Raiffeisen Bank

Annual Report 2023


Raiffeisen BANK
Raiffeisen BANK

Overview

Monetary values are in € million	**2023**	**2022**	**Change**
Income Statement	**1/1-31/12**	**1/1-31/12**	
Net interest income	*63.8*	*52.5*	*21.4%*
Net commission income	*14.8*	*14.4*	*3.1%*
Gains or losses on financial assets and liabilities	*1.4*	*(0.3)*	*601.4%*
Other operating income	*8.2*	*7.7*	*5.7%*
General administrative expenses	*(41.2)*	*(37.1)*	*11.1%*
Profit before tax	*34.6*	*33.1*	*4.4%*
Profit after tax	*30.4*	*29.4*	*3.6%*
Earnings per share	*N/A*	*N/A*	*N/A*
Balance Sheet			
Loans and advances to banks	*12.0*	*25.9*	*-53.8%*
Loans and advances to customers	*925.5*	*862.9*	*7.3%*
Investment securities	*256.0*	*197.8*	*29.4%*
Deposits and borrowings from banks	*7.7*	*8.4*	*-8.4%*
Deposits from customers	*1,219.3*	*1,129.0*	*8.0%*
Equity (incl. minorities and profit)	*151.1*	*142.7*	*5.9%*
Balance-sheet total	*1,425.3*	*1,298.2*	*9.8%*
Local Regulatory information			
Risk-weighted assets B2, incl. market risk and ops. risk	*1,016.0*	*952.3*	*6.7%*
Total own funds	*171.6*	*133.1*	*29.0%*
Total own funds requirement	*121.9*	*114.3*	*6.7%*
Excess cover ratio	*40.7%*	*16.4%*	*24.3 PP*
Core capital ratio (Tier 1)	*15.7%*	*13.5%*	*2.2 PP*
Total own funds ratio	*16.9%*	*14.5%*	*2.4 PP*
Performance			
Return on equity (ROE) before tax	*25.9%*	*25.9%*	*0 PP*
Return on equity (ROE) after tax	*22.8%*	*23.0%*	*-0.2 PP*
Cost/income ratio	*44.3%*	*46.7%*	*-2.4 PP*
Return on assets (ROA) before tax	*2.6%*	*2.3%*	*0.3 PP*
NPL	*3.4%*	*2.6%*	*0.8 PP*
NPL coverage ratio	*73.9%*	*77.7%*	*-3.8 PP*
Net provisioning ratio	*1.4%*	*0.6%*	*0.8 PP*
Risk/earnings ratio	*15.4%*	*7.5%*	*7.9 PP*
Resources			
Number of staff	*948*	*912*	*3.9%*
Business outlets	*36*	*37*	*-2.7%*

Contents

Report of the Supervisory Board

Ladies and Gentlemen,

In 2023, Raiffeisen Bank in Kosovo celebrated two decades of operations in the country. During this year, the bank achieved remarkable results and maintained its position as the market leader. Additionally, the bank continued its efforts to further advance its digital portfolio of services and products and remained at the forefront of raising awareness about ESG (Environmental Social Governance) principles in Kosovo.

During the 2023 financial year, the members of the Supervisory Board held four ordinary meetings. The overall attendance rate for Supervisory Board meetings was around 95 per cent.

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Raiffeisen Bank in 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.

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

On behalf of the Supervisory Board

Peter Lennkh
Chairman of the Supervisory Board

Report of the Management Board

In 2023, Raiffeisen Bank Kosovo maintained its position as a market leader, achieving robust growth despite dynamic economic conditions. The bank achieved excellent results across key financial indicators, while also demonstrating strong commitment to advancing our Environmental, Social, and Governance (ESG) agenda and enhancing overall services. Our dedication to providing a superior banking experience was underscored by the expansion of our client base, showcasing our ability to effectively meet the evolving needs of our customers.

In terms of financial performance, on 31 December 2023, Raiffeisen Bank Kosovo's total assets stood at €1,425.3 million, making a notable increase of 9.8 per cent when compared to the previous year. As of 31 December 2023, total loans and advances amounted to €925.5 million, compared to €862.9 million in 2022 while the market share in loans and advances as of 31 December 2023 was 19.6%. It is also worth highlighting that the total customer deposits reached €1,219 million in 2023, up from €1,129 million in the previous year, marking an increase of 8 percent. The bank achieved a net profit after tax of €30.4 million.

To demonstrate our commitment to ESG principles, in 2023 we released our inaugural Sustainability Report, providing a comprehensive overview of the bank's economic, environmental, and social impact during the 2022 financial year. This milestone signifies the first instance of a bank in Kosova publishing such a report. Our ongoing efforts in the realm of ESG were acknowledged at the Euromoney Awards for Excellence 2023, where we were recognized as the Best Bank for ESG in Kosovo. Additionally, we received awards for Best Bank for Corporates and Best Bank for Digital Solutions. Furthermore, the bank made significant strides in facilitating financing for the green transition by maintaining and intensifying collaborations with strategic partners such as the European Bank for Reconstruction and Development, EBRD.

In 2023, Raiffeisen Bank Kosovo further improved its products and services across customer segments, with a particular emphasis on enhancing and growing the digital interactions. New features were introduced to our primary digital platform, Raiffeisen Plus, and overall, growth was observed across various digital banking channels. Additionally, our bank continued to be recognized in the 'Expanding Choices through Family-Friendly Policies' project by UNFPA for its ongoing commitment to family-friendly workplace policies, and our support package for employees continues to evolve and improve.

In 2023 we celebrated an important milestone of operating for two decades in Kosova. Given the context in which we entered the market in 2003, it is safe to say that the bank has had a unique journey of growing together with the customers, partners, and the employees. And the bank will continue to count on all of them as it looks towards a bright future!

On behalf of the Management Board,

Anita Kovacic
Chairwoman of the Management Board

Raiffeisen Bank Kosovo Management Board

Anita Kovacic

Chairwoman of the
Management Board
Chief Executive Officer

Iliriana Toçi

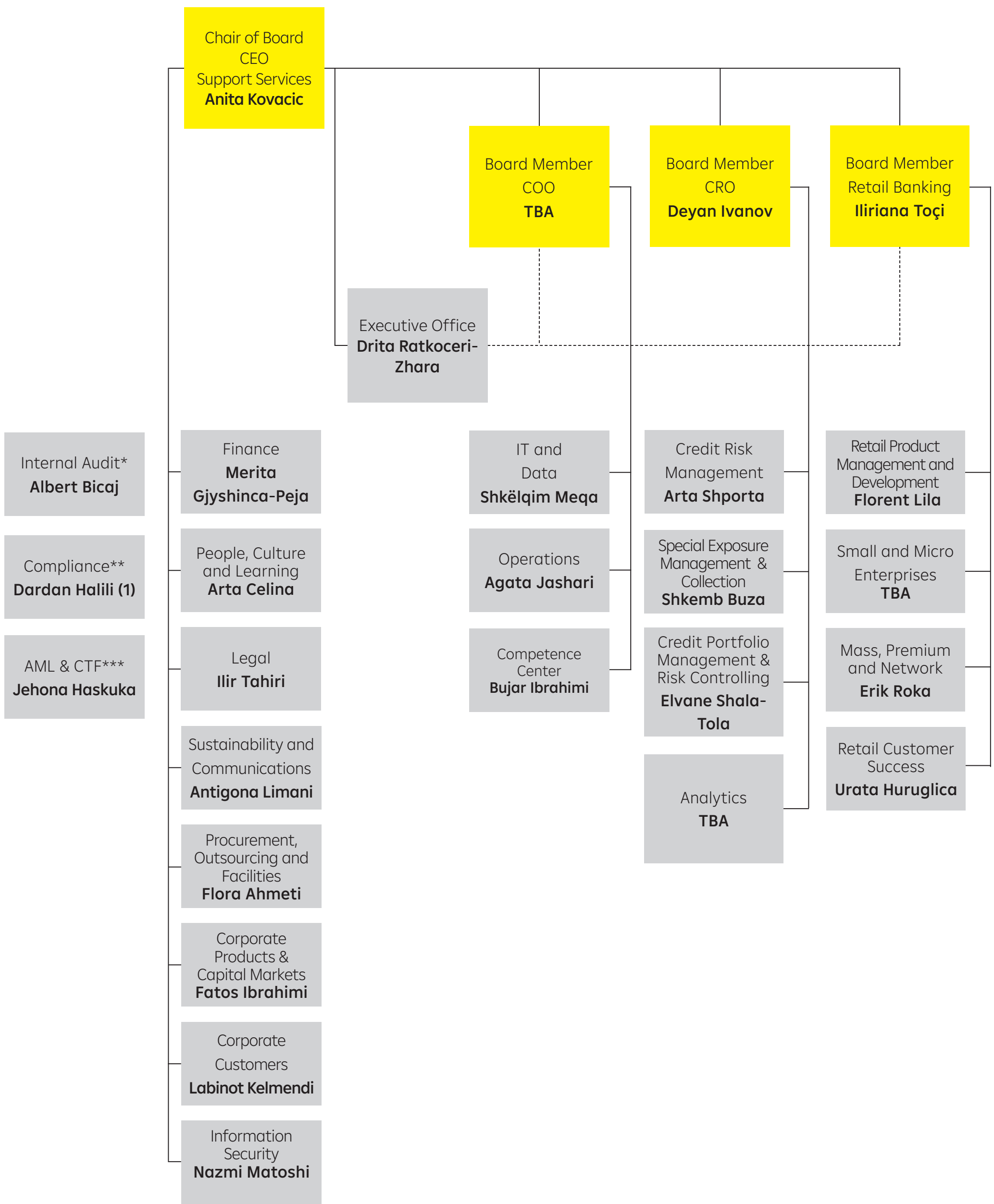
Member of the
Management Board
Retail Banking

Deyan Ivanov

Member of
Management Board
Risk Management

Raiffeisen Bank Kosovo Organisation Structure

As of 31 December 2023



* Internal Audit reports directly to Audit Committee of Supervisory Board

** Compliance reports directly to the Supervisory Board and to MB

*** AML reports directly to Supervisory Board and to MB

1) Data Protection Officer reports to the Board of Management

Raiffeisen Bank Kosovo Vision and Mission

Vision

We are the most recommended bank in Kosovo.

Mission

We transform continuous innovation into superior customer experience.

Raiffeisen Bank International at a glance

Raiffeisen Bank International (RBI) regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 12 markets in 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 18.6 million customers from more than 1,500 business outlets, the vast majority of which are in CEE.

The regional Raiffeisen banks hold approximately 61.17 per cent of RBI's shares. The remaining shares are held in free float.

Developments in the economy of Kosovo

Kosovo's economic performance in 2023 was characterized by moderate growth of 3.3%, primarily driven by robust domestic demand. Household consumption, the largest expenditure component, played a pivotal role in propelling this growth, contributing a significant 7.2 percentage points. This surge in consumer spending stemmed from two key factors. Firstly, lending activity witnessed exceptional growth (17.3% in 2023 for household loans). This expansion was likely fueled by a highly competitive lending market and moderate interest rate increases. Secondly, the labour market displayed positive dynamics, with a declining unemployment rate (11.5% in Q1 2023 compared to 16.6% a year prior) and an employment rate increase (2.7% yoy), alongside wage growth. Administrative data further confirms a 3.7% year-on-year rise in employed persons by November 2023. While official wage growth figures for 2023 remain unpublished, pressure for further increases is expected to persist in 2024.

Gross capital formation emerged as the second major driver of growth, contributing 3.2 percentage points. This can be linked to lower inflation and the support provided to the construction sector, which benefited from reduced costs. Public consumption, however, delivered a slight negative contribution due to a focus on fiscal consolidation. This prudent strategy yielded positive results, closing the year with a low fiscal deficit (estimated at 0.7% of GDP) and reduced public debt (17.2% of GDP, down from 20% in 2022). While domestic demand served as a powerful engine for growth in 2023, the external sector remains Kosovo's main structural weakness. Net exports negatively impacted real GDP growth by 6.7 percentage points. Although exports of services experienced growth, reflecting increased diaspora travel and IT exports, Kosovo persists as a net importer. Imports of goods, a significant portion of total imports, continue to drive the trade deficit, posing a major hurdle for the economy's long-term growth trajectory.

The inflation rate declined substantially in 2023, closing the year at 2.3%, the best level of the year. The average annual inflation rate was 4.9% significantly down from 11.6% in 2022. The base effect and a slowdown in food and transport prices have contributed to the decline in headline inflation. However, the core inflation despite it is in its downward trend, it remains higher than the overall one. In December 2023 it dropped to 2.6% from 4% in November, but still higher than 2.3% headline inflation, thus it needs to be monitored due to persistent increases in service prices, particularly in recreation, hotels and restaurants, and healthcare. We forecast a lower inflation rate in 2024, at 3.6% from 4.9% in 2023, but tighter domestic labor market conditions and the evolution of energy prices in the global market could further exacerbate inflation pressures. Furthermore, given Kosovo's high dependency on imports, the country remains exposed to fluctuations in international market prices.

In 2023 fiscal figures continued to display an excellent performance. Revenues including receipts from financing and donor grants reached circa Eur 2.86 billion or 9.1% more than in 2023 due to continuous efforts to strengthen tax compliance. Likewise, expenditures amounted to EUR 2.93 billion, or 11.5% more than in 2022, however the implementation of the public investment program is projected to improve. As a result, there was a deficit of EUR 65 million, making up only 0.7% of GDP. The government's slightly expansionary fiscal stance provided an additional boost to economic activity. This involved increased spending on public infrastructure and social programs. From the other side, the Stand-By Arrangement (SBA) and the Resilience and Sustainability Facility (RSF) arrangements agreed upon by the IMF and Kosovo in April 2023 which provide financial support to Kosovo while also outlining key reforms the country needs to undertake to strengthen its public sector and overall economy has been evaluated on track so far. Furthermore, the public debt to GDP kept improving, dropping from 20.0% in 2022 to 17.2% in 2023. In absolute value public debt decreased by 5.1% yoy in 2023.

In contrast to the previous year, the external sector has improved, impacted positively by the drop in the import prices. So, the current account balance resulted in a deficit of € 741.6 million at the end of 2023, or 19.1% better than in 2022. This positive trend is thanks to two key players: a booming services sector and strong secondary incomes. The services account, which consistently brings in more money than it spends, saw an 18.8% jump in 2023. Meanwhile, secondary incomes, a major contributor to plugging the deficit gap, rose by a healthy 9.5% to reach EUR 2.06 billion, fueled by remittances from Kosovars abroad. Nevertheless, the balance of trade in goods remained a hurdle, with a deficit of EUR 4.6 billion, reflecting a 7.3% year-on-year increase. This can be attributed to both a 6.5% decline in exports (EUR 870.7 million) and a 4.8% rise in imports (EUR 5.47 billion). Despite the trade gap, there are positive signs on the investment front. Direct investments flowing into Kosovo reached EUR 816 million in 2023, or 11.5% more than in 2022. Meanwhile remittances continued their upward trajectory, reaching EUR 1.3 billion (a 10% increase). Remittances and FDI together are a solid source of financing for the current account deficit.

Looking into 2024, the GDP growth is expected to be higher as lower inflation rate and higher wages will make consumers more likely to spend more and businesses to invest more supported by loans and government projects. Diaspora, is expected to stay strong, boosting the economy. However, geopolitical risks are present, while EU penalties should be resolved to not harm the economy in the future. Furthermore, its economic dependence on trade makes stable commodity prices crucial for local progress of economy.

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

Banking Sector in Kosovo

The banking sector, in particular, and the financial system in general were exposed to risks that stem from worsening macroeconomic factors. The deterioration of the geopolitical situation and inflationary pressures continued to affect economic growth throughout the year 2023. Economic policies and monetary tightening affected the reduction of the inflation level, but the consequences of inflation transmitted in other segments remain still current. Inflation has produced a negative effect on the consumption basket, increase in interest rates on loans, increase in real estate prices, labor market - pressure on salary, but that these pressures are expected to be more softened in the coming year.

The banking sector in Kosovo structure and complexity are simpler resulting in low exposure to the external sector and the potential consequences of any crisis or similar turbulences is estimated that they would not risk directly the banking sector. Meanwhile, the negative effects that stem from macroeconomic dynamics such as economic growth in the eurozone, the rate of inflation and the increase in the cost of financing has more impact directly to the internal demand in Kosovo and consequently, implications in the dynamics of the banking sector.

Over the years, the banking sector has ensured a high level of capitalization, liquidity, and high quality of assets (loans). The level of capitalization beyond the regulatory requirements makes the sector more stable to the uncertainties caused by the geopolitical crises, the increase in inflation and the slowdown in economic activity. Lending activity had the main contribution to the growth of banking sector assets, followed by investments in securities. The European Central Bank has not further increased the basic interest rates, which is an indicator of the containment of inflation, which it is expected to have a slight increase and then a gradual decrease in 2024, while in 2025 it is expected to fall at the recommended level (below 2.0 percent).

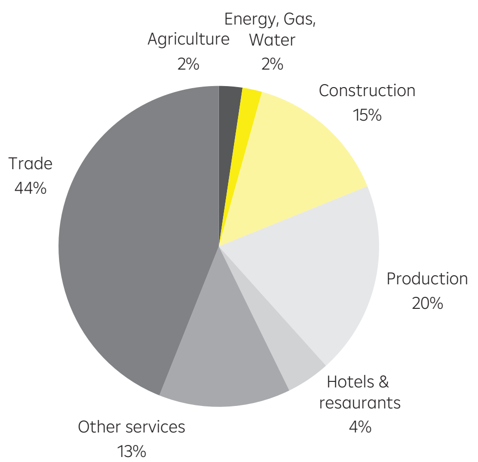
Banks of Kosovo serve the citizens and businesses of Kosovo by offering a wide range of financial services. Banking business in Kosovo is traditional in nature. It largely comprises the acceptance of deposits and granting of loans. Virtually all banking business is conducted in euros, and there is no cross-border activity except for placements from and with foreign banks and parent bank groups of Kosovo banks and also security investments mostly in OECD government securities. The number of banks in actual year did not change compared to a year before. There are 12 licensed banks operating in Kosovo as of Dec 2023, out of which 9 are with foreign ownership of capital and the rest being locally owned capital. Total assets of foreign owned banks are 84.3% as of Dec 2023.

The total number of banking branches in the market increased from 200 in 2022 to 215 in Dec 2023. In addition, the number of employees in banking sector also increased from 3,781 in 2022 to 4,022 of Dec 2023.

Total assets of the banking sector reached € 7.5 billion on 31 December 2023 (2022: € 6.8 billion). The growth of total assets in 2023 was 11.6 per cent and it was lower compared to increase of 13.5 per cent in 2022. 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 followed by investments in securities and placements with banks.

Total loans and advances reached a value of € 4.9 billion (2022: € 4.4 billion), which is an annual increase of 13 per cent (2022: 16 percent). This growth was made possible mainly as result of increase in demand for new loans as the banking sector did impose certain tightening policies as result of economic situation and the inflationary pressures. According to Bank Lending Survey (AKB), the dynamics of lending during 2023 were affected by credit demand, while the credit offer from the banking sector had marginal changes. The economic sector concentration of loans and advances to businesses continued to be dominated by the trade sector with an overall share of 44 per cent, followed by production with 20 per cent and other construction with 15 per cent. In 2023 the largest increase in absolute terms was in the trade sector at € 103 mn followed by construction which increased by € 60 mn.

(Source: bqk-kos.org | Seritë Kohore | Banka Qendrore e Republikës së Kosovës).



Business Loan Sector Concentration

Banking sector investments in securities including bonds and T-bills was € 896.5 million on 31 December 2023 (2022: € 752.1 million), an increase of 19.2 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.

The financing of banking sector activities continued to be supported by customer deposits and own capital, specifically the profit kept from the previous periods and the profit realized up to December 2023. Both items constitute 93.2 percent of liabilities and equity, where 81.7 percent consist only of deposits. So, the growth of the banking sector is largely dependent on the performance of deposits, which determine the direction of the sector's movement.

Value of customer deposits at the end of December 2023 reached 6.1 billion euros which represents an annual increase of 10.4 percent (2022: 11.3 percent). Deposits of two segments of the private sector scored slightly slowing growth, but that this growth lower was more of the comparative effect of from 2022 to 2021, since Q3 of 2022 was characterized by much more pronounced growth annual that may have been influenced by the beginning of interest rate increases in that period.

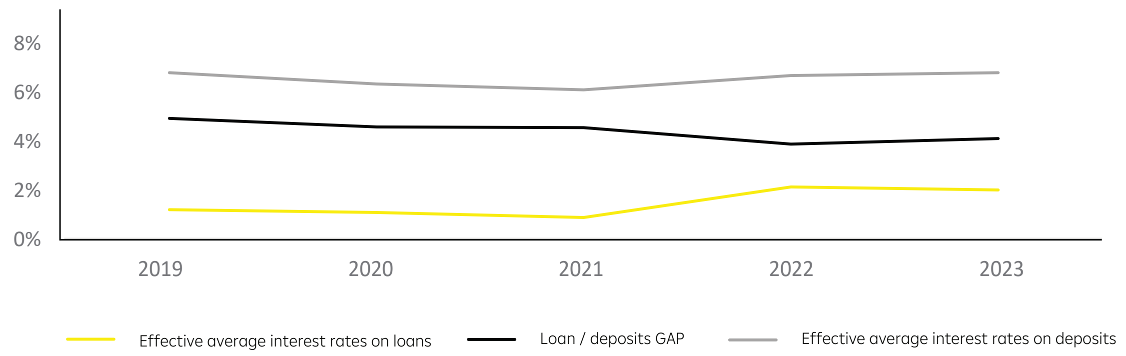
Deposits of public corporations, non-residents and NGOs noted slower growth compared to 2022. Meanwhile, the deposits of other financial corporations, which are mainly deposits of pension funds, marked an accelerated increase compared to the previous year. In December 2023, the value of deposits of family economies reached 4.06 billion euros, annual growth of 11.4 percent thus determining the general trend of total deposits in the banking sector.

Deposits of non-financial corporations in end of December 2023 reached 1.32 billion euro, representing an annual increase of 12.6 percent. Constant increase of competition in the country encouraged banks to offer more attractive conditions for depositing means mainly through the increase in rates interest on deposits, change which u also reflected in the marked increase of time deposits from both segments.

The European Central Bank has not raised any more the basic interest rates, which is indicative of curbing inflation, which is expected to have a slight increase and then gradual decrease in the year 2024, while in 2025 it is expected to fall to the recommended level (below 2.0 percent). These developments in politics monetary policy of the ECB may also affect the interest rates applied by local banks, which did not decrease, it is expected that they will not increase further, as happened from the second half of last year. Moreover, also in the last survey conducted with banks, they do not expect an increase in interest rates.

Interest rates on new loans and deposits marked a gradual increase since the beginning of last year, driven by from the application of tight monetary policies by central banks in the fight against inflation. In the banking market in Kosovo, the interest rates on new deposits have been affected at a higher level than the rates of interest in new loans. In December of this year, the interest rate on loans reached 6.4 percent from 6.3 percent in December 2022. Also, the average interest rate on deposits rose to 3.1 percent from 2.4 percent in December 2022. The loan-deposit interest margin narrowed to 3.3 percentage points from 4 percentage points due to the higher interest rate increase on deposits compared to those on loans.

Market effective interest rates



The banking sector at the end of 2023 realized a net profit of 155.9 million euro, the highest level in relation to previous years. Such a positive financial result was achieved mainly by the increase in revenues which was better than a year ago, while expenses also continued the trend increasing for the second year in a row. Total revenues reached the value of 435.5 million euros, which represents an annual increase of 17.6 percent. Main contribution in the income increase was by the income from interest, which represents 74.6 percent of total revenues. Within the interest income, interest income from loans mainly contributed to this increase, a category affected by the significant increase in lending, especially in the last three years, as well as the increase in interest rates on loans.

In addition, income from placements with banks have grown significantly compared to the same period of the previous year. Whereas, the category of non-interest income, mainly from fees and commissions, reaching the value of 95.7 million euros at the end of 2023. The value of the expenses of the banking sector reached 279.6 million euros by December 2023. The highest contribution to this growth of expenses was the growth of general and administrative expenses as well as interest expenses.

Also, interest expenses recorded an annual increase of 55.3 percent which is attributed to the increase in interest rates on deposits in particular and financing in general, as well as simultaneously increasing the volume of deposits in the sector.

Over the years, the banking sector has managed to provide high level of capitalization and liquidity, as well as to keep a low ratio of non-performing loans. The levels of these indicators beyond the regulatory requirements give advantage to the sector in absorbing losses likely to be caused in the event of any negative macroeconomic or financial shock. The quality of assets, specifically portfolios credit marked improvement starting from the last quarter of 2021 until September of last year, where the value of non-performing loans there was an average downward trend of 2.5 percent. The NPL Ratio remained flat at 2% in December 2023 at the same level as in December 2022.

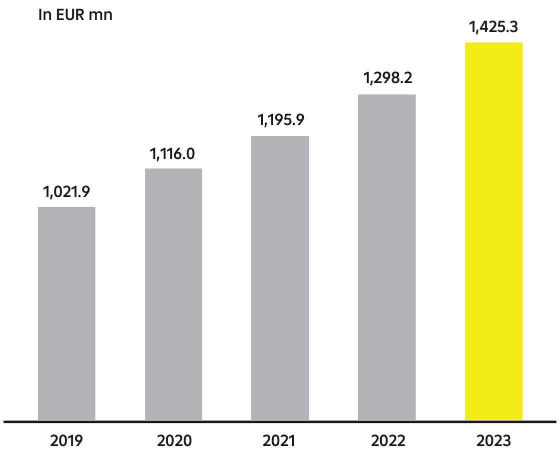
Coverage with provisions from potential losses from loans was reduced lightly to 145.9 percent, from 149.7 percent in December 2022, due to higher growth of the value of non-performing loans than the value of provisions set aside for loan coverage.

Raiffeisen Bank Kosovo performance and financials

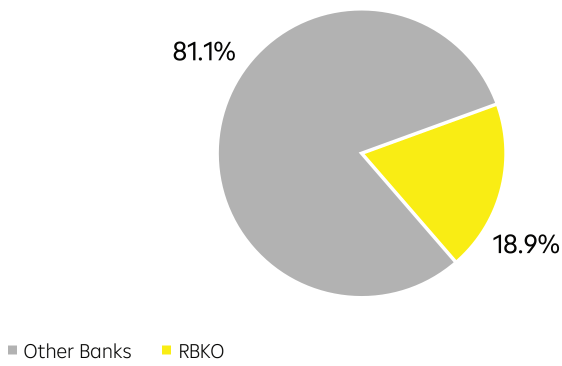
Raiffeisen Bank Kosovo had another excellent year and good financial performance in line with the positive developments in the banking sector.

Total assets of Raiffeisen Bank Kosovo on 31 December 2023 were € 1,425.3 million. This is an increase of 9.8 per cent when compared to the previous year (2022: € 1,298.2 million). The percentage of market share of the total assets of Raiffeisen Bank Kosovo was 18.9 per cent (2022: 19.2 per cent).

Total Assets

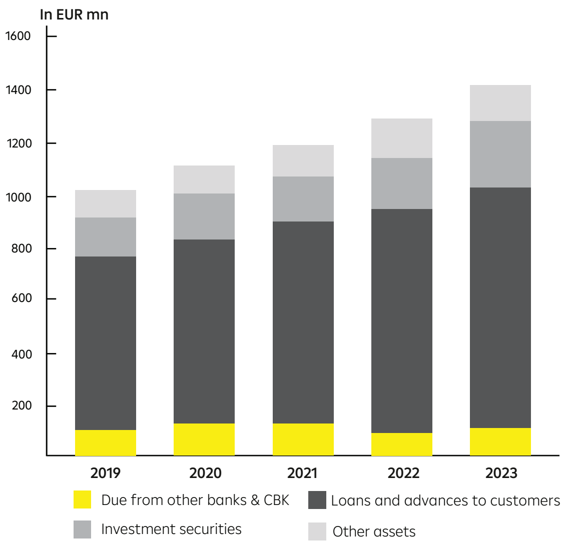


Market Share -Total Assets



The structure of Raiffeisen Bank Kosovo assets continued to be dominated by loans and advances to customers. As of 31 December 2023, 65 per cent of total assets were concentrated in loans and advances to customers. That was followed by 19 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.

Structure of balance sheet assets

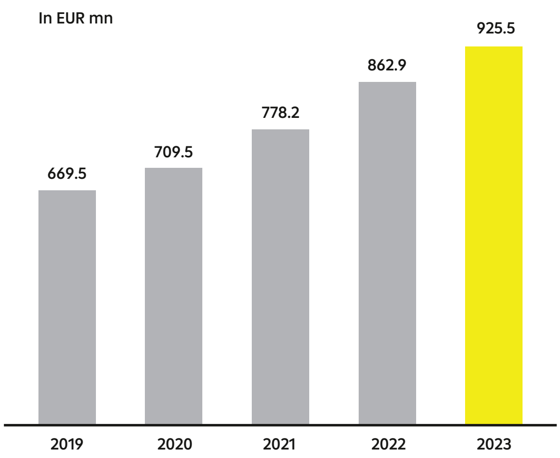


Investments in securities as of 31 December 2023 were € 256 million (2022: € 197.8 million. Investments in Kosovo Government treasury bills were € 29.5 million (2022: € 27.4 million) and investments in other OECD country government and corporate bonds was € 226.5 million (2022: € 170.4 million). During 2023 Raiffesien Bank Kosovo increased market share in securities to 28.5%.

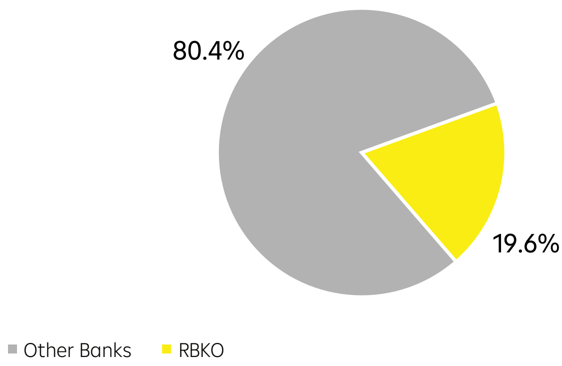
Total loans and advances of Raiffeisen Bank Kosovo as of 31 December 2023 were € 925.5 million (2022: € 862.9 million). The market share in loans and advances as of 31 December 2023 was 19.6 per cent (2022: 20.6 per cent).

The bank is a member of Kosovo Credit Guarantee Fund and benefits from the guaranteed scheme of micro enterprises aimed at providing access to funds for micro enterprises and encourage employment in the sector by entering in risk sharing guarantee program. The bank's securitized portfolio has a value of over EUR 56 million and is part of various securitization windows with varying risk-sharing agreements. The latest window in which the bank is also part of partnership is the "export window". Through this window micro, small and medium sized companies will benefit from Increased access to finance, favorable credit loan conditions, potentially preferable interest rates, collateral reduction, faster processing time for loan applications & business sustainability.

Customer Loans and Advances



Market Share - Customer Loans and Advances



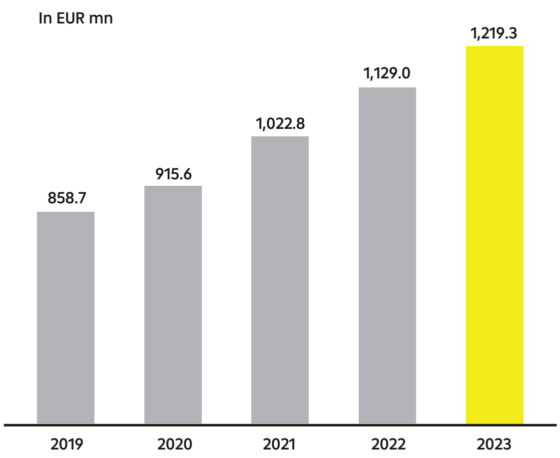
Raiffeisen Bank Kosovo has calculated allowances for credit losses based on credit risk policies. These allowances for credit losses amount to € 39.4 million (2022: € 29 million). These allowances are calculated based on the IFRS 9 expected credit loss model and reflect Raiffeisen Bank Kosovo assessment of risk on the credit portfolio on 31 December 2023.

The total credit loss allowances to nonperforming loans was 121 per cent (2022: 116 per cent).

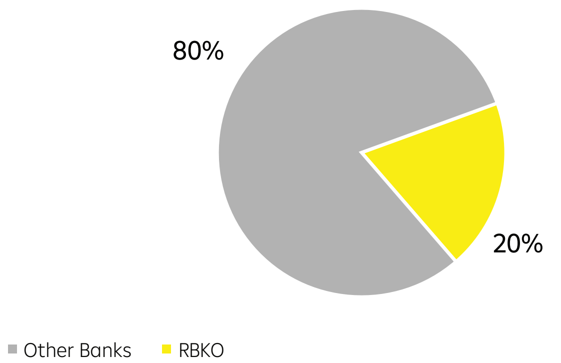
Total customer deposits of Raiffeisen Bank Kosovo reached € 1,219 million as of 31 December 2023 up from € 1,129 million on 31 December 2022. That is an increase of 8 per cent. Raiffeisen Bank Kosovo had a market share of 20 per cent in deposits from customers. The domestic generation of finances also contributed towards greater stability in the banking sector and reduced the impact of any volatility from the international markets.

The largest contributor to deposits from customers was current accounts with a share of 89 per cent. Savings accounts have a share of 10 per cent of total bank customer deposits. Term deposits from customers and other accounts contain equate less than 1 per cent of the total deposit base. The current structure of customer base is dominated by current accounts due to an economic environment dominated by very low interest rates. The liabilities structure of Raiffeisen Bank Kosovo was dominated by customer deposits, and this was also the case for the Kosovo market.

Deposits from Customers



Market Share - Deposits from Customers

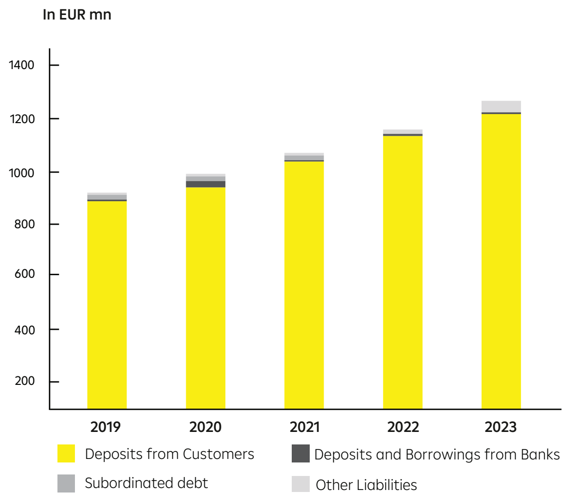


In 2023, Raiffeisen Bank Kosovo's share capital remained unchanged at € 63 million. The total equity as at 31 December 2023 was € 151 million (2022: € 142.7 million), also including € 88.8 million in the form of retained earnings.

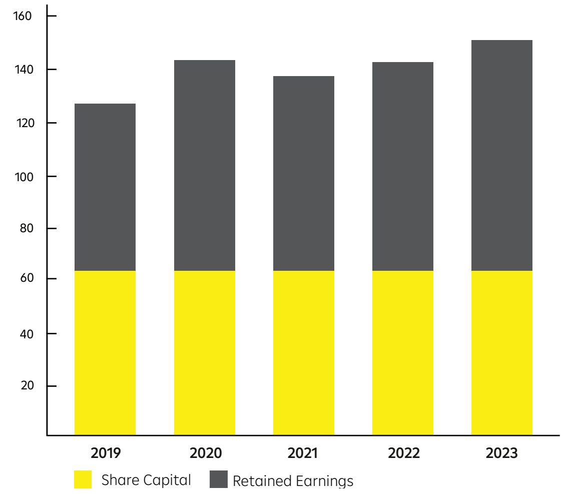
Raiffeisen Bank Kosovo continued to be well capitalized which was reflected in the 2023 regulatory capital ratios of Tier 1 to total risk weighted assets ratio of 15.7 percent (legal requirement over 9 per cent) and a total capital (including Tier 2) to risk weighted assets ratio of 16.9 per cent (legal requirement 12 per cent).

The above capital requirements were calculated in compliance with the CBK regulation on capital adequacy and other applicable regulatory rules and regulations.

Structure of balance sheet liabilities



Structure of Equity



2023 was a year in which the bank achieved some record results in terms of financial performance making it the most successful year since its beginning of operation in the market. Net income after tax in 2023 was € 30.4 million (2022: € 29.4 million). This result is calculated based on IFRS Financial Statements as included in this report.

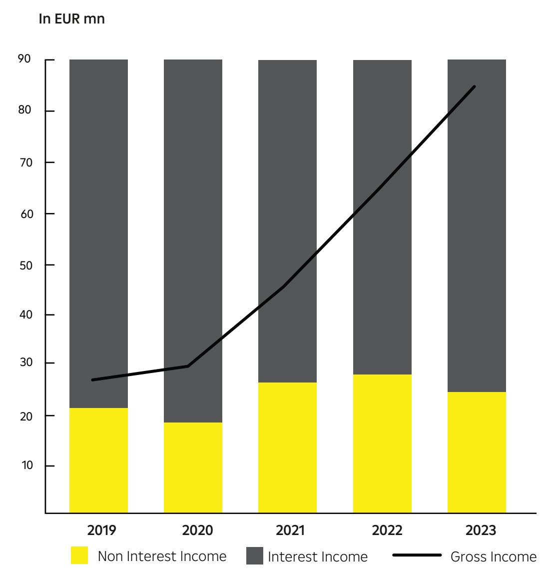
IFRS statements are reported to Central Bank of Kosovo on regular monthly basis and are also published on a quarterly basis on the Raiffeisen Bank Kosovo website and in local e-news portals. Raiffeisen Bank Kosovo income was strongly dominated by income generated from loans and advances to local customers.

In 2023, the net interest income increased compared to the year before by 21 percent. The increase in interest income from loans and advances had the highest impact in the increase. Increase in Interest income from loans and advances was 18 per cent. There was also increase interest income from other financial assets such as money market placements with other banks and securities. On the other hand, interest expenses also reduced due to repayment of subordinated loans in previous year and on the other hand interest payments on customer deposits stayed flat as there was no significant change in customer deposit interest rates during the year.

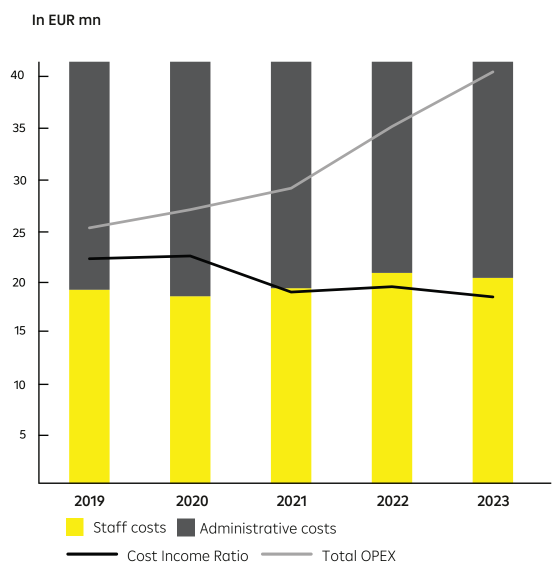
Net fee and commission income increased by 3 per cent in 2023. The increase in fee and commission is one of the positions which has seen more rapid growth in the period after the pandemic crisis and is mainly coming from bank payments business which saw increased activity in actual reporting period as result of large number of diaspora transactions throughout the year and more significantly during the summer. While other income increased 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 for the period ended 31 December 2023 were € 41.2 million (2021: € 37.1 million). The largest increase in bank operating expenses was in the other administrative costs followed by personnel & related expenses which includes costs, such as employee wages, training and other professional development. These costs continued to represent a significant part of operational expenses of the bank. The cost income ratio was 44.3 per cent (2022: 46.7 per cent).

Gross Income development and structure



General Administrative Expenses Development



Treasury, asset and liability management

Raiffeisen Bank Kosovo utilizes quantitative modeling to assess the retention strength of customer deposits in its non-maturing assets and liabilities. The modelling is on the appropriate granular level, differentiating between product and customer segments, and, where applicable, currencies as well. This evaluation serves the dual purpose of managing interest rate risk and liquidity risk, for to both retail and non-retail customers. The combined impact of maintaining a strong liquidity position and a strong stickiness position contributes to the establishment of a stable liquidity position.

As at the end of 2023, the bank had a Net Stable Funding Ratio (NSFR) above 143 per cent, and Liquidity Coverage Ratio (LCR) of 343 per cent. LCR is higher than last year due to increase on high quality liquid assets.

The bank's liquidity consists of investments held in cash at branches, government bonds, financial institution bonds, and money market investments.

Interest rate risk in Banking Book and strategy

A positive maturity transformation during 2023 shows that Raiffeisen Bank Kosovo is effectively manages its assets and liabilities.

The rise in interest rates by FED and ECB in 2023, aimed at easing inflationary pressures, forced the whole market to raise interest rates in loans, and given Raiffeisen Bank Kosovo substantial exposure to variable interest rate loans and as the influence of external macroeconomic factors the bank found it necessary to adjust its rates accordingly. The bank holds significant portion of its investments in money market and bonds which will further support the bank net interest margin. The bank's NIM at the end of 2023 shows 5.26 per cent.

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 described 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.

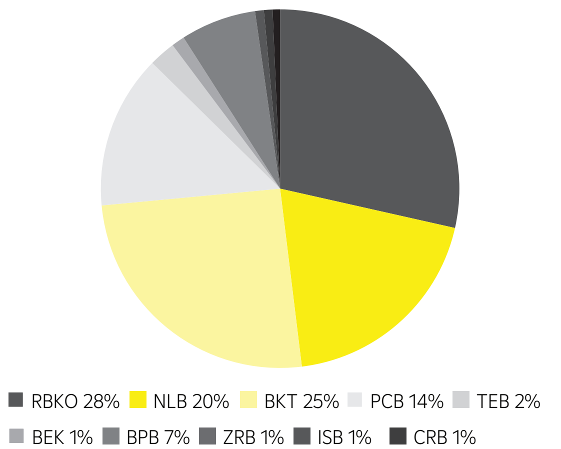
Currency	***Single currency Exposure***	***<12M***	***1-3Y***	***3-5Y***	***Above 5Y***
Total	(14,433)				
CHF	31	31	-	-	-
EUR	(13,881)	934	3,046	10,150	(28,012)
GBP	(5)	(5)	-	-	-
USD	(578)	127	(1,127)	421	1

Government/Corporate FI securities

The bank increased its holdings of financial investment in 2023, ending the year with a volume of € 256 million, of which almost 90% in high quality liquid assets. We have increased the share on high quality liquid assets in order to fulfill its mandatory (legally required) liquidity. Very small part of the portfolio is located to FI positions, and the overall portfolio is dominated by Government Securities. Raiffesein Bank Kosovo remains the market leader in security portfolio and increasing the market share from 26% to 28.5% at the end of 2023.

The Kosovo treasury bill market demonstrated ongoing growth throughout the reporting period. Our strategy remains on actively participating as a primary dealer, and we as a bank together with our customers remain important stakeholder in shaping the secondary market for Kosovo government debt. When the auctions were successfully the Bid to Cover ratio in the Kosovo Auction market was quite high which indicates a strong demand, indicative of a highly liquid primary auction.

Market share, Net Securities



Capital Market Sales Products

Market Sales Performance

Since 2002, Raiffeisen Bank Kosovo has led the currency exchange market. Despite operating in a country where the euro is the official currency, the bank continues to dominate the FX sales market and acts as a broker in the secondary market for treasury bonds and stocks. Beginning in 2019, the bank integrated an electronic trading system for its clients and an electronic account for FX sales, significantly contributing to the FX sales business in 2023. Moreover, the number of clients engaging in stock trading and investment funds saw a considerable increase during the year. Clients took advantage of the opportunity to invest in consolidated stock markets in 2023, ensuring Raiffeisen Bank Kosovo remains a key provider on the international market scene for clients since 2012.

Capital Market Sales Products

Following the successful launch of the Raiffeisen FX application for corporate clients and financial institutions at the end of 2019, the bank introduced a mobile version of the application in 2021. Since then, the number of users of this application has continued to grow. The foreign exchange (FX) services business is one of the main revenue sources for the bank, and the digitalization process is crucial for ensuring ongoing client engagement. The Raiffeisen FX application, available online, and the Raiffeisen FX Mobile version are significant steps in maintaining Raiffeisen Bank Kosovo's leadership position in the foreign exchange services sector. The FX services business has continued to expand, generating revenues of around €2.4 million in 2023.

Treasury Bonds and Stock Brokerage

Raiffeisen Bank Kosovo is also a leader in treasury bonds allocation in the secondary market, both in terms of the number of trades and volume. Furthermore, in 2023, Raiffeisen Bank Kosovo experienced a significant increase in the number of clients in the field of capital management and stock brokerage. Clients have access to international stock markets, including the NYSE, NASDAQ, XETRA/XFRA, and more than 20,000 stocks and ETFs. Additionally, during this period, the bank successfully introduced a new product to the Kosovar market, Guaranteed Capital Certificates.

Business segments

Corporate

In 2023, Corporate Banking segment continued to exhibit exceptional strength and strategic insight amidst a challenging economic climate. Building upon the foundations laid in previous years, bank successfully maintained and expanded long-term, mutually beneficial relationships with corporate clients, while further enhancing competitive position in the market.

2023 was a year of significant advancement in terms of digital transformation within Corporate Banking. Recognizing the evolving needs of corporate customers and the broader shifts in the banking industry, considerable investments were made in digitalizing services and enhancing online platforms including e-corporate platform. For the first time, corporate customers have the capability to interact digitally with the bank for financing products. This online application allows them to submit financing requests, obtain a comprehensive, real-time overview of their limits, including extensive details for both on and off-balance items (such as approved amounts, utilized and outstanding balances, disbursed tranches, pricing, and maturity). Additionally, customers can request the disbursement of unutilized limits (covering both on and off-balance aspects) and exchange documents digitally with their designated Relationship Managers.

In Cash Management, Raiffeisen Bank Kosovo has made significant strides in digitalization and service enhancement, notably through the regional roll-out of Cash Collection services and the introduction of Source of Funds Declaration (SFD) to ensure compliance and transparency. Innovations like SWIFT GPI and FCMI (Future Cash Management International) have revolutionized offerings for international and group customers, providing faster, more transparent payment services and a unified cash management platform. Raiffeisen Bank Kosovo introduced the first Trade Finance Platform in Kosovo. This innovative digital solution empowers businesses to seamlessly manage and initiate trade finance requests, including Letters of Credit, Guarantees, and other instruments, entirely online. The platform offers real-time tracking and monitoring capabilities for trade finance transactions, significantly streamlines documentation procedures, and fosters improved communication channels between the bank and its clients. By adopting the Trade Finance digital platform, Raiffeisen Bank Kosovo enhances operational efficiency, transparency, and accessibility in trade finance services, setting a new standard in the banking industry.

Small and Medium Enterprises

Raiffeisen Bank Kosovo marked growth in its SME portfolio by €10.8 million, attributed to its ongoing support for both new and existing customers. Introducing the specialized "SMEon" platform, designed exclusively for SME clients, Raiffeisen Bank Kosovo streamlines the account opening process through an intuitive and user-friendly online interface. Notably, 45% of new customers joining the bank did so through the SMEon platform. This innovative solution empowers SMEs to swiftly and conveniently establish banking relationships with Raiffeisen Bank Kosovo, thereby unlocking growth opportunities and fostering success in the digital age.

One notable addition to the ATM channel was the implementation of Source of Fund Declaration for our business customers, providing them with a fast deposit service. With a continuous commitment to providing a seamless payment solution, RaiPos was expanded approximately to 1000 new merchants, with a primary focus on extending our services to SMEs. RaiPOS is an attractive way of transforming merchants android phone to a POS terminal, and immediately can start the operations of the business and handle payments via cards.

Private Individuals, Affluent Banking, and Branches

Being physically present in all regions of Kosovo with 36 branches and sub-branches, Raiffeisen Bank Kosovo has the largest branch network in the market. The Branch Transformation Program continued to also be implemented throughout 2023 further modernizing and optimizing the operations and services of branches and sub-branches. In addition, this program involves implementing new technologies, streamlining processes, improving customer experience, reducing costs and revenue growth by increasing the sales capabilities with a multitasked staff approach. Bank`s branches now offer a variety of new features such as the new self-service area in which the customer can use online banking services 24/7, a comfortable yet discreet space to meet and discuss financial with a modern touch. Furthermore, the bank added convenient cash services for customers in all branches of Raiffeisen Bank Kosovo. In 2023, the bank managed to design and develop its own communication platform / application that is used for direct remote communication between relationship officers and customers remotely. It enabled the bank to serve more than 3,000 customers through this channel.

The bank continued to enhance RaiConnect, a platform that enables customers to receive bank services from the comfort of their home or office. Additionally, the bank currently employs six remote relationship officers and plans to expand this number based on demand. Another channel that contributes to selling of banking products and services is the Sales Agent Network. This team enables the bank to have an immediate access to the target market with the aim to be close to potential customers. At the same time, the customer benefits from the direct personal presentation and sale of products or services usually in their homes or at their working places. The team of 25 sales agents is present in all bank branches throughout Kosovo. These developments both in branches and development of digital solutions are based in bank's strategy to remain a traditional bank that aims to use digitalization for customer's effortless access towards bank's products and services, something which creates mutual values and profitability for both customers and bank.

Another success for Private Individuals and Premium Banking is widening bank`s investment product range with Capital Guaranteed Certificates, a new and modern way of investments allowing customers to invest in a guaranteed investment products with 100% protection and exceptional yield possibilities.

Banking products and services

In 2023, Raiffeisen Bank Kosovo diligently advanced its product and service offerings across all customer segments, with a primary focus on refining digital interactions. This effort entailed the implementation of new features on the digital platform, Raiffeisen Plus (e-banking and mobile banking). Notably, innovative products such as Capital Guaranteed Certificates were launched for Private Individuals, while SME customers benefited from a streamlined digital onboarding process introduced through the SME On platform. Furthermore, significant progress was achieved in the Corporate segment, enabling corporate clients to engage digitally with the bank for financing solutions. Additionally, key enhancements included the introduction of the Trade Finance Platform and the Source of Funds Declaration (SFD) through ATM.

In line with the Bank`s commitment to innovation, a comprehensive technical upgrade of the mobile banking platform, Raiffeisen Plus was successfully completed. This upgrade introduced a new design enhancing the overall user interface and user experience and several new features as: Kuik P2P Payment Solution offered exclusively by bank, where individual customers can send and request money through phone numbers in their contact list, Top-Up new card features into mobile app, Customizable Balance Visibility, and the continuous efforts to prioritize customer security, was implemented robust security measures, including two-factor authentication (2FA) and Runtime Application Self-Protection (RASP).

Moreover, the introduction of RaiKesh in 2022, a digital personal loan platform integrated with the bank`s application processing system, revolutionized the loan application process for individual customers. To cater to the evolving needs of customers, Bank has doubled the ticket limit for loan applications via RaiKesh, up to € 10,000. In 2023, a substantial growth in loan volumes was done through RaiKesh, with an increase from 1.5 million EUR in 2022 to 13 million EUR. Aiming to further enhance the customer experience, bank has introduced the Instant Card feature, transforming the way customers receive and activate their cards, a feature that enables customers to receive their cards immediately upon application.

Aiming to further enhance the customer experience, the bank introduced the Instant Card feature, transforming the way customers receive and activate their cards. This innovation enables customers to receive their cards immediately upon application, eliminating the waiting period associated with traditional card issuance processes. In addition, the bank enhanced the digital wallet, RaiPay. These new advancements have had an impact on increasing the number of users, with over 8,000 active users leading to an increase of more than 40% in volume and the number of transactions. Raiffeisen Bank Kosovo introduced the "SMEon" platform. Designed specifically for SME clients, SMEon facilitates the opening of accounts through an intuitive and user-friendly online interface.

In 2023, Raiffeisen Bank Kosovo highlight the continued enhancement of ATM channel, Source of Found Declaration for business customers, providing them with a fast deposit service. Moreover, was introduced personalized messages for customers, offering convenient updates such as the next installment due date and amount. With an ongoing dedication to delivering an integrated payment solution, Raiffeisen Bank Kosovo have substantially augmented Rai POS fleet. This expansion has facilitated the onboarding of approximately 1000 new merchants, with a key emphasis on extending our services to Small and Medium Enterprises (SMEs).

Customer experience

Raiffeisen Bank Kosovo has maintained its commitment to customer-centricity, prioritizing a close approach to customers by actively engaging with their voices daily. Timely, contextual, and personalized communication has been a key strategy, ensuring customers are promptly informed about various developments, upgrades, potential challenges, and special offers. The primary objective has been to minimize any disruptions to customers' daily banking activities while providing guidance for effective planning and keeping them informed about tailored campaigns based on their needs.

In addition to regular market research, the bank has intensified internal initiatives. This includes efforts to further identify and deeply understand customers' needs and insights regarding its products and services. A notable effort was made with the launch of a comprehensive customer education campaign aimed at increasing awareness among both employees and customers about the importance of customer feedback.

In alignment with our efforts to "Build a digital bank with a human touch," in collaboration with the Raiffeisen International Network, the bank introduced the Service Design discipline. This involves active collaboration with customers from the inception of the creation phase of user journeys, for new and existing products, with a human-centered approach. This discipline requires close cooperation, regular and frequent communication, research, meetings with customers, facilitating the design and deployment of products and services in line with customer needs.

Looking ahead, Raiffeisen Bank Kosovo remains steadfast in its commitment to delivering excellent customer experiences, dedicated to exceeding customers' expectations.

Risk management

Raiffeisen Bank Kosovo is committed for efficient risk management to enable healthy and sustainable activity of the bank. The bank recognizes the importance of a strong culture, which refers to shared attitudes, values and standards that shape behaviors related to risk awareness, risk taking and risk management. Risk culture denotes the combined set of corporate values, norms, attitudes, competencies, and behavior related to risk awareness (perception of risk) and risk taking that determine the bank commitment risk management. The bank has a sound risk culture, consistently supports appropriate risk awareness, behaviors, and judgements about risk-taking within a strong risk governance framework. A sound risk culture bolsters effective risk management, promotes sound risk-taking, and ensures that emerging risks or risk-taking activities beyond the bank's risk appetite are recognized, assessed, and addressed in a timely manner.

As a financial institution, the bank is exposed to many types of risks as part of bank activities. In order to actively and effectively identify, measure and manage risks, the bank continues to develop and advance its comprehensive risk management framework and system. Risk Management is an integral part of the overall bank management. The bank has a system of risk principles and procedures in place for measuring and monitoring risk, which is aimed at managing material risks. Credit, market, liquidity, and operational risks are measured, limited, mitigated, aggregated, and compared to the available risk coverage capital. In addition to, legal and regulatory authority requirements, the bank also considers and manages the nature, scale, and complexity of its business activities and the resulting risks.

Environmental, Social and Governance (ESG) risks are viewed as cross-dimensional risks that affect all areas of risk management. As such, considerations about ESG risk factors are continuously being embedded (based on the internally developed materiality assessment) in the management of risk types in the already existing risk management framework (e.g. within credit, market, operational and liquidity risk).

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The most significant risk that the bank is exposed to is credit risk and it derives principally from direct lending or trade finance to our clients. The bank has in place the Credit Risk Management framework which presents and reflects the details in the relevant policies, procedures, and standards. These documents are fully in compliance with Kosovo's laws and regulations and are also harmonized with the Raiffeisen Bank International AG policies and outline the bank's crucial principles for credit risk managing. Aim of the Credit Risk Management is to ensure high quality of credit portfolio, low risk concentration and appropriate coverage of credit risks with provisions. Credit risk concentration is managed via specific limitations (i.e. concentration thresholds) for selected dimensions of credit risk, such as single name risk to limit maximum exposure for each individual counterpart/GCC, or/and industry risk. Healthy credit portfolio of the bank is maintained through processes and measures established on the Credit Risk Management. In this context, credit risk framework requires to perform credit risk analysis and assessments before the loan disbursement. Moreover, in order to maintain healthy portfolio, regular monitoring of the financial situation of the clients are performed after the loan disbursement, in order to be able to trigger any early warning indicator which would impact the loan performance.

Credit Portfolio Management

Credit Portfolio Management and Risk Controlling Department closely monitors and perform analysis of the macroeconomic developments and emerging risks on the market and across the economic sectors and undertakes scenario analysis. This enables the bank to foresee and to take actions where necessary, including enhanced monitoring, amending the bank risk appetite and/or adjusting limits and exposures, to rebalance exposures and manage risk appetite where necessary. Based on this, the bank undertakes regular reviews of key portfolio indicators to ensure that individual customer or portfolio risks are understood, and bank can manage the level of facilities offered through any downturn is appropriate.

During 2023, in regard to Credit Risk Management, the bank was continuously focused on following up the economic changes in the way to assess the potential impact in credit portfolio of the bank and in the client's financial situation. To maintain the loan quality portfolio and prevent any deterioration, during the year bank continued to have regular contact with clients to have most recent information on the potential impact which could affect their operations and finances. Based on the information from clients, the risk analysis was performed mainly focused on the businesses and individuals which were assessed as the most affected from the economic situation.Raiffeisen Bank Kosovo stands in a very good position by maintaining healthy 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 and sustainability of the bank.

Management of non-performing exposure

In line with EU and local authority requirements, Raiffeisen Bank Kosovo has fully implemented regulatory requirements and has developed internal procedures and processes for managing non-performing loans. Raiffeisen Bank Kosovo has also been actively engaged on prevention on new defaults and good recoveries through 2023. At the conclusion, bank has continued to have sound structure of quality portfolio and the coverage ratio stands at satisfactory level, in line with the limit sets in the internal Non Performing Exposure and Risk Cost Strategy.

Liquidity risk

Liquidity adequacy is ensured from both an economic and a regulatory perspective. To approach the economic perspective, the bank has established a governance framework comprising internal limits and steering measures. Raiffeisen Bank manages these risks through policies and procedures in accordance with regulatory authority requirements. Moreover, monitoring of liquidity risk as part of Risk Controlling Unit it is located within the Risk Division. Liquidity position of the bank is analyzed, presented, and discussed on Asset and Liability Committee (ALCO), Management Board and Risk Management Committee on the Supervisory Board level. The regulatory component is addressed by compliance with the reporting requirements under Central Bank of the Republic of Kosovo for regulatory on liquidity ratios included here Liquidity Coverage Ratio and Net Stable Funding Ratio. The bank monitors and assesses short-term liquidity risk based on a liquidity gap analysis, among other instruments, by using numerous indicators. The bank managed to maintain the liquidity indicators above the minimum limits set, be that from regulators or from internal aspect which were way above the minimum required level of 100%. As a result, the bank has sufficient liquidity available in 2023 to meet all financial obligations in a timely manner.

Liquidity is managed daily by the Treasury and is monitored by Risk Controlling Unit and presented to ALCO as well. The bank considers liquidity risk to be low, due to the diversity of clients' deposits and the fact the loan portfolio contains large number of short-, medium- and long-term individual and business credit exposures and low NPL ratio of the bank. From the perspective of liquidity risk this leads to diversified and sustainable cash inflows, also considering the deposit stickiness which are our main source of funding. In regards of funding risk, in Raiffeisen bank this risk is mitigated by the fact that bank finances its lending operations primarily through clients' deposits. The bank monitors key indicator for limiting funding risk by the deposit concentration indicator.

Liquidity position is analyzed under scenarios expected and stressed conditions, at the same time to maintain access to diverse funding sources where contingency plans are set by procedures to manage potential liquidity crises.

The cornerstones of the economic liquidity risk framework are the Going Concern (GC) and the Time-to-Wall (TTW) scenario. The Going Concern analysis 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 analysis 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 business characteristics.

Liquidity 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.

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 is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce bank income or the value of bank portfolios.
All market risks are measured, monitored, and managed by Risk Controlling Unit. The results of market risk positions, analysis is reported to the Asset and Liability Committee, Management Board and Supervisory Board. 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 the probabilistic maximum potential loss of a portfolio with a certain confidence level for a specified holding period (99% and 1d). The market risk system calculates the profit and loss distribution of each deal. Single deal results are then aggregated to obtain VaR estimates on portfolio level. Value-at-risk results are not only used for limiting risk but also in the economic capital allocation.
- *Sensitivities (to changes in exchange rates and interest rates)*
  Sensitivity limits shall ensure that concentrations are avoided in normal market situations and are the main steering instrument under extreme market situations and in illiquid markets or in markets that are structurally difficult to measure.
- *Stop loss*
  This limit strengthens the discipline of traders such that they do not allow losses to accumulate on their own proprietary positions but strictly limit them instead.

A comprehensive stress-testing concept compliments this multi-level limit system. It simulates potential present value changes of defined scenarios for the total portfolio.

Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people, or systems or from external events, including outsourcing, reputational and 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. Three lines of defense 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). Risk Controlling Unit is responsible for reporting, implementing the framework, developing control measures and monitoring compliance with requirements. Within the framework of the annual risk management cycle, they also coordinate the participation of the relevant second line of defense departments and all first line of defense partners (Operational Risk Managers).

Risk identification

Identifying and evaluating risks that might endanger the bank's existence (but the occurrence of which is highly improbable) and areas where losses are more likely to arise more frequently (but have only limited impact) are important aspects of operational risk management. Operational risk assessment is executed in a structured manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products, new projects, new emerging regulations, and open audit points as well.

Monitoring

Early warning indicators are used to monitor operational risks, allowing prompt identification and minimization of losses. In compliance with internal policies and procedures loss data is collected in a central database in a structured manner according to the event type and the business line. 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.

Collecting losses in central database 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.

Quantification and mitigation

Raiffeisen Bank Kosovo is calculating the equity requirement for operational risk using the standardized approach. To reduce operational risk, ORMs decide on preventive risk-reduction actions such as risk mitigation or risk transfer. The progress and effectiveness of these actions is monitored by Operational Risk. The former also define contingency plans and nominate responsible persons or departments for initiating the defined actions if losses in fact occur. In addition, several dedicated organizational units provide support to business units for preventing operational risks. An important role in connection with operational risk activities is taken on by Financial Crime Management as part of Compliance Department. Financial Crime Management provides support for the prevention and identification of fraud. The RBKO also conducts an extensive staff training program and has different contingency plans and back-up systems in place.

Changes in the regulatory environment

The Kosovo banking sector is considered very dynamic with changes in legislation in line with directives of the 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 the bank to be adapted in advance to changes in local regulations, which aim to be harmonized with EU regulations.

The bank followed closely the current and the upcoming regulatory developments in 2023. Through the year, the Central Bank published updated version of the Regulation on the Bank Liquidity Risk Management and two new regulations came into force, Regulation on the Liquidity Coverage Ratio and Regulation on the Net Stable Funding Ratio.

People, Culture and Learning (PCL)

At the core of our cultural beliefs and firmly rooted in our approach to building a strong workforce is the goal of being the top choice among employers in Kosovo. Throughout 2023, this goal guided our efforts in creating a workplace where top talent feels welcomed and valued. We focused on fostering an environment that promotes high performance, learning, career growth, and the well-being of our team members. A significant milestone was the introduction of our Employee Value Proposition, aimed at attracting and retaining top talent, which we successfully launched by the end of the year.

Just like in the preceding year, 2023 saw continued emphasis on our tech community. Aligned with market trends and our objectives in technology and digitalization, we prioritized providing an outstanding experience for our tech professionals. Throughout the year, we organized various activities focused on employer branding, talent acquisition, retention, and professional development within the tech sector. Notable initiatives included Tech4Tech, Data Hackathon, IT Security sessions, Open Day, and the RISE - Raiffeisen Internship and Scholarship for Engineers program, resulting in a moderate level of employee turnover throughout the year.

Our workforce consisted of 948 individuals in 2023.Looking at the demographics of our workforce, we have a diverse and relatively young team, with an average age of 36. Women make up 57 percent, while men make up 43 percent of our total workforce.

Professional development

The bank is fully committed to the growth and development of its employees, providing a diverse range of learning opportunities. These efforts have resulted in enhanced knowledge across various areas, including banking products, management practices, innovative work methods, and technology. This commitment has positioned the bank as a market leader, offering customers a more professional and efficient service through adaptive approaches.

In 2023, there was a specific focus on promoting self-development through online learning, facilitated by the advanced Learning Management System (LMS). Collaborating with training providers both within and outside Kosovo, the bank continuously identifies training needs, tailoring programs to meet the evolving requirements of its employees. Individual development plans target specific competencies by increasing the likelihood of personal growth. eLearning has gained widespread acceptance, with significant employee interest and support for internally developed courses. The year 2023 also saw an increased emphasis on externally provided online courses, enhancing learning efficiency and variety. Additionally, physical training sessions were organized. The bank's support for employees extended to licensed courses covering technical and soft skills, aligning with the corporate value of "Learning." Lifelong learning remains a central theme, with a heightened focus in 2023 on topics like new way of work, digital transformation, health, safety, and diversity, delivered mostly online by key speakers from RBI and local experts. The corporate value of "Learning" serves as the foundation for the Learning Organization, with the "Learning Festival" acting as a catalyst for unique learning experiences. In 2023, the festival theme, "Make > the art of Learning < Happen," featured presentations and training sessions on Data & Technology, Business, UX Design, ESG, Climate Awareness, Supply Chain, and Leadership during Transformation.

Talent Management

Throughout 2023, there was a sustained effort to enhance the awareness and skill set of people managers regarding human capabilities. The Talent Management Program and Leadership Program were strengthened and officially supported. These initiatives are designed to recognize talent and enhance the skills of the most promising bank employees and managers. They utilize a blend of practical, unconventional, and academic learning methods to deepen expertise and foster innovation.

Safe Working Environment

As a preferred employer, we understand that the well-being of our organization hinges on the well-being of our employees. Our commitment to providing a modern working environment, inclusive of new working models and contemporary offices, coupled with health and well-being initiatives, is geared towards unlocking the full potential of our workforce.

With flexible working hours and a hybrid working model, our aim is to afford our employees greater flexibility and the option to work remotely. By empowering our employees to choose their working schedules and environments conducive to their productivity, we believe we enhance their happiness, promote mental well-being, and ultimately drive better performance and productivity.

Furthermore, our on-site amenities such as the canteen foster a sense of community and collaboration, aligning with our core values. Our sports room is designed to support our employees' health, well-being, and enjoyment during their working hours. The team building activities, excursions, and outdoor events organized contribute to a supportive and enriching work culture.

A month dedicated to well-being featuring a variety of activities centered around health management and overall wellness, known as "Feel Good October." Activities included morning runs, cycling, hiking, mental health sessions, healthy cooking and eating programs, free yoga, Pilates, kickboxing, blood donation drives, and a steps challenge. Additionally, sessions were organized for mothers on maternity leave to address positive discipline in everyday parenting in collaboration with external entities.

On the occasion of the 20th anniversary of Raiffeisen Bank Kosovo, we organized a large summer event for our employees and their children. This event emphasizes our ongoing dedication and recognition of our employees and their families, setting our position as an Employer of Choice.

Furthermore, it's worth noting that our commitment to Employee Sustainability within our Employee Value Proposition extends to championing a workplace that is diverse and inclusive. With a representation of over 50% women in the bank and over 40% in leadership roles, we actively promote employee well-being, talent retention, and the attraction of skilled individuals. This concerted effort has a direct impact on our Environmental, Social, and Governance (ESG) strategy.

Family Friendly Employer

In 2023, the bank continued to be recognized through the "Expanding Choices through Family-Friendly Policies" project by UNFPA (United Nations Population Fund) for its commitment to family-friendly workplace policies. These policies are designed to assist both women and men in achieving a balance between their professional and personal responsibilities, fostering women's economic empowerment, and encouraging increased participation of men in parental care responsibilities. Raiffeisen Bank Kosovo is acknowledged by UNFPA as a "Champion Company" for its family-friendly policies and practices, this recognition is in harmony with our broader Environmental, Social, and Governance (ESG) strategy.

Sustainability and ESG Management

In 2023, Raiffeisen Bank Kosovo reaffirmed its commitment to pioneering sustainability and environmental, social, and governance (ESG) integration within its operations and broader banking services. Aligned with the global standards set by Raiffeisen Bank International (RBI), the Kosovo branch continues to direct its business practices towards sustainable development, emphasizing the critical role of financial services in fostering a sustainable future. Raiffeisen Bank Kosovo remains at the forefront of integrating sustainability and ESG principles into its core operations by focusing on the following key Sustainability/ESG pillars: Core Business (Sustainable Financing), In-house Ecology, Community Investments, and Employees. By structuring efforts around these four robust ESG pillars the bank ensures comprehensive and impactful strategies that align with both global standards and local priorities.

In-house Ecology

Our constant effort to minimize the bank's environmental footprint through proactive management of resources and implementation of sustainable practices, includes activities to achieve the desired reduction such as:

- **Energy Reduction:** Reduce total energy consumption through upgrades to energy-efficient systems and technologies across all branches and head office.
- **Waste Management:** Implement comprehensive recycling programs and waste reduction initiatives by enhancing employee training and internal policies on resource use.
- **Environmental Certification:** Process of EMS as per ISO 14001 requirements to formalize the bank's commitment to adhering to international environmental management standards.

Core Business (Sustainable Financing)

The focus of this pillar is to educate and promote sustainable financing solutions to encourage environmentally friendly and socially responsible business practices.

- **Product Innovation:** We have introduced new products such as ESG certificated for our clients, Green Financing on energy efficiency measures, recyclable debit card, ESG linked financing aiming to increase the portfolio of sustainable lending to 83.2 million euro by the end of 2023.
- **Sustainability Assessments:** Fully integrated ESG risk assessments into the loan approval processes to ensure that all financed projects align with sustainability criteria.
- **Client Engagement:** Conduct regular workshops and seminars for clients on the benefits of sustainable practices and financing, aiming to increase client participation in green programs.
- **Awareness and education:** In 2023 on the occasion of the 20th anniversary in Kosovo, Raiffeisen Bank Kosovo organized a two-day ESG Summit with a focus on "The Green Economy Transition" on 15 and 16 June 2023, in Pristina. We have launched three campaigns for increasing the awareness as well as for the first time we have published our non-financial report.
- **Cooperation with Multinational Bank on E&S**: We as a Bank apply standards of the International Finance Corporation (IFC) and/or the Multilateral Investment Guarantee Agency (MIGA), by these standards we incorporated Environmental and Social Management System (ESMS) and a corresponding Environmental and Social Policy (E&S Policy). The credit process ensures that all credit applications in the corporate customer segment are reviewed also on Environmental and Social.

At the Euromoney Awards for Excellence 2023, Raiffeisen Bank in Kosovo was awarded "Best Bank for ESG".

Employees

The pillar of employees is focused on cultivating a workplace environment that values diversity, encourages professional development, and promotes health and well-being.

- **Diversity and Inclusion:** Promote an inclusive workplace that supports diversity at all levels of the company, with the focus on maintaining a gender balance of at least 35% female representation in leadership positions. During 2023 Raiffeisen Bank was standing at over 40% in the women leader positions.
- **Development and Well-being:** Provide continuous learning opportunities related to ESG and sustainability, alongside programs aimed at improving employee well-being and work-life balance.
- **Engagement and Leadership:** Encourage employee involvement in sustainability initiatives, recognizing and rewarding contributions to the bank's ESG goals.
- **Health and Well-being:** Launch new health and wellness programs, to foster a productive and healthy work environment, we have managed to launch an internal awareness full month campaign for the health and wellbeing activities.

In 2023, Raiffeisen Bank Kosovo was recognized by the UNFPA (United Nations Population Fund) as a champion company in Kosovo for a family-friendly corporate culture.

Community Investments

As a responsible bank we also see our role in the community we operate and supporting by investing in local development and educational programs.

- **Cultural and Educational Support:** Supported local arts programs and educational initiatives that promote financial literacy. This includes partnerships with schools to integrate financial education into curricula.
- **Community Engagement Projects:** For five years, Raiffeisen Bank Kosovo in cooperation with the charity Stepic CEE, has donated schoolbags, school materials and tablets to assist online learning. Recipients to date have included schools in the cities of Pristina, Prizren, Gjilan and Mitrovica. The cooperation with the CEE charity was continued in 2023, with 530 schoolbags and useful school materials being distributed to pupils from 26 schools in the Peja district.
- **Partnerships:** The bank actively seeks to align its community investment strategies with national and local government objectives, particularly in areas like education, environmental sustainability, sports, culture and social welfare. Our partners for 2023 were UNICEF, UNDP, UNFPA, UN Women, CSR Network, Municipality of Prishtina, CEL Kosova, Handikos, Austria Kosovo Friendship Society, Chopin, Stepic EE Charity, RTK, Fondacioni Shtatembedhjete,Austrian Embassy in Kosovo, Kosovo Volleyball Federation, Kosovo Football Federation, Peja Municipality, INDEP, Klubi Alpin, 7 Arte, Autostrada Bienale, Prifest

Performance and Impact

In 2023, Raiffeisen Bank Kosovo achieved notable milestones in its sustainability journey:

- Achieved **over 40% in leadership roles filled by women**, promoting gender diversity and inclusion within the workplace.
- Launched the **RaiPOS**, a digital wallet, emphasizing digital transformation and reduction of physical banking materials, aligning with sustainable consumption practices.
- Supported over **15 community projects** focused on culture, arts, and education, with significant partnerships formed with UN agencies and local government institutions.
- ESG Loan portfolio grew from 12.4 million in 2022 to 83 million in 2023.
- Implemented Environmental Management Systems based on ISO 14001
- Was recognized by the UNFPA (United Nations Population Fund) as a champion company in Kosovo for a family-friendly corporate culture.
- Was recognized by Euromoney as "Best Bank for ESG" in Kosovo
- Signed Women Empowerment Principles (WEPs) in coordination with UN Women

Raiffeisen Bank Kosovo's dedication to sustainability and responsible banking practices demonstrates its role as a leader in the financial sector's transition towards sustainable development. Through its targeted efforts and strategic initiatives, the bank not only contributes to the global sustainability goals set by RBI but also ensures that these practices resonate deeply within the local context of Kosovo.

Raiffeisen Bank Kosovo J.S.C

SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2023
WITH INDEPENDENT AUDITOR'S REPORT THEREON

CONTENTS

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 2023 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 2023 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
26 March 2024

The Management Board

Anita Kovacic
Chief Executive Officer
Management Board
Chairwoman

Iliriana Toçi
Retail Banking
Management Board Member

Deyan Ivanov
Risk Management
Management Board Member

Deloitte.

Independent auditor's report

To the Shareholder and Board of Directors 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 December 31, 2023, and the separate statement profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year ended December 31, 2023, and notes to the separate financial statements, including material accounting policy information.

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year the ended in accordance with International Financial Reporting Standards.

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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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 audit opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of separate 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.

Deloitte.

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

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

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

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

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

Deloitte Kosova Sh.p.k.

Str. Ukshin Hoti, No. 120

Prishtina, Republic of Kosova

Unique Identification No.: 810468373

March 26, 2024

Engagement Partner:

Arta Limani

Separate statement of financial position as at 31 December 2023

(amounts in Euro'000, unless otherwise stated)

	Notes	2023	2022
Assets			
Cash and cash equivalents and mandatory reserve	8	185,138	165,190
Due from banks	9	11,961	25,885
Investment securities	10	256,026	197,784
Loans and advances to customers	11	925,540	862,946
Other assets	12	3,739	4,697
Investments in subsidiaries	13	2,234	2,234
Property, plant and equipment	14	32,591	32,145
Intangible assets	14	8,062	7,309
Total assets		**1,425,291**	**1,298,190**
Liabilities			
Due to banks	15	7,721	8,428
Deposits from customers	16	1,219,286	1,128,968
Financial liabilities measured at fair value	17	101	101
Other liabilities	18	45,742	17,095
Provisions	18	1,210	630
Deferred tax liability	28	134	228
Total liabilities		**1,274,193**	**1,155,450**
Shareholder's equity			
Share capital		63,000	63,000
Fair value reserve		(661)	(2,117)
Other reserves		1,955	1,955
Retained earnings		86,804	79,902
Total shareholder's equity	19	**151,098**	**142,740**
Total liabilities and shareholder's equity		1,425,291	1,298,190

Financial Statements are approved for issue on behalf of the Management of Raiffeisen Bank Kosovo J.S.C. and signed on its behalf on 26 March 2024.

Merita Gjyshinca Peja
Chief Financial Officer

Anita Kovacic
Chief Executive Officer
Chairperson of Management Board

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 38 to 107.

Separate statement of comprehensive income for the year ended 31 December 2023

(amounts in Euro'000, unless otherwise stated)

		2023	2022
Interest income calculated using the effective interest method	20	64,416	54,761
Interest expense calculated using the effective interest method	20	(620)	(2,229)
Net interest income		**63,796**	**52,532**
Dividend income	21	249	1,105
Fee and commission income	22	27,259	25,539
Fee and commission expense	22	(12,431)	(11,157)
Net fee and commission income		**14,828**	**14,382**
Impairment losses on financial assets	6	(14,424)	(6,930)
Recoveries from loans previously written off		1,719	1,656
Gains or losses on financial assets and liabilities	23	1,429	(285)
Other operating income	24	8,187	7,746
Net operating income		**75,784**	**70,206**
Personnel expenses	25	(20,133)	(18,542)
Depreciation of property and equipment and ROU	26	(3,663)	(3,582)
Amortization of intangible assets	26	(2,959)	(2,272)
Other operating expenses	27	(14,475)	(12,701)
Profit before income tax		**34,554**	**33,109**
Income tax expense	28	(4,152)	(3,754)
Profit for the year		**30,402**	**29,355**
Other comprehensive income			
Items that will be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income		1,456	(2,144)
Total comprehensive income for the year		**31,858**	**27,211**

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 38 to 107.

Separate statement of changes in equity for the year ended 31 December 2023

(amounts in Euro'000, unless otherwise stated)

	Share capital	Retained earnings	Other Reserves	Fair value reserve	Total shareholder's equity
Balance at 1 January 2022	**63,000**	**72,547**	**1,955**	**27**	**137,529**
Profit for the year	-	29,355	-	-	29,355
Net change in fair value of financial assets through other comprehensive income	-	-	-	(2,144)	(2,144)
Dividend to equity holders	-	(22,000)	-	-	(22,000)
Total comprehensive income	**63,000**	**79,902**	**1,955**	**(2,117)**	**142,740**
Balance at 31 December 2022	**63,000**	**79,902**	**1,955**	**(2,117)**	**142,740**
Profit for the year	-	30,402	-	-	30,402
Net change in fair value of financial assets through other comprehensive income	-	-	-	1,456	1,456
Total comprehensive income	**63,000**	**110,304**	**1,955**	**(661)**	**174,598**
Contributions and distributions	**-**				
Dividends to equity holders	-	(23,500)	-	-	(23,500)
Balance at 31 December 2023	**63,000**	**86,804**	**1,955**	**(661)**	**151,098**

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 38 to 107.

Separate statement of cash flows for the year ended 31 December 2023

(amounts in Euro'000, unless otherwise stated)

	Notes	2023	2022
Cash flows from operating activities			
Interest received on loans		58,318	52,687
Interest paid on placements		1,540	45
Interest received on investment securities		4,619	4,968
Dividends received		249	1,105
Interest paid on deposits and subordinated loan		(776)	(1,886)
Fees and commissions received		27,259	25,539
Fees and commissions paid		(12,431)	(11,157)
Other income from non-banking activities		9,906	9,402
Staff costs paid		(20,955)	(20,029)
Other operating expenses paid		(14,475)	(12,701)
Income tax paid		(4,170)	(3,249)
Cash flow from operating activities before changes in operating assets and liabilities		**49,084**	**44,724**
Changes in operating assets and liabilities			
- Mandatory liquidity reserve		(9,107)	(11,663)
- Due from banks		314	211
- Loans and advances to customers		(78,573)	(90,959)
- Other assets		957	2,578
- Due to customers		96,539	106,193
- Deposits from banks		(663)	63
- Other liabilities		3,879	7,063
Net cash flow from operating activities		**62,431**	**58,210**
Cash flows from investing activities			
Acquisition of property, equipment & intangibles assets	14	(6,881)	(5,616)
Income from property and equipment disposal		58	20
Investment in securities		(58,178)	(27,981)
Net cash (used in) investing activities		**(65,001)**	**(33,577)**
Cash flows from financing activities			
Repayment of borrowings		-	(19,298)
Proceeds from borrowings		(43)	2,030
Repayment of leased liabilities		(871)	(966)
Dividends paid		-	(22,000)
Net cash flow (used in) financing activities		**(914)**	**(40,234)**
Effect of exchange rate changes		88	122
Net decrease in cash and cash equivalents		**(3,396)**	**(15,479)**
Cash and cash equivalents at the beginning of year	8	78,874	94,353
Cash and cash equivalents at 31 December 2023	8	**75,478**	**78,874**

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 38 to 107.

Notes to the separate financial statements for the year ended 31 December 2023

1. REPORTING ENTITY

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

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

As of 31 December 2023, the Bank has 7 branches and 29 sub-branches within Kosovo (31 December 2022: 7 branches and 30 sub-branches within Kosovo). 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"). These financial statements have been prepared using the going concern assumption.

2.2 New and amended standards and interpretations adopted by the Bank

In the current year, the bank has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

FRS 17 Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17)

The bank has adopted IFRS 17 and the related amendments for the first time in the current year. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. The bank does not have any contracts that meet the definition of an insurance contract under IFRS 17.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements— Disclosure of Accounting Policies

The bank has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The bank has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

Amendments to IAS 12 Income Taxes— International Tax Reform—Pillar Two Model Rules

The bank has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum topup taxes described in those rules.

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Following the amendments, the bank is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The bank has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.

2.3 New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the bank has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective [and [in some cases] had not yet been adopted by the [relevant body]]:

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 Classification of Liabilities as Current or Non-current
Amendments to IAS 1 Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements
Amendments to IFRS 16 Lease Liability in a Sale and Leaseback

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the bank in future periods, except if indicated below.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the bank anticipate that the application of these amendments may have an impact on the bank's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early. The management of the bank anticipate that the application of these amendments may have an impact on the bank's consolidated financial statements in future periods.

Amendments to IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date). The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants. The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early. The management of the parent company anticipate that the application of these amendments may have an impact on the bank's consolidated financial statements in future periods.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information. To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate. As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15, is a lease liability. The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact. A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

2.4 Functional and presentation currency

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

2.5 Use of judgments and estimates

In preparing these separate financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES

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 can 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 under Note 22 Fee and Commission income and Note 23 Gain and Losses, exchange differences.

3.3. Financial assets and financial liabilities

3.3.1. Classification financial assets

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

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 through profit or loss.

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

- Business area;
- Performance evaluation KPIs;
- 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

For financial assets with the business model to collect contractual cash flows, the bank 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 consider 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.

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. 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, the Bank considers the following qualitative 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.

and quantitative factors:

- Extension of the average remaining term of equal or more than 50% and equal or more than 2 years (cumulative):
- Changes of amortised cost amount (discounted with the original EIR) with equal or more than 10% and/or equal or more than 100thousands.
- Stage 3 loans can often be restructured to match the maximus expected payouts that a defaulted client can afford. If this the case, then an extension beyond 2 years does not automatically result in de-recognition and requires judgement to determine whether the extension is economically a new instrument.

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. Derecognition is accounted for cases where changes of amortised cost amount (discounted with the original EIR) are equal or more than 10% and/or equal or more than 100thousands. 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 critical 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 maximize the use of relevant observable inputs and minimize 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 recognized 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 recognized less cumulative amortization recognized 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. Financial instruments - impairment (IFRS 9)

The measurement of impairment for expected credit loss on financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and payment behaviour.

Significant judgments are required in applying the accounting requirements for measuring expected credit losses, inter alia:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

For the bank, credit risk comes from the risk of suffering financial loss should any of bank's customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk arises mainly from interbank, commercial and personal loans, and loan commitments arising from such lending activities, but can also arise from financial guarantees given, such as, credit guarantees, letters of credit, and acceptances. Bank is also exposed to other credit risks arising from investments in debt securities.

The estimation of the credit risk for risk management purposes is complex and requires the use of models, as the risk varies with changes in market conditions, expected cash flows and the passage of time. The assessment of the credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated default ratios and the default correlations between counterparties. IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality from the point of initial recognition. Under this model, a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. According to IFRS 9, when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets (POCI) are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis.

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 recognized based on a credit adjusted EIR. ECLs are only recognized 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.

Significant increase in the credit risk

The bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

Bank uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios plus additionally qualitative criteria like 30 days past due or forbearance measures for a particular facility as backstop. For quantitative staging bank compares the lifetime PD curve at reporting date with the forward lifetime PD curve at the date of initial recognition. Given the different nature of products between non-retail and retail, the methods for assessing potential significant increases also slightly differ. For non-retail risk to make the two curves comparable the PDs are scaled down to annualized PDs. A significant increase in credit risk is considered to have occurred if the PD increase was 250 per cent or greater. For longer maturities the threshold of 250 per cent is reduced to account for a maturity effect. For retail exposures on the other hand, the remaining cumulative PDs are compared as the logit difference between "Lifetime PD at reporting date" and "Lifetime PD at origination conditional to survival up to the reporting date". A significant increase in credit risk is considered to have occurred once this logit difference is above a certain threshold. The threshold levels are calculated separately for each portfolio which is covered by individual rating-based lifetime PD models. Based on historical data, the thresholds are estimated as the 50th quantile of the distribution of the above-mentioned logit differences on the worsening portfolio. This way, 50 per cent of the worsening in the lifetime PDs with the highest magnitude is deemed significant. That usually translates to a PD increase between 150 and up to 300 per cent, dependent on the default behaviour of the different portfolios. Regarding the threshold at which a financial instrument must be transferred to stage 2, Bank has decided on the thresholds based on the current market practice.

Qualitative criteria

Bank qualitative criteria as a secondary indicator of a significant increase in credit risk for all material portfolios.

A movement to Stage 2 takes place when the criteria below are met. For sovereign, bank, corporate customer and project finance portfolios, if the borrower meets one or more of the following criteria:

- External market indicators
- Changes in contract terms
- Changes to management approach
- Expert judgment

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

For retail portfolios, if the borrower meets one or more of the following criteria:

- Forbearance
- Default of other exposure of the same customer (PI segment)
- Holistic approach - Applicable for cases where new forward-looking information becomes available for a segment or portion of the portfolio and this information is not yet captured in the rating system. If such cases are identified, management measures this portfolio with lifetime expected credit losses (as a collective assessment).
- The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at an individual transaction level for all retail portfolios held by bank.

Backstop

A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days overdue on its contractual payments. In a few limited cases, the presumption that financial assets which are more than 30 days overdue should be moved to Stage 2, is rebutted.

Low credit risk exemption

In selected cases for mostly sovereign debt securities bank makes use of the low credit risk exemption. All securities which are presented as low credit risk have a rating equivalent to investment grade or better.

Bank has not used the low credit risk exemption for any lending business.

Definition of default and credit-impaired assets

Default is defined in article 178 CRR as the event where a specific debtor of bank:

- is unlikely to pay its credit obligations to bank from primary sources, OR
- the debtor is overdue more than 90 days on any material credit obligation to bank.

The indicators for the classification 'unlikely to pay' are roughly included in article 178 (3) CRR.

Non-Retail

Bank has defined 12 indicators which are currently used to identify unlikely to pay and 90dpd and are to be considered in DDB (field: default classification). The column 'Classification' gives a reference to which of the two above listed default reasons the indicator refers.

- Bankruptcy
- Direct write-off
- Claim written-off against provisions
- Loan/facility called
- Distressed Restructuring
- Interest payment cancelled
- Claim sold with losses
- Overdue payment
- License withdrawn
- Payment moratorium
- Expected economic loss
- Cross Default

Calculation of the threshold for material overdue.

The bank materiality threshold for non-retail customers is regulated in the draft Regulatory Technical Standards (RTS) on materiality threshold for credit obligation past due under Article 178 of Regulation (EU) No575/2013, adopted by the EU Commission as Delegated Regulation (EU) No 2018/171 – entered into force on 26 February 2018. According to the above-mentioned regulation, the threshold consists of an absolute and a relative component:

- the absolute component of the threshold is set as a maximum amount for the sum of all overdue amounts owed by an obligor to the bank ('credit obligation past due') and shall not exceed 500 EUR or the equivalent of that amount in the relevant national currency;

and
- the relative component of the threshold is set as a ratio, expressed as a percentage, of the overdue amount as referred to in point (a), versus the total amount of all on-balance sheet exposures to the obligor excluding equity exposures ('on-balance credit obligation'); and is equal to 1%.

Retail

Bank uses the following retail default indicators: the 90+DPD indicator and 17 unlikeliness to pay indicators, including 4 situations of cross-default.

90+ Days Past Due

For the purposes of the application of point (b) of Article 178(1) of the CRR, the obligor is considered in default in case of being past due for more than 90 consecutive days on any material credit obligation.

The materiality threshold of the bank consists of an absolute and a relative component:

- The absolute threshold component equals to EUR100.
- The relative threshold component equals to 1% of the total amount of the on-balance sheet exposure.

The numerator of the relative threshold calculation has to include all past due amounts that exist for a facility/an obligor (calculated based on the used level of default application). The denominator of the relative threshold calculation has to include the obligor's on-balance exposure towards the bank, including all past due amounts considered in the numerator.

Unlikeliness to pay indicators

- Non-accrued status
- Specific Credit Risk Adjustments
- Debt sale
- Distressed restructuring

- Bankruptcy
- Credit fraud
- Death of obligor
- Loss of income
- Significant indebtedness
- Breach of contractual covenants
- Call of contract before maturity
- Collateral sale
- POCI

Situations of cross -default

- Product cross-default
- Pulling effect
- Joint obligation default
- Connected client default

IFRS 9 calculation concept

IFRS 9 uses an expected credit loss model to recognise impairment. 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.

There are 3 main approaches which can be used to calculate expected credit losses these are:
- General approach
- Simplified approach
- Purchase or originated credit impaired financial assets .

A. General approach

Using the general approach, the amount of expected credit losses recognised as a loss allowance or provision depends on the assessment of the extent of credit deterioration since initial recognition. There are therefore two possibilities:

- When the credit risk on a financial instrument has not increased significantly since initial recognition, the bank shall measure the loss allowance for that financial instrument at an amount equal to 12- month expected credit losses (IFRS 9.5.5.5). These assets are in Stage 1.
- When the credit risk on a financial instrument has increased significantly since initial recognition the bank shall measure the loss allowance at an amount equal to the lifetime expected credit losses (IFRS 9.5.5.4). These assets are in Stage 2.

The objective of the impairment requirements is to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking (IFRS 9.5.5.4). The assessment of whether lifetime expected credit losses should be recognized 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.

B. Simplified approach

There is a simplified approach which has some operational simplifications and has to be applied or is a policy choice for trade receivables, contract assets and lease receivables. This includes the requirement or policy choice to apply the simplified approach that does not require entities to track changes in credit risk because they would all be in Stage 2 as practical expedient to calculate expected credit losses on trade receivables using a provision matrix.

The simplified approach is not applied by the bank.

C. Purchase or originated credit impaired financial assets

For financial assets which are credit impaired on initial recognition the bank 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 (IFRS 9.5.5.14). 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.

Staging criteria

At each reporting date, the bank shall assess whether the credit risk on a financial instrument has increased significantly from the date of initial recognition (IFRS 9.5.5.9). Credit risk analysis is a multifactor and holistic analysis. This means the assessment is made using qualitative and quantitative inputs and whether a specific factor is relevant, and its weight compared to other factors, will depend on the type of product, characteristics of the financial instruments and the borrower as well as the geographic region. It may also be the case that some factors or indicators are not available on an individual level and hence should be assessed on a collective basis. In such a case, the factors or indicators should be assessed for appropriate portfolios, groups of portfolios or portions of a portfolio of financial instruments. The quantitative assessment is to be made by looking at the change in the risk of default occurring over the expected life of the financial instrument. When determining whether the recognition of lifetime expected credit losses is required, bank shall consider reasonable and supportable information that is available without undue cost or effort (IFRS 9.5.5.9).

This means that the bank need not undertake an exhaustive search for information when determining whether credit risk has increased significantly since initial recognition. The bank, as a practical expedient and as long as certain conditions hold, the change in the risk of default occurring for some financial instruments or groups of financial instruments can be assessed based on 12 month expected credit losses. This is possible for financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial. However, for some financial instruments, or in some circumstances, the use of changes in the risk of default occurring over the next 12 months may not be appropriate. These circumstances would be:

- The financial instrument only has significant payment obligations beyond the next 12 months;
- Changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
- Changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months (IFRS 9.B5.5.14).

It should be noted that, with several exceptions related to the practical expedients described below, the assessment for deciding whether credit risk on a financial instrument has increased significantly is to be made on a relative and not absolute basis.

This means that given a change in absolute terms for a financial instrument it is more likely to be assessed as having credit risk which has increased significantly if the initial credit risk is low compared to if it is high. One such practical expedient is to choose the low credit risk exception option, which states that an entity may assume that the credit risk on a security (but not a loan according to the GRAECL guidance) has not increased significantly since initial recognition if the security is determined to have low credit risk at the reporting date. For securities with low credit risk bank would recognise an allowance based on 12 month expected credit losses. Securities are not considered to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral. From a theoretical perspective, low credit risk is defined as a security having low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations and future adverse conditions will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations. From a practical point of view, in the bank, this means that securities which are considered investment grade do not have to be assessed to see whether the credit risk on a security has increased significantly. Here investment grade is defined by recognised external rating agencies as a rating between AAA-BBB.

Stage 2 triggers

Assumptions concerning triggers qualifying for the stage 2 treatment

When defining which time horizon should be used for the assessment of significantly increased credit risk, IFRS 9 BC5.174 imposes that [...] *not reflecting the term structure might also result in the assessment that the risk of a default occurring has changed merely because of the passage of time.*

This could happen even if the bank had expected such a change at initial recognition. In the IASB's view, the assessment of the criteria should not change solely because the maturity date is closer. Furthermore, while the risk of a default occurring over the expected life of the financial instrument usually decreases as time passes, this is not always the case. For financial instruments, that only have significant payment obligations close to the maturity of the financial instrument, the risk of a default occurring may not automatically decrease as time passes. In such a case, bank should also consider other qualitative factors that would demonstrate whether credit risk has increased significantly since initial recognition. Significant increase of credit risk for the purpose of stage 2 allowance is perceived in terms of:

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

Qualitative and quantitative non-statistical triggers

A number of factors are relevant when assessing significant increase in credit risk, as the non-exhaustive list in IFRS 9 B.5.5.16/17 suggests. Therefore, qualitative factors are taken into account to complement the assessment of increased credit risk and also in cases where only qualitative factors or non-statistical quantitative factors exist the assessment will be driven by these factors alone.

Following on from this it is important that bank should consider observable market information about the credit risk of the particular financial instrument or similar financial instruments. The construction of qualitative and quantitative non-statistical flags is based on the following list:

- B5.5.16 "holistic analysis"
- B5.5.17.a "internal price indicators"
- B5.5.17.b "rates/terms"
- B5.5.17.c "external market indicators"
- B5.5.17.d "external credit rating"
- B5.5.17.e "internal credit rating"
- B5.5.17.f "business/financial/economic conditions"
- B5.5.17.g "operating results"
- B5.5.17.h "other instruments"
- B5.5.17.i "business environment"
- B5.5.17.j "collateral value"
- B5.5.17.k "quality of guarantee"
- B5.5.17.l "support from parent unit"
- B5.5.17.m "contract changes"
- B5.5.17.n "performance and behaviour"
- B5.5.17.o "credit management approach"
- B5.5.17.p "past due information"

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 the bank has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since initial recognition (IFRS 9.5.5.11). 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 credit risk and an amount of days past due which is higher than 30 days past due exists (e.g. 40 days past due or 50 days past due etc.) (IFRS 9.B5.5.20).

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 (IFRS 9.B5.5.21). 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 an individual instrument until a customer breaches the contractual terms.

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.

Rent risk characteristics

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; and
- The value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, non-recourse loans in some jurisdictions or loan-to-value ratios) (IFRS 9.B5.5.5)

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 from the "Credit-impaired" indicators according to IFRS 9 Appendix A:

- 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 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.

In the bank the definition of credit-impaired is aligned with the (regulatory - Art 178 CRR) definition of default, as the definition of default and credit-impaired are similar and this is in line with current risk management processes. This means that all instruments in scope of IFRS 9 impairment where the counterparty is in default shall be transferred to stage 3. Furthermore, fully collateralized loans with zero risk provision, where the counterparty is in default, shall be assigned to stage 3 (if the 'credit deterioration model' applies). Due to the necessity to calculate a probability-weighted ECL zero risk provisions in stage 3 is only expected in rare cases. Finally, due to regulatory probation periods, there may be situations, where the risk provision is low or zero (as the bank has no expectation of non- or late-payment), but the default status is still active. In such cases, the exposure shall remain in stage 3 as long as the obligor is in default.

General concept of the model

Expected credit losses are calculated as the sum of the marginal losses occurring in each time period of the balance sheet 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 for each period. The expected credit loss calculations are based on four components:

- Probability of Default ("PD") – This is an estimate of the likelihood of default over a given time horizon.
- Exposure at Default ("EAD") – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- Loss Given Default ("LGD") – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.
- Discount Rate – This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

The bank shall measure 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; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions (IFRS 9.5.5.17).

When measuring expected credit losses, bank need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. This means that however low the probability of a credit loss occurring it will never be zero due to the probability weighting.

Approach to on-balance sheet items

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to the bank in accordance with the contract and the cash flows that bank expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if bank expects to be paid in full but later than when contractually due (IFRS 9.B5.5.28). The purpose of estimating expected credit losses is neither to estimate a worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses shall always reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss. Therefore, for practical purposes the use of probability-weighted estimates of credit losses does not have to consider a large number of scenarios. However, the expected credit losses shall reflect minimum of two outcomes (IFRS 9.B5.5.41). It should be noted that 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring. For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the bank. The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable (i.e. the estimate of expected cash flows considers the probability of a foreclosure and the cash flows that would result from it). Consequently, any cash flows that are expected from the realisation of the collateral beyond the contractual maturity of the contract should be included in this analysis. Any collateral obtained as a result of foreclosure is not recognised as an asset that is separate from the collateralised financial instrument unless it meets the recognition criteria (IFRS 9.B5.5.55). Expected credit losses shall be discounted to the reporting date using the variable rate instrument expected credit losses shall be discounted using the current effective interest rate (IFRS 9.B5.5.44).

Approach to off-balance items

For loan commitments and financial guarantee contracts, the date that bank 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, bank considers changes in the risk of a default occurring on the loan to which a loan commitment relates. For financial guarantee contracts, bank 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 the bank under the contract and the cash flows that the bank 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 bank if the holder of the loan commitment draws down the loan and the cash flows that bank 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 bank 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 bank 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 recognising the financial asset resulting from the loan commitment. Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Forward looking information

A measure of expected credit losses is an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes and using 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. When there is a non-linear relationship between the different forward-looking scenarios and their associated credit losses, more than one forward-looking scenario would need to be incorporated into the measurement of expected credit losses to meet the above objective adopted:

Number of economic scenarios: representative scenarios that capture material non-linearities are modelled (e.g. a base scenario, an upside scenario and a downside scenario). Different numbers of scenarios may be appropriate depending on the facts and circumstances - e.g. in periods of expected increased volatility.

Determining alternative economic scenarios: whether bank produces its own forward economic estimates or uses third party estimates, it considers all reasonable and supportable information available without undue cost or effort, unless the marginal effect of using additional data would be insignificant. In certain economies, extensive data will be available, but in other territories less information may be available.

Representative scenarios: upside and downside scenarios used are not biased to extreme scenarios such that the range and weighting of scenarios used is not representative. In particular, as noted in the Basel Committee's GCRAECL, "stressed scenarios developed for industry-wide supervisory purposes are not intended to be used directly for accounting purposes.
Base scenario: the base scenario is consistent with relevant inputs to other estimates in the financial statements (e.g. deferred tax recoverability and goodwill impairment assessments), budgets, strategic and capital plans, and other information used in managing and reporting by the bank. However, these inputs should not be lagging or biased. Even if the inputs used are timely and unbiased, if bank budget is developed in September but macro-economic conditions have changed by the December year-end, or if the budget contains inherent optimism or pessimism, then appropriate adjustments are made to these inputs when using them to determine the base scenario for the purposes of the year-end ECL calculation.

Sensitivities and asymmetries: scenarios selected are representative and take account of key drivers of ECL, particularly non-linear and asymmetric sensitivities within portfolios. For example, if bank has significant property exposures and hence significant ECL sensitivity to future property values, then different changes in property prices are modelled. The sensitivity of ECL to each individual forward economic parameter is monitored to identify key drivers and to estimate effects of changes in parameters on ECL. Parameter coherence: in developing the detail of a specific economic scenario (e.g. a scenario with individual point estimates of future GDP, unemployment, interest rates, etc.), any expected correlation or other interrelationship between parameters (e.g. an increase in unemployment is expected to result in a decrease in interest rates) is considered in the development of the scenario so that it is realistic. Granularity of adjustments: the calculation of a separate modelled adjustment to reflect the impact of less likely scenarios and the resulting non-linear impacts is performed at an appropriately low level of granularity which takes account of qualitatively different risk characteristics and sensitivities.

Measurement of lifetime expected credit losses in Stage 1/2

Forward looking perspective

Historical information is an important anchor or base from which to measure expected credit losses. However, the bank shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows. In some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered. Estimates of changes in expected credit losses should reflect, and be directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses on the financial instrument or in the group of financial instruments and in the magnitude of those changes). The bank shall regularly review the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience.

The bank is not required to incorporate forecasts of future conditions over the entire expected life of a financial instrument. The degree of judgement that is required to estimate expected credit losses depends on the availability of detailed information. As the forecast horizon increases, the availability of detailed information decreases, and the degree of judgement required to estimate expected credit losses increases. The estimate of expected credit losses does not require a detailed estimate for periods that are far in the future—for such periods, bank may extrapolate projections from available, detailed information.

PD

The PD used for IFRS 9 should reflect management's current view of the future and should be unbiased (i.e. it should not include any conservatism or optimism). There are two types of PDs used for calculating ECLs:

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' exposures, whereas lifetime PD for Stage 3 is 100%.

The risk of a default occurring on financial instruments that have comparable credit risk is higher the longer the expected life of the instrument is; for example, the risk of a default occurring on an AAA-rated bond with an expected life of 10 years is higher than that on an AAA-rated bond with an expected life of five years. The effect of an improvement in credit risk of a maturing asset needs to be taken into account for the comparison of credit risk at initiation and current credit risk.

For products with 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 calculated by Raiffeisen Bank International Retail Risk using average PD values of the accounts with existing PD estimates. The calculation is based on actual data available, 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 50bps. They will be revaluated annually and updated if necessary. The currently valid 12-month PD Benchmarks are:

Segment	Product Type	PD
PI	Mortgage	2.50%
	Personal Loans	5.00%
	Credit Cards	4.00%
	Overdrafts	3.00%
	Car Loans	2.50%
	Other Products	5.00%
MicroSME	All Products	6.50%

Application, behaviour, and transactional scorecards are used for PD estimation. Scoring in general can be defined as a statistical technique to predict, at a specific point in time with the available information, the probability of a future event (e.g. default or non-payment).

Scorecard (SC) models represent statistical risk assessment tools, specifically designed for retail exposures. Expected credit losses are calculated by factoring in rating (which represents the probability of default), exposure at default, and loss given default

The table below represents the retail rating grades used by the bank:

URG	URG meaning	URG score range	Theoretical PD band (%)	Theoretical PD (%, geometric average of theoretical PD band)
0	Not Rated	Not Rated		
0.5A	Minimal risk	860 < Score	PD<0.043%	0.03%
0.5B		820<Score≤860	0.043%≤PD<0.087%	0.06%
0.5C		780<Score≤820	0.087% ≤ PD<0.17%	0.12%
1.0	Excellent credit standing	740<Score≤780	0.17%≤PD<0.35%	0.24%
1.5	Very good credit standing	700<Score≤740	0.35%≤PD<0.69%	0.49%
2.0	Good credit standing	660<Score≤700	0.69%≤PD<1.37%	0.97%
2.5	Sound credit standing	620<Score≤660	1.37%≤PD<2.7%	1.92%
3.0A	Acceptable credit standing	600<Score≤620	2.7%≤PD<3.78%	3.20%
3.0B		580<Score≤600	3.78%≤PD<5.26%	4.46%
3.5A	Marginal credit standing	560<Score≤580	5.26%≤PD<7.28%	6.19%
3.5B		540<Score≤560	7.28%≤PD<10.00%	8.53%
4.0	Weak credit standing	500<Score≤540	10.00%≤PD<18.18%	13.48%
4.5A	Very weak credit standing	460<Score≤500	18.18%≤PD<30.77%	23.65%
4.5B		Score≤460	30.77%≤PD<100.00%	38.05%
5.0	Default	Defaulted (PD of defaulted exposure is 100%)		

Below is the bank's non-retail 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		International risk rating grade
		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

LGD

A key component of the sum of marginal losses approach is loss given default (LGD). Bank uses a combination of PD and LGD in order to calculate the expected cash flows from the projection of contractual cash flows. Estimates of LGD should consider forward looking information. The modelling approach for LGD (but not necessarily the actual LGD estimates) generally does not vary depending on which stage the exposure is in, i.e. there is a common LGD methodology that is applied consistently.

The modelling methodology for LGD is designed, where appropriate, at a component level, whereby the calculation of LGD is broken down into a series of drivers.

For secured exposures, the approach considers at a minimum the following components:

- Forecasts of future collateral valuations, including expected sale discounts;
- Time to realisation of collateral (and other recoveries);
- Allocation of collateral across exposures where there are a number of exposures to the same counterparty (cross-collateralisation);
- Cure rates (including consideration of how the unit has looked at re-defaults within the lifetime calculation); and
- External costs of realisation of collateral. For unsecured exposures the approach considers at a minimum the following components:

For unsecured exposures the approach considers at a minimum the following components:

- Time to recovery;
- Recovery rates; and
- Cure rates (including consideration of how the unit has looked at re-defaults within the lifetime calculation).

The estimation of the components considers the range of relevant drivers, including: geography (location of the counterparty and the collateral) and seniority of the credit exposure. The estimation of LGD reflects expected changes in the exposure (consistent with assumptions used in modelling the EAD), so that it is not biased (for example, a conservative estimate may arise if the expected exposure amount drops over time, but this is not taken into account in estimating LGD). The unit considers whether component values are dependent on macro-economic factors and reflects any such dependency in its modelling considering relevant forward-looking information. In particular, for exposures secured against real estate, the unit considers the interdependency between real estate prices and macro-economic variables. Similarly, the unit considers whether there is any correlation or interdependency between components of LGD and then reflects that correlation in the estimation of LGD. The data history that supports the modelling of LGD and its components covers a suitable period to support the relevance and reliability of the modelling (e.g. over a full economic cycle). The estimation of the component values within LGD reflects available historical data and considers whether there have been or are expected to be any changes in economic conditions, or changes to internal policies or procedures, that should impact the calculation of LGD, but which are not otherwise reflected in the modelling. The LGD approach reflects discounting of cash shortfalls considering their expected timing using the EIR. If regulatory LGD values are used as a starting point, then the effect of the different discount rates inherent in the regulatory LGD value is adjusted for. Furthermore, if regulatory LGD values used as a starting point contain floors that would lead to a biased result, these floors are removed for IFRS 9 purposes. The IFRS 9 LGD only reflects credit enhancements that are integral to the terms of the exposure and that are not accounted for separately. If regulatory LGD values are used as a starting point and reflect credit enhancements that should not be included for IFRS 9 purposes (e.g. cr edit default swaps), then the impact is removed. For products with insufficient default history, data unavailability or in case of new products, LGD benchmarks will be used. The Benchmarks are calculated by Raiffeisen Bank International Retail Risk using average LGD values of the accounts with existing LGD estimates. The calculation is based on actual data available, 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. The currently valid LGD benchmarks in use by the bank are:

Segment	Product Type	LGD
PI	Mortgage	35%
	Personal Loans	50%
	Credit Cards	40%
	Overdrafts	50%
	Car Loans	50%
	Other Products	50%
MicroSME	All Products	50%

EAD

Although IFRS 9 does not explicitly require units 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' loans, 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 (e.g. drawdowns within an agreed limit on a revolving facility) could lead to measurements of ECLs being too low. The maximum period over which expected credit losses shall be measured is the maximum contractual period (including extension options) over which the unit is exposed to credit risk. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which a unit has a present contractual obligation to extend credit. However, some financial instruments include both a loan and an undrawn commitment component and the unit's contractual ability to demand repayment and cancel the undrawn commitment does not limit the unit's exposure to credit losses to the contractual notice period. For example, revolving credit facilities, such as credit cards and overdraft facilities, can be contractually withdrawn by the lender with as little as one day's notice. However, in practice lenders continue to extend credit for a longer period and may only withdraw the facility after the credit risk of the borrower increases, which could be too late to prevent some or all of the expected credit losses.

These financial instruments generally have the following characteristics as a result of the nature of the financial instrument, the way in which the financial instruments are managed, and the nature of the available information about significant increases in credit risk:

- The financial instruments do not have a fixed term or repayment structure and usually have a short contractual cancellation period (for example, one day).
- The contractual ability to cancel the contract is not enforced in the normal day-to-day management of the financial instrument and the contract may only be cancelled when the unit becomes aware of an increase in credit risk at the facility level.
- The financial instruments are managed on a collective basis.

When determining the period over which the unit is expected to be exposed to credit risk, but for which expected credit losses would not be mitigated by the unit's normal credit risk management actions, a unit should consider factors such as historical information and experience about:

- The period over which the unit was exposed to credit risk on similar financial instruments;
- The length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- The credit risk management actions that a unit expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits

A unit need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses, including the effect of expected prepayments. The information used shall include factors that are specific to the borrower, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. A unit may use various sources of data that may be both internal (unit-specific) and external. Possible data sources include internal historical credit loss experience, internal ratings, credit loss experience of other entities and external ratings, reports and statistics. Entities that have no, or insufficient, sources of unit-specific data may use peer group experience for the comparable financial instrument (or groups of financial instruments).

The modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, including:

- Required repayments/amortization schedule;
- Full early repayment (e.g. early refinancing);
- Monthly overpayments (i.e. payments over and above required repayments but not for the full amount of the loan);
- Changes in utilization of an undrawn commitment within agreed credit limits in advance of default;
- Credit mitigation actions taken prior to default.

The unit uses a cash-flow model to calculate the estimated exposure at each future month-end. This model is consistent with any similar model used for EIR or macro fair-value hedging purposes. This cash-flow model further reflects movements in the EAD in the months before default. The inputs into the EAD model are reviewed to assess their suitability for IFRS 9 and adjusted, where required, to ensure an unbiased, probability weighted ECL calculation reflecting current expectations and forward-looking information.

EAD models are differentiated to reflect the different risk characteristics of different portfolios. The unit considers these different underlying drivers in determining the different inputs to EAD models.

Discount rate

ECLs are measured in a way that reflects the time value of money. This means that cash shortfalls associated with default are required to be discounted back to the balance sheet date. For a financial asset, a unit uses the effective interest rate (EIR) (i.e.

the same rate used to recognise interest income) or an approximation. The effect of discounting may be significant because default events and/or associated cash shortfalls may occur a long time into the future. The time value of money must be taken into account when calculating expected credit losses. Cash flows shall be discounted to the reporting date. Aside of the below mentioned exceptions, cash flows that are expected to be received are discounted using the effective interest rate (EIR) determined at an instruments on-balance initial recognition or an approximation thereof.

Measurement of lifetime expected credit losses in 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, bank 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. Any adjustment is recognised in profit or loss as an impairment gain or loss. For collateralised assets, the estimation also includes cash flows from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable. All measurement requirements also apply to debt securities. When defining default for the purposes of determining the risk of a default occurring, bank shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless a unit 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. The gross carrying amount can include principal outstanding (including any overdue amounts), accrued interest, unamortised fees and costs, unamortised modification gains or losses, unamortised changes in cash flow expectations, unamortised fair value hedge adjustments as well as unamortised initial differences between fair value and transaction price (deferred according to IFRS 9.B5.1.2A (b))

When determining lifetime ECL for stage 3 exposures, the same requirements apply as for stage 2 exposures. This means the ECL over the remaining life of a financial instrument shall be measured in a way that reflects an unbiased and probability weighted amount that is determined by estimating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future events (that is available at the reporting date without undue cost or effort). The assumptions and inputs must be aligned across all stages of the impairment model, this is particularly relevant for forward looking information such as macro variables.

Probability Weighting

The expected credit losses must reflect a probability weighted amount that is determined by weighting a range of possible outcomes. All relevant scenarios (instead of only the most likely scenario) shall be considered. Scenarios that are extremely unlikely to occur shall not be considered when estimating ECL. Even if only one workout strategy is realistic, it will usually be appropriate and required to take into account at least two different cash flow estimates. For risky assets, such as defaulted debt, actual cash flows can be very different from expectations. The preferred method for calculating the expected cash flows in such cases is to use the most feasible best case and worst-case scenarios. The most feasible best-case scenario will be not the scenario which maximizes all inputs, but rather, one which accounts for the relationship between inputs in a realistic manner. The worst case scenario should also account for the relationship between inputs in a realistic manner. It should also be noted that the riskier the cash flows the great the range of cash flows should be. Workout strategies have to be reflected in the cash flow estimate. Such workout scenarios may be for example:

- Cure (full recovery, full repayment and upgrade to non-default);
- Restructuring (repayment of renegotiated cash flows);
- Liquidation of collateral (gone concern);
- Transfer of the asset through sale;
- A combination of the above.

The amount and timing of the cash flows for particular scenarios have to be determined and a probability has to be attached to each cash flow estimate. The sum of the probability weighted cash flows for each relevant scenario shall then be discounted to the reporting date. The choice of scenario, the weighting and the ratio of the worst case/best case cash flows should be based on historical experience

Forward Looking Information

The need to incorporate forward-looking information means that application of the standard will require considerable judgement, in particular, as to how changes in macroeconomic factors will affect provisions.

Collateral

Estimated cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms, i.e. that are part of the contractual terms (even if not explicitly) and are not recognised separately (to avoid double counting).

Off-Balance

For a financial guarantee contract the expected loss is determined based on the expected payments to reimburse the holder for a credit loss, less any amounts that the bank expects to receive from the holder, the debtor or any other party. However, future premium receipts due from the holder should not be considered in the measurement of the expected loss on the asset subject to the guarantee. This is because cash flows under the guarantee depend upon the risk of default of the guaranteed financial asset, whereas the premiums to be received are subject to the risk of default by the holder of the guarantee. For loan commitments the bank will also consider the individual expected draw down. However, this should not be higher than 1, as ECL must not be recognised for any exposures where there is no contractual obligation.

Discount rate

The time value of money must be taken into account when calculating expected credit losses. Cash flows shall be discounted to the reporting date. Aside of the below mentioned exceptions, cash flows that are expected to be received are discounted using the effective interest rate (EIR) determined at an instruments on-balance initial recognition or an approximation thereof. If a financial instrument has a variable interest rate, the ECL should be discounted using the current EIR (i.e. the original EIR adjusted for the floating element's value reset at its most recent repricing date). If the instrument is or was designated as hedged item in a fair value hedging relationship, any revisions according to IFRS 9.6.5.10 shall be considered as well For lease receivables the discount rate used in the measurement of these lease receivables is in accordance with IFRS 16. If a financial instrument was credit impaired at initial recognition (POCI), the ECLs must be discounted using a credit adjusted effective interest rate. For loan commitments the future EIR determined to apply to the asset that will be initially recognised on the commitments' expected future first usage date, as the financial asset that is recognised following a drawdown on a loan commitment is treated as a continuation of that commitment instead of a new financial instrument. For financial guarantees the discount rate shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

3.3.13. Amortized cost category

A financial asset shall be measured at amortized cost if it is within a business model whose objective is to hold assets to collect contractual cash flows and contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, financial assets and financial liabilities are measured at fair value plus eligible transaction costs.

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, which is amortized through PL over the life-time 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.

3.3.14. FVOCI Category

A financial asset is classified as 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.

3.3.15. 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 through profit or loss shall be measured at fair value. After initial recognition the financial assets classified as at fair value shall be measured at fair value and transaction costs are recognised in profit or loss.

3.3.16. 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.

3.3.17. 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.

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 daily 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	4-7 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

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 based on the lease terms. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 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. 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).

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.

The bank chose to use recognition exemptions short term leases as well as low value leases.

- A short-term lease is defined as a lease that has a lease term of 12 months or less.
- A threshold of EUR 5,000, low value leases under threshold.

Each criterion is applied individually, meaning there is no restriction on qualifying short-term lease based on value of the lease and vice versa. The election is to be made on a class-by-class basis. The bank decided to use this exemption for all classes of assets. Any subsequent modification on short-term lease will be considered as a new lease and criteria will be reassessed.

3.6.3. 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. Repossessed assets are recognised as inventories and are stated under merchandise inventory and suspense account for services rendered not yet charged out in statement of financial position and as expenses from non-banking activities in statement of comprehensive income. In case of sale, the revenue is recognised and carrying amount of the asset is recognised as an expense.

Net realisable value is estimated once a year and any write-down/reversal is recognised as an expense /income in the period it occurred.

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. 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.

3.9. 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.

3.10. 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.

3.11. 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.

3.12. 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.

3.13. Interest income and expense

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 FVOCI 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.

3.14. 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.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Other fees and commission income – including account servicing fees, sales commission, card and ATM fees, payment collection fees, is recognised as the related services are performed, respectively over time as the services are provided and/or at a point in time when the transaction takes place (transaction based fees).

More information about the Bank's performance obligations is provided in Note 23.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and the applies IFRS 15 to the residual component.

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

3.15. 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.

3.16. 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 Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

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.

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.

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 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 there is:

- 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.

ECLs are measured in a way that reflects the time value of money. This means that cash shortfalls associated with default are required to be discounted back to the balance sheet date. For Stage 3 assets ECLs are discounted using the original EIR, while for POCI assets ECLs are discounted using CAEIR.

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 allowance and provision 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.

The following criteria is applicable for retail exposures:

- when the asset is classified as non-performing and the asset is not secured by collateral, the asset is written down within 18 months;
- when the asset is classified as non-performing and the asset is secured by pledged collateral, the asset is written down within 36 months;
- when the asset is classified as non-performing and the asset is secured by mortgage, the asset is written down within 60 months.

The following criteria is applicable for non-retail exposures:

- when the ILLP calculation is done on gone concern approach and the asset is provisioned 100%;
- when there is lack of expected future cash flows from operations;
- when the fair value less cost to sell of a still existing collateral used in the impairment calculation is zero or there is no collateral anymore.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as a direct write down in the profit and loss statement. 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 2023 and 31 December 2022.

31 December 2023	Gross carrying amount	Stage 2			Stage 3			Total forborne loans	Forbearance ratio
		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		
Due from banks	21,639	-	-	-	-	-	-	-	0.0%
Loans and advances to customers									
Non-Retail	364,721	13,749	2,381	-	207	4,532	-	-	0.0%
Retail	600,265	29,712	4,620	2,605	5,379	2,962	2,851	5,456	0.91%
Total loans and advances to customers	**964,986**	**43,461**	**7,001**	**2,605**	**5,586**	**7,494**	**2,851**	**5,456**	**0.91%**

31 December 2022	Gross carrying amount	Stage 2			Stage 3			Total forborne loans	Forbearance ratio
		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		
Due from banks	11,945	-	-	-	-	-	-	-	0%
Loans and advances to customers									
Non-Retail	368,043	26,587	1,880	5,286	1,385	5,503	6,255	11,541	3.14%
Retail	523,892	52,411	6,508	5,544	6,143	2,254	2,244	7,788	1.49%
Total loans and advances to customers	**891,935**	**78,998**	**8,388**	**10,830**	**7,528**	**7,757**	**8,499**	**19,329**	**2.17%**

Overview of forborne loans

31 December 2023	Gross amount of forborne loans			ECLs of forborne loans		
	Stage 2	Stage 3	Total	Stage 2 Collective	Stage 3 Collective	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Non-Retail	-	-	-	-	-	-
Retail	2,483	2,122	4,605	379	1,685	2,064
Total loans and advances to customers	**2,483**	**2,122**	**4,605**	**379**	**1,685**	**2,064**

31 December 2022	Gross amount of forborne loans			ECL of forborne loans		
	Stage 2	Stage 3	Total	Stage 2 Collective	Stage 3 Collective	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Non-Retail	5,243	-	5,243	2,449	-	2,449
Retail	5,214	2,799	8,013	722	1,513	2,235
Total loans and advances to customers	**10,457**	**2,799**	**13,256**	**3,171**	**1,513**	**4,684**

Loans and advances to customers

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2023 of financial assets by counterparty sector.

	Credit risk exposure	
	31-Dec-23	**31-Dec-22**
Central Bank of Kosovo	74,171	71,545
Other Banks	32,252	36,796
Investments in subsidiaries	2,234	2,234
Sovereigns	246,556	188,320
International Corporates	9,523	9,523
Local Corporates	364,721	368,043
Local Retail customers	600,265	523,892
Total Financial Assets risk exposure	**1,329,722**	**1,200,353**

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	
	2023	**2022**
Maximum exposure to credit risk		
Gross amount	964,986	891,935
Allowance for impairment	(39,446)	(28,988)
Net carrying amount	**925,540**	**862,947**
Loans with renegotiated terms		
Gross carrying amount	63,542	102,671
Allowance for impairment	(10,525)	(13,688)
Net carrying amount	**53,017**	**88,983**

Loans and advances to customers

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

31 December 2023	Loans and advances to customers			Fair value of collateral		
	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	260	4,481	4,741	224	3,787	4,011
Residential Real Estate	77,112	-	77,112	70,195	-	70,195
Movable	214,618	346,605	561,223	84,761	325,623	410,384
Unsecured	308,275	13,635	321,910	-	-	-
Total	**600,265**	**364,721**	**964,986**	**155,180**	**329,410**	**484,590**

31 December 2022	Loans and advances to customers			Fair value of collateral		
	Retail	Corporate	Total	Retail	Corporate	Total
Commercial Real Estate	301	5,611	5,912	614	3,044	3,658
Residential Real Estate	67,028	-	67,028	92,772	2,272	95,044
Movable	286,263	348,983	635,246	43,015	251,025	294,040
Unsecured	170,300	13,449	183,749	1	-	1
Total	**523,892**	**368,043**	**891,935**	**136,401**	**256,341**	**392,743**

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 2023	Total gross carrying amount	Stage 1	Stage 2	Stage 3	Fair value of the collateral
Non-retail Customers	364,721	300,900	51,702	12,119	155,180
Retail Customers	600,265	439,996	139,487	20,783	329,410
Total Loans and Advances to Customers	**964,986**	**740,896**	**191,189**	**32,902**	**484,590**

31 December 2022	Total gross carrying amount	Stage 1	Stage 2	Stage 3	Fair value of the collateral
Non-retail Customers	368,043	322,957	35,001	10,085	136,401
Retail Customers	523,892	487,965	20,635	15,292	256,342
Total Loans and Advances to Customers	**891,935**	**810,922**	**55,636**	**25,377**	**392,743**

An analysis of concentrations of credit risk as at 31 December 2023 and 31 December 2022 for loans and advances to customers past due and impaired – Stage 3 and POCI are presented below:

31 December 2023	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Non-retail Customers	3,113	991	1,079	6,818	12,001
Retail Customers	3,129	463	1,994	21,859	27,445
Total Loans and advances to customers impaired	**6,242**	**1,454**	**3,073**	**28,677**	**39,446**

31 December 2022	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 12 months	Total
Non-retail Customers	2,555	240	1,590	5,654	10,039
Retail Customers	1,990	635	1,740	14,584	18,949
Total Loans and advances to customers impaired	**4,545**	**875**	**3,330**	**20,238**	**28,988**

The Bank monitors concentrations of credit risk by sector. Economic sector risk concentrations within the customer loan portfolio are as follows:

	2023	%	2022	%
Trade	161,121	17%	231,320	26%
Individuals	747,476	77%	402,444	45%
Manufacturing, chemical and processing	37,428	4%	110,157	12%
Service	8,107	1%	37,504	4%
Construction and construction servicing	4,223	0%	52,187	6%
Food industry and agriculture	6,425	1%	23,403	3%
Other	206	0%	34920	4%
Total loans and advances to customers before allowance for loan impairment	**964,986**	**100%**	**891,935**	**100%**

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 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:

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

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	2023	2022
P-1	31,833	34,187
P-2	1,218	3,638
P-3	-	-
	33,051	**37,825**

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 International risk rating:

	2023	**2022**
P-1	209,604	147,671
P-2	13,497	18,734
P-3	3,470	4,061
Not Rated	29,455	27,318
	256,026	**197,784**

The exposure reported as not rated reflects the Bank's exposure to Republic of Kosovo.

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 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. The bank monitors this requirement and reports it on monthly basis the required liquidity reserve for each working day.

The table below shows net carrying amounts of assets and liabilities as at 31 December 2023 and 2022 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 percent. As of 31 December 2023, the Bank was well over this limit at above 300 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	185,138	-	-	-	185,138
Due from banks	11,961	-	-	-	11,961
Loans and advances to customers	19,944	28,870	195,937	680,789	925,540
Investment securities	-	-	-	256,026	256,026
Other assets	-	-	2,550	-	2,550
Total financial assets	**217,043**	**28,870**	**198,487**	**936,815**	**1,381,215**
Liabilities					
Deposits from customers	1,216,476	925	1,738	147	1,219,286
Due to banks	7,491	-	230	-	7,721
Subordinated debt	-	-	-	-	-
Other non-derivative financial liabilities	-	-	45,445	-	45,445
Other derivative financial liabilities	-	-	101	-	101
Total financial liabilities	**1,223,967**	**925**	**47,514**	**147**	**1,272,553**
Net gap position at 31 December 2023	**(1,006,924)**	**27,945**	**150,974**	**936,668**	**108,663**

	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	165,190	-	-	-	165,190
Due from banks	25,885	-	-	-	25,885
Loans and advances to customers	6,703	47,945	143,164	665,134	862,946
Investment securities	-	-	-	197,784	197,784
Other assets	-	-	3,932	-	3,932
Total financial assets	**197,778**	**47,945**	**147,096**	**862,918**	**1,255,737**
Liabilