and 2019 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	142,599	13,579	-	156,178
Due from banks	-	28,575	-	28,575
Loans and advances to customers	709,515	-	-	709,515
Investment securities	24,768	91,680	60,311	176,759
Other assets	3,034	-	-	3,034
Total financial assets	**879,916**	**133,834**	**60,311**	**1,074,061**
Liabilities				
Deposits from customers	870,938	14,410	30,278	915,626
Deposits from banks	5,879	21,003	-	26,882
Subordinated debt	-	19,298	-	19,298
Other liabilities	8,011	-	600	8,611
Total financial liabilities	884,828	54,711	30,878	970,417
Net gap position at 31 December 2020	**(4,912)**	**79,123**	**29,433**	**103,644**

	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**	**14,162**	**86,114**

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 2020 and 2019. 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	146,122	6,141	3,915	156,178
Due from banks	7,258	15,483	5,834	28,575
Loans and advances to customers	709,515	-	-	709,515
Investment securities	145,091	31,668	-	176,759
Other assets	3,034	-	-	3,034
Total financial assets	**1,011,020**	**53,292**	**9,749**	**1,074,061**
Liabilities				
Deposits from customers	845,383	57,111	13,132	915,626
Deposits from banks	26,882	-	-	26,882
Subordinated debt	19,298	-	-	19,298
Other liabilities	8,611	-	-	8,611
Total financial liabilities	**900,174**	**57,111**	**13,132**	**970,417**
Net gap position at 31 December 2020	**110,846**	**(3,819)**	**(3,383)**	**103,644**
	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**	**86,114**

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 2020	31 December 2019
1 USD	1.2274	1.1206
1 CHF	1.0804	1.0845
1 GBP	0.899	0.8540

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 Month 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	68,852	-	-	-	87,326	156,178
Due from banks	28,575	-	-	-	-	28,575
Loans and advances to customers	7,681	17,365	135,845	548,624	-	709,515
Investment securities	1,493	4,971	111,194	59,101	-	176,759
Other assets	-	-	-	-	3,034	3,034
Total financial assets	**106,601**	**22,336**	**247,039**	**607,725**	**90,360**	**1,074,061**
Liabilities						
Deposits from customers	130,967	941	2,197	408	781,113	915,626
Deposits from banks	4,877	-	21,003	-	1,002	26,882
Subordinated debt	298	-	-	19,000	-	19,298
Other liabilities	-	-	-	-	8,611	8,611
Total financial liabilities	136,142	941	23,200	19,408	790,726	970,417
Net gap position at 31 December 2020	**(29,541)**	**21,395**	**223,839**	**588,317**	**(700,366)**	**103,644**

Non-interest bearing deposits in the amount of € 782,115 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	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	138,031	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**	**124,021**	**613,919**	**(637,971)**	**86,114**

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	2020				2019			
	EUR	USD	CHF	GBP	EUR	USD	CHF	GBP
Assets								
Due from banks	(0.6)	0.3	(0.8)	0.2	(0.4)	1.9	(0.3)	0.6
Government Bonds HTM yield	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Government Bonds AFV yield	1.7	N/A	N/A	N/A	0.6	1.7	N/A	N/A
Government Bonds AFS yield	0.2	1.4	-	-	0.2	1.7	-	-
Loans and advances to customers	6.7	N/A	N/A	N/A	6.7	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	(0.4)	0.0	0.0	0.0	0.3	1.0	(0.1)	0.0
Savings accounts	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0

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 of end of 2020 and 2019. Value at risk as of 31 December 2020 is Euro value At Risk (99 per cent, 1d) in Banking Book, is € 543 thousand. The results of the sensitivity analysis are presented to the management on a weekly basis and are independently reviewed by RBI Vienna Risk Management.

	+ 200 bps		- 200 bps		Research	
Main Categories of sensitivity 2020	Y1	Y2	Y1	Y2	Y1	Y2
NII Sensitivity	1,13M	3,84M	-5,41M	-9,34M	-0,02M	-0,08M
Valuation sensitivity	-0,78M	0,57M	0,77M	-0,58M	-0,04M	-0,04M
Total Sensitivity	0,35M	4,41M	-4,64M	-9,92M	-0,07M	-0,12M
Main Categories of sensitivity 2019	Y1	Y2	Y1	Y2	Y1	Y2
NII Sensitivity	1.81M	4.36M	-4.16M	-8.35M	n/a	n/a
Valuation sensitivity	-1.06M	0.36M	1.12M	-0.33M	n/a	n/a
Total Sensitivity	0.75M	4.73M	-3.04M	8.68M	n/a	n/a

The mechanism of control interest rate risk is utilized through the daily Basis Point Value (BPV) reports. The Bank currently has a total 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 requirements for operational risk are calculated based on CBK regulation "on operational risk management", using the basic indicator approach. Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15 per cent (fifteen per cent) of the relevant indicator. The relevant indicator is the average over three years of the sum of net interest income and net non-interest income.

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 requirements where updated beginning 01 January 2020 and the requirement for Common Equity Tier 1 ("CET 1") is 4.9 per cent of risk-weighted assets, Tier 1 capital above 9 per cent of risk-weighted assets and 12 per cent of risk-weighted assets for total own funds, e.i. Tier 1 Capital plus Ties 2 Capital (2019: 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 2020 and 2019.

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. The bank assets are assigned one of the weights based on the CBK Regulation on Capital Adequacy. To calculate risk-weighted exposure amounts, risk weights are applied to all exposures, unless deducted from own funds, in accordance with article 44 to 58 of Regulation on Capital Adequacy. The application of risk weights is based on the exposure class to which the exposure is assigned and, to the extent specified in its credit quality. Credit quality may be determined by reference to the credit assessments of External Credit Assessment Institutions (ECAI) or the credit assessments of Export Credit Agencies (ECA) in accordance with the Regulation on the use of external credit assessments for the purpose of calculation of the regulatory capital.

	31 December 2020	31 December 2019
Total risk weighted assets	750,436	709,263
Total risk weighted off balance exposures	29,406	27,102
Total risk weighted assets for operational risk	55,259	55,259
Total	**835,101**	**791,624**
Regulatory capital (Total Capital)	129,214	127,963
Capital adequacy ratio (Total Capital)	15.47%	16.16%

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:

	2020	2019
Debt	19,299	20,646
Equity	144,133	127,410
Net debt to equity ratio	13%	16%

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 2020	Fair value Level 3 2020	Carrying value 2019	Fair value Level 3 2019
Loans and advances to customers	709,515	701,327	669,498	651,156
Liabilities				
Deposits from customers	915,626	915,626	858,717	858,717
Deposits from banks	26,882	26,882	7,602	7,602

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 2020				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	176,759	151,834	24,926	-
Financial investments at fair value through profit or loss	3,306	-	3,306	-
Financial investments at fair value through OCI	173,453	151,834	21,620	-
Derivatives	**600**	**600**	**-**	**-**
Derivatives held for risk management	600	600	-	-

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	-	-

6 Impairment losses on financial assets

The table below shows the ECL charges on financial instruments for the year 2020 recorded in the income statement:

Credit loss expense 2020	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	-	-	-	-	-	-	-
Loans and advances to customers	-	(46)	-	(2,580)	(3,287)	(2,113)	**(8,026)**
Debt instruments measured at FVOCI	(4)	-	-	-	-	-	**(4)**
Off balance (Financial guarantees and loan commitments)	-	(25)	-	(30)	-	-	**(55)**
Total impairment losses	**(4)**	**(71)**	**-**	**(2,610)**	**(3,287)**	**(2,113)**	**(8,085)**

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)**
Off balance (Financial guarantees and loan commitments)	-	(21)	-	-	-	-	**(21)**
							-
Total impairment loss	**(82)**	**(464)**	**-**	**396**	**(4,957)**	**(630)**	**(5,737)**

7 Changes in liabilities arising from financing activities

	1 January 2020	Cash flows	Declaration of Dividends	31 December 2020
Interest bearing borrowings Note 16	5,170	709	-	5,879
Dividends payable	-	-	-	-
Total liabilities from financing activities	**5,170**	**709**	**-**	**5,879**

	1 January 2019	Cash flows	Declaration of Dividends	31 December 2019
Interest bearing borrowings Note 16	124	5,046		5,170
Dividends payable	-	(19,400)	19,400	-
Total liabilities from financing activities	**124**	**(14,354)**	**19,400**	**5,170**

8 Cash and cash equivalents and mandatory reserve

	2020	2019
Cash on hand	61,371	60,071
Balances with the CBK	81,228	60,931
Correspondent accounts with other banks	13,579	2,675
Allowance for accounts with other banks	-	-
Total	**156,178**	**123,677**

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of € 87,326 thousand (31 December 2019: € 82,821 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 2020 and 2019, the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2020	2019
Term deposits (note 9)	27,817	34,675
Cash and cash equivalents and mandatory reserve	156,178	123,677
Less: Mandatory liquidity reserve	(87,326)	(82,821)
Cash and cash equivalents for the purposes of cash flow statement	**96,669**	**75,531**

Negative interest has been applied on the balances (above the liquidity reserve requirement) with CBK for current reporting year of (0.6) percent and previous reporting year (0.6 per cent).

9 Due from banks

Term deposits are placed with banks operating in OECD countries. The balance of due from banks includes accrued interest of € 3 thousand (31 December 2019: € 2 thousand). Guarantee deposits include an amount of € 758 thousand as at 31 December 2020 (31 December 2019: € 808 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.

	2020	2019
Term deposits	27,817	34,675
Guarantee deposits	758	808
Allowances for impairment	-	-
Total due from banks	**28,575**	**35,483**

10 Investment securities

	2020	2019
Investments at fair value through profit or loss	3,306	6,060
Debt securities at fair value through OCI	173,603	144,125
Allowances for impairment	(150)	(146)
Total investment securities	**176,759**	**150,039**

Financial Investments at fair value through profit or loss and debt securities at fair value through OCI as at 31 December 2020 represent one month to-five year bonds and treasury bills denominated in EUR and US dollar issued by Germany, France, Austria, United States of America, Poland 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.

		2020		
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing	-	-	-	-
Excellent	151,983	-	-	151,983
Strong	-	-	-	-
Good	-	-	-	-
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	21,620	-	-	21,620
Total	**173,603**	**-**	**-**	**173,603**

		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**

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2019	144,125	-	-	144,125
New assets originated or purchased	69,895	-	-	69,895
Assets derecognised or matured	(39,942)	-	-	(39,942)
Change in fair value	(475)	-	-	(475)
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 2020	**173,603**	**-**	**-**	**173,603**

	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**

	2020			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	(146)	-	-	(146)
New assets originated or purchased	72	-	-	72
Assets derecognised or matured	(48)	-	-	(48)
Change in fair value (excluding write offs)	(28)	-	-	(28)
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	**(150)**	**-**	**-**	**(150)**

	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	(39)	-	-	(39)
New assets originated or purchased	(117)	-	-	(117)
Assets derecognised or matured	10	-	-	10
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)**

11 Loans and advances to customers

	2020	2019
Corporate Customers		
Current and restructured loans	284,716	262,691
Overdraft facilities	40,278	45,581
	324,994	**308,272**
Retail Customers		
Current and restructured loans	389,031	361,047
Overdraft facilities	19,456	18,099
	408,487	**379,146**
Loans and advances to customers	**733,481**	**687,418**
Less: Allowance for impairment	(23,966)	(17,920)
Loans and advances to customers, net	**709,515**	**669,498**

Loans and advances to customers include accrued interest income for € 2,336 thousand (31 December 2019: € 2,524 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:

					2020	2019
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	-	-	-	-	-	-
Strong	4,232	51	-	-	4,283	3,850
Good	195,498	29,374	-	10	224,882	286,913
Satisfactory	146,041	46,843	-	14	192,898	204,925
Substandard	4,934	15,521	-	117	20,572	27,610
Credit impaired	-	-	17,399	4,756	22,155	18,118
Unrated	232,351	35,613	-	727	268,691	146,002
Total	**583,056**	**127,402**	**17,399**	**5,624**	**733,481**	**687,418**

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 2020	643,374	25,221	16,580	2,243	687,418
New assets originated or purchased	351,506	50,116	2,589	3,748	407,959
Assets derecognised or repaid	(266,097)	(15,067)	(2,886)	(250)	(284,300)
Transfers to Stage 1	2,987	(2,858)	(129)	-	-
Transfers to Stage 2	(72,657)	72,780	(123)	-	-
Transfers to Stage 3	(3,149)	(1,538)	4,687	-	-
Changes due to change in credit risk (net)	(72,888)	(1,241)	(1,389)	(98)	(75,616)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(20)	(11)	(1,931)	(18)	(1,980)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2020	**583,056**	**127,402**	**17,398**	**5,625**	**733,481**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 01 January 2020	2,832	1,757	12,146	1,185	17,920
New assets originated or purchased	1,554	1,568	1,851	2,126	7,099
Assets derecognised or repaid	(713)	(617)	(2,246)	(142)	(3,718)
Transfers to Stage 1	23	(21)	(2)	-	-
Transfers to Stage 2	(2,352)	2,363	(11)	-	-
Transfers to Stage 3	(2,101)	(1,259)	3,360	-	-
Changes due to change in credit risk (net)	3,635	546	335	129	4,645
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(20)	(11)	(1,931)	(18)	(1,980)
Foreign exchange adjustments	-	-	-	-	
At 31 December 2020	**2,858**	**4,326**	**13,502**	**3,280**	**23,966**

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**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2020 (2019: 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.

					2020	2019
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	-	-	-	-	-	-
Strong	4,232	51	-	-	4,283	3,852
Good	122,186	18,502	-	-	140,688	145,853
Satisfactory	119,642	33,392	-	-	153,034	130,189
Substandard	3,631	13,769	-	-	17,400	21,247
Credit impaired	-	-	4,718	4,756	9,474	7,131
Unrated	115	-	-	-	115	-
Total	**249,806**	**65,714**	**4,718**	**4,756**	**324,994**	**308,272**

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 2020	285,446	15,695	5,593	1,538	308,272
New assets originated or purchased	202,242	35,428	288	3,271	241,229
Assets derecognised or repaid	(186,780)	(12,562)	(1,322)	15	(200,649)
Transfers to Stage 1	1,299	(1,299)	-	-	0
Transfers to Stage 2	(28,638)	28,638	-	-	0
Transfers to Stage 3	(552)	(7)	559	-	0
Changes due to change in credit risk (net)	(23,210)	(179)	(176)	(53)	(23,618)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(225)	(15)	(240)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2020	**249,807**	**65,714**	**4,717**	**4,756**	**324,994**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2020	391	385	3,636	754	5,166
New assets originated or purchased	518	513	12	1,730	2,773
Assets derecognised or repaid	(215)	(250)	(1,246)	15	(1,696)
Transfers to Stage 1	2	(2)	-	-	0
Transfers to Stage 2	(286)	286	-	-	0
Transfers to Stage 3	(420)	-	420	-	0
Changes due to change in credit risk (net)	676	(100)	228	79	883
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(225)	(15)	(240)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2020	**666**	**832**	**2,825**	**2,563**	**6,886**

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	2,031
Assets derecognised or repaid	(510)	(208)	(817)	0	(1,535)
Transfers to Stage 1	5	(5)	0	-	0
Transfers to Stage 2	(109)	109	0	-	0
Transfers to Stage 3	(87)	(233)	320	-	0
Changes due to change in credit risk (net)	19	209	(580)	(1)	(353)
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**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2020 (2019: 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:

					2020	2019
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	-	-	-	-	-	-
Strong	-	-	-	-	-	-
Good	73,312	10,872	-	10	84,194	141,059
Satisfactory	26,399	13,451	-	14	39,864	74,737
Substandard	1,303	1,753	-	117	3,173	6,363
Credit impaired	-	-	12,681	-	12,681	10,987
Unrated	232,236	35,612	-	727	268,575	146,000
Total	**333,250**	**61,688**	**12,681**	**868**	**408,487**	**379,146**

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 2020	357,927	9,527	10,987	705	379,146
New assets originated or purchased	149,264	14,688	2,301	477	166,730
Assets derecognised or repaid	(79,317)	(2,505)	(1,564)	(265)	(83,651)
Transfers to Stage 1	1,688	(1,559)	(129)	-	-
Transfers to Stage 2	(44,019)	44,142	(123)	-	-
Transfers to Stage 3	(2,597)	(1,531)	4,128	-	-
Changes due to change in credit risk (net)	(49,678)	(1,062)	(1,213)	(45)	(51,998)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(20)	(11)	(1,706)	(3)	(1,740)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2020	**333,248**	**61,689**	**12,681**	**869**	**408,487**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2020	2,440	1,373	8,509	432	12,754
New assets originated or purchased	1,036	1,055	1,839	396	4,326
Assets derecognised or repaid	(498)	(367)	(1,000)	(157)	(2,022)
Transfers to Stage 1	21	(19)	(2)	-	-
Transfers to Stage 2	(2,066)	2,077	(11)	-	-
Transfers to Stage 3	(1,681)	(1,259)	2,940	-	-
Changes due to change in credit risk (net)	2,959	646	107	50	3,762
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(20)	(11)	(1,706)	(3)	(1,740)
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2020	**2,191**	**3,495**	**10,676**	**718**	**17,080**

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	1,854	4,472	167	8,199
New assets originated or purchased	1,393	576	591	280	2,840
Assets derecognised or repaid	(351)	(291)	(449)	(36)	(1,127)
Transfers to Stage 1	51	(49)	(2)	-	0
Transfers to Stage 2	(556)	566	(10)	-	0
Transfers to Stage 3	(2,543)	(2,542)	5,085	-	0
Changes due to change in credit risk (net)	2,818	1,261	(331)	21	3,769
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	**2,440**	**1,373**	**8,509**	**432**	**12,754**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2020 (2019: nil).

As at 31 December 2020 the Bank has 585 borrowers (31 December 2019: 527 borrowers) with aggregated loan amounts above € 100 thousand. The aggregate amount of these loans is € 296,631 thousand or 40 per cent of the gross loan portfolio (31 December 2019: € 275,024 thousand or 40 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 € 19,040 thousands.

As at 31 December 2020, there is no counterparty (2019: 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 € 129,570 thousand, (2019: € 120,144 thousand).

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

	2020	%	2019	%
Trade	153,083	21%	158,156	23%
Individuals	485,641	66%	431,818	63%
Manufacturing, chemical and processing	62,867	9%	55,567	8%
Service	13,479	2%	13,548	2%
Construction and construction servicing	5,774	1%	7,879	1%
Food industry and agriculture	12,054	2%	19,810	3%
Other	583	0%	640	0%
Total loans and advances to customers before allowance for loan impairment	**733,481**	**100%**	**687,418**	**100%**

12 Other assets

	2020	2019
Prepayments and advances for services	305	642
Due from Visa and MasterCard	1,146	949
Other	1,888	-
Repossessed properties	89	122
Total other assets	**3,428**	**1,713**

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 per cent 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

	2020	2019
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**	**2020**	**2019**
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 2020 is nil (2019: € 719 thousands) and from Raiffeisen Insurance Broker is nil (2019: € 85 thousands).

14 Property, equipment and intangible assets

The following is a breakdown of property and equipment owned and leased:

	2020	2019
Property, plant and equipment and intangible assts owned	36,846	36,510
Right-of-use assets (ROU) under IFRS 16	2,331	2,748
Property, Plant and Equipment	**39,177**	**39,258**

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

		2020		
	Property	Vehicles	IT equipment	Total
Balance at 1 January	2,631	31	85	2,747
Additions in current year	787	-	-	787
Depreciation charge for the year	(965)	(6)	(13)	(984)
Disposals	(220)	-	-	(220)
Balance at 31 December	**2,233**	**25**	**72**	**2,330**

		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)	(925)
Balance at 31 December	**2,631**	**31**	**85**	**2,747**

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

	2020	2019
Less than one year	865	1,055
One to five years	1,540	2,096
More than five years	5	20
Total undiscounted lease liabilities at 31 December	**2,410**	**3,171**
Lease liabilities included in Note 18 as at 31 December	**2,423**	**2,809**

Amounts recognized in the profit or loss of the Bank for the year ended 31 December 2020:

	2020	2019
Interest on lease liabilities IFRS 16	(159)	(146)
Expenses relating to short-term leases & low-value leases	(177)	(848)
Depreciation of ROU	(984)	(924)
Total expenses from leases	**(1,320)**	**(1,918)**

As at 31 December 2020 and 2019, there are no restrictions or covenants imposed by leases. In addition, as at 31 December 2020 and 2019, there are no leases not yet commenced to which the Bank as a lessee is committed.

	Buildings and Land used for own purposes	IT Equipment	Other Equipment and leasehold improvements	Intangible assets	Total
Opening Balance as at 1 January 2020	24,561	14,593	10,414	18,983	68,551
Additions	115	975	570	3,648	5,308
Disposals	-	(2,341)	(1,377)	-	(3,718)
As at 31 December 2020	24,676	13,227	9,607	22,631	70,141
Accumulated depreciation and amortisation					
Opening Balance as at 1 January 2020	37	10,668	5,405	15,931	32,041
Depreciation/amortisation charge for the year (Note 25)	453	1,235	1,202	1,884	4,774
Disposals	-	(2,305)	(1,215)	-	(3,520)
As at 31 December 2020	490	9,598	5,392	17,815	33,295
Net book value at 31 December 2020	24,186	3,629	4,215	4,816	36,846

	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	-	(875)	(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

As at 31 December 2020 and 2019 there are no property, equipment and intangible assets encumbered of pledged to secure bank liabilities.

15 Due to banks

	2020	2019
Borrowings		
Overdrawn accounts used for operational purposes with other commercial Banks – OECD Countries	5,879	5,170
Deposits		
Other commercial banks – non OECD Countries	21,003	2,432
Total due to banks	26,882	7,602

16 Deposits from customers

	2020	2019
Corporate customers:		
Current accounts	145,339	155,019
Savings accounts	465	3,087
Term deposits	-	10,030
	145,804	168,136
Retail customers:		
Current accounts	635,774	556,402
Savings accounts	129,250	128,256
Term deposits	4,798	5,923
	769,822	690,581
Total customer accounts	915,626	858,717

As at 31 December 2020, customer accounts include accrued interest for € 1 thousand (31 December 2019: € 31 thousand). As at 31 December 2020 the Bank has 1,092 customers each with balances above € 100 thousand (31 December 2019: 862 customers). The aggregate balances of these customers are € 320,472 thousand or 34 per cent of total customer accounts (31 December 2019: € 272,822 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 2020 was a gain of € 70 thousand (2019: a gain of € 81 thousand). Fair value of SWAP contracts as at 31 December 2020 was loss of € 600 thousand and reported as liability (2019: loss of € 687 thousand). Details of related party balances are presented in Note 29.

	2020	2019
Opening balance 01 January	687	812
Accrued interest on the SWAP paid	(157)	(206)
Change from fair value	70	81
Fair value as of 31 December	600	687

18 Provisions and other liabilities

	2020	2019
Clearing deposits from payment transfer business	787	528
Deferred income	200	150
Accrued staff costs	401	367
Payables to suppliers	2,926	2,580
Accrued operating expenses	387	417
Other taxes payable	948	344
Lease liability IFRS 16 (Note 14)	2,423	2,809
Other	139	156
Other liabilities	**8,211**	**7,351**
Provision for litigations and off balance sheet credit exposures (see below)	**1,234**	**579**

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 amount of € 787 thousand as at 31 December 2020 (31 December 2019: € 528 thousand).

Deferred income as at 31 December 2020 and 31 December 2019 represents the amount of deferred fees for customer overdrafts.

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

	2020	2019
Provision for litigations and off-balance sheet credit exposures at the beginning of the year	**579**	**537**
Provision / (release of provision) for off balance sheet credit exposures (note 6)	55	21
Provision / (release of provision) for legal litigations (note 25)	600	21
Usage of previous year provisions	-	-
Provision for litigations and off-balance sheet credit exposures at the end of the year	**1,234**	**579**

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

	2020	2019
Provision for off balance sheet credit exposures	425	370
Provision for litigations	809	209
Total Provision	**1,234**	**579**

For more details regarding off balance sheet credit commitments, refer to Note 27.

19 Subordinated loan

Subordinated loan consists of the loan issued by Raiffeisen Bank International, the following are the balances for year 2020 and 2019:

	2020	2019
Subordinated loan	19,298	19,325
Total	**19,298**	**19,325**

The subordinated loan bears an annual effective interest rate of 8.95 per cent (2019: 9.94 per cent). The subordinated loan is repayable on 30 July 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 2020 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 2020 and 2019 is as follows:

Shareholder	2020 Number of shares	2020 Amount in thousands EUR	2020 Voting share	2019 Number of shares	2019 Amount in thousands EUR	2019 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.

Other reserves

Implementation of IFRS 9 from Central Bank of Kosovo (CBK) regulatory reporting framework resulted on a cliff effect of € 1,955 thousand which mainly comes due to changes on impairment methodology for on and off balance sheet items. Total change on provisions was net of € 2,561 thousand. Net change on tax liabilities - Deferred Income tax, Current tax liabilities, Deferred tax liabilities was € 147 thousand, while change on Other Assets was € 88 thousand, respectively € 371 thousand on Other Liabilities. This reserve will be disclosed as a separate item in the equity of the bank and may not be distributed as dividend payment.

21 Interest income and expense

	2020	2019
Interest income at effective interest		
Loans and advances to customers	46,605	43,311
Investment securities	715	1,140
Due from banks	61	216
Total interest income	**47,381**	**44,667**
Interest expense		
Deposits from customers	(45)	(101)
Due to banks	-	(3)
Due from banks	(88)	(104)
Derivative financial instruments (non-trading)	(143)	(179)
Subordinated loan	(1,706)	(1,918)
Other interest expense	(413)	(348)
Total interest expense	(2,395)	(2,653)
Net interest income	**44,986**	**42,014**

22 Fee and commission income and expense

	2020	2019
Payments transfer business	14,730	15,732
Loan administration and guarantee business	894	898
Foreign currency business	1,467	1,522
Other banking services	62	22
Total fee and commission income	**17,153**	**18,174**
Payment transfer business	(6,720)	(6,868)
Other banking services	(1,006)	(1,007)
Total fee and commission expense	**(7,726)**	**(7,875)**

23 Other operating income

	2020	2019
Profit from fixed assets disposal	54	65
Profit from sale of repossessed assets	34	16
Other income	1,655	1,323
Total other operating income	**1,743**	**1,404**

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

	2020	2019
Salaries and wages	12,529	12,261
Pension contributions	633	637
Other voluntary social expenses	525	620
Share incentives	-	-
Total personnel expenses	**13,687**	**13,518**

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 2020 amounted to € 1,088 thousand (2019: € 1,002 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

	2020	2019
Depreciation of tangible assets	2,890	1,946
Depreciation for ROU	984	924
Total other operating expenses	**3,874**	**2,870**

	2020	2019
Amortization of intangible assets	1,884	1,909

	2020	2019
IT cost	2,814	2,140
Legal, advisory and consulting expenses	1,886	1,900
Deposit insurance fees	1,392	1,270
Office space expenses (rental, maintenance, other)	1,119	1,827
Advertising, PR and promotional expenses	965	1,242
Security expenses	959	961
Expenses on provisions for legal litigations	600	21
Other administrative expense	562	482
Training expenses for staff	240	335
Communication expenses	195	177
Office supplies	179	217
Modification gains/losses	173	-
Car expenses	166	272
Travelling expenses	84	288
Total other operating expenses	**11,334**	**11,132**

The below table represents details for modification gains or losses which do not lead to derecognition of the financial asset classified as financial assets at amortised cost. The table presents the effect of modification expenses based on the IFRS stage classification of the loan before modification. This result presented in the other operating expenses is calculated as NPV difference in book balance of original loan compared with modified loans of customers which benefited from payment moratoria on loan instalments based on the CBK guidelines for payment moratoria. The deferral of loan instalments for three more months, has resulted in lower NPV of future cash flows discounted using the old effective interest rate. The difference resulting from decrease in NPV has been recognized as expense in the current reporting period and will be amortized in the interest income considering the average life of the loans included in the calculation.

	2020			
	Stage 1	Stage 2	Stage 3	POCI
Modifications that have not resulted in derecognition	(240)	(53)	102	19

26 Income tax expense

	2020	2019
Current tax charge	2,169	2,253
Deferred taxation	(347)	(24)
Income tax expense for the year	**1,822**	**2,229**

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2019: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

		2020		2019
Profit before taxation		18,474		20,510
Tax charge for the year at the applicable statutory rate	10%	1,847	10%	2,051
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	1.7%	322	1%	202
Current tax charge (effective income tax rate)	**11.7%**	**2,169**	**11%**	**2,253**

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 in 2019 was calculated as the difference between IFRS impairment provision and the impairment as per Central Bank Regulations which were also deductible for tax purposes. As at 31 December 2020, there are no temporary difference related to impairment provisions, since the Bank is issuing only one set of financial statements based on IFRS. The differences are presented in the table below.

	2019	Movement during 2020	2020
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	-	-	-
Term deposits – accrued interest	1	1	2
Other legal provisions	21	60	81
Gross deferred tax asset/(liability)	22	61	83
Tax effect of taxable temporary differences			
Loan impairment provision	(90)	90	-
Provision for off-balance sheet credit exposure	(72)	72	-
Property, equipment and intangible assets	(90)	125	35
Total net deferred tax (liability)	**(230)**	**348**	**118**

	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)**

27 Contingencies and commitments

Legal proceedings and other regulatory fines. From time to time and in the normal course of business, claims against the Bank are received. As at 31 December 2020, the Bank had a number of legal cases pending in the court. During December 2020 the bank was fined by FIC for an amount of € 600 thousand. This amount was recognized as provision in the current year but not paid by 31 December 2020. On the basis of internal judgement based on previous court rulings and Management decision, the Bank has made a total provision of € 809 thousand (2019 € 209 thousand) as the nearest estimate of possible cash outflows arising from possible court decisions and the fine.

Capital commitments. As at 31 December 2020 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2019: 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:

	2020	2019
Not more than 1 year	93	247
More than 1 year and not more than 5 years	-	-
Total operating lease commitments	93	247

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:

	2020	2019
Commitments to extend credit	50,743	44,247
Guarantees (credit facility)	39,939	35,047
Guarantees (cash covered)	3,299	3,370
Letters of credit (credit facility)	3,515	3,383
Letters of credit (cash cover)	-	-
Trade Finance line of credit	7,556	8,535
Stand by letter of credit	1,629	2,152
Total credit related commitments	106,681	96,734
Allowance for credit related commitments (Note 18)	(425)	(370)
Net credit related commitments	106,256	96,364

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

The bank was subject to tax inspection for year 2019.

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 2020, the Bank has six interest rate SWAP contracts with a notional amount of € 6,630 thousand (2019: € 6,630 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:

	2020			2019		
	Parent	Subsidiaries	Other related party	Parent	Subsidiaries	Other related party
Assets	**230**	**4,178**	**171**	**1,355**	**3,243**	**88**
Cash and cash equivalents and mandatory reserve	-	-	-	863	-	-
Due from banks	-	-	-	-	-	-
Loans and advances to customers	-	1,944	-	-	1,009	-
Other Loans	-	-	-	-	-	-
Other assets	230	-	97	369	-	-
Investments in subsidiaries	-	2,234	-	-	2,234	-
Property, equipment and intangible assets – NBV	-	-	74	123	-	88
Liabilities	**21,781**	**12**	**20,271**	**20,943**	**-**	**896**
Customer accounts	-	-	-	-	-	-
Due to banks	2,313	12	20,194	1,320	-	896
Subordinated debt	19,298	-	-	19,325	-	-
Other liabilities	170	-	77	298	-	-

	2020			2019		
Statement of profit and loss and other comprehensive income	**(1,178)**	**18**	**(920)**	**(3,729)**	**844**	**(668)**
Interest income	-	7	-	-	37	-
Interest expense	(1,849)	-	(17)	(2,099)	-	(2)
Dividend Income	-	-	-	-	803	-
Net fees and commission	(430)	-	(1,311)		-	(1,099)
Net valuation result financial instruments carried at fair value	-	-	-	87	-	-
Other operating Income	1,101	11	408	772	4	507
Other operating Expenses	-	-	-	(2,489)	-	(74)
Off Balance Sheet	**-**	**3,305**	**-**	**-**	**3,989**	**-**
Guarantees	-	-	-	-	-	-
Letter of credit		-	-	-	-	-
Other commitments	-	3,055	-	-	3,989	-

In the following table are presented management remuneration for the year ended 31 December 2020 and 2019:

	2020	2019
Management Remuneration	1,088	1,002

29 Subsequent events

Instruction on loan restructuring due to COVID 19

On 2 February 2021 the Executive Board of Central Bank of Kosova approved the Instruction on loan restructuring due to COVID -19. The purpose of the Guideline is to set the criteria on which the loan restructuring process should be based, so that borrowers in financial difficulties have the opportunity to fulfil the obligations stipulated in the contract, and return to normal business activity or improving the solvency of individuals in relation to the current obligation.

The instruction sets down the main guidelines related to loan restructuring by which loans should be restructured in a way as to ensure that modifications of loans that are restructured to be in the mutual interest of the lending institution and borrower, in order to improve loan performance, on the one hand, and reduce credit risk on the other. According to this instruction the restructuring of one loan should not result in the extension of the term of repayments of more than 9 months.

The bank will work with its customers and will apply the instruction for all cases identified or applications received by bank customers ensuring all those in need benefit from loan restructure without negative effect on customer credit rating and ensuring the aggregate repayment period is not over 9 months.

Bank dividend declaration

On the Raiffeisen Bank Kosovo's General Shareholder meeting dated 19 February, a dividend payment of € 18 million was approved. The dividend payment will be executed once the distribution is approved by the Central Bank of Kosova.

Execution of fine payment to FIC

On 22 February 2021 the bank has executed the payment to FIC (Financial Intelligence Unit) which was recognized by the bank as expense in 2020 and included as provision in the balance sheet of the bank dated 31 December 2020. Additional information on note 27.

Except as disclosed above, there are no significant events after the reporting date that may require adjustment or disclosure in the separate financial statements.

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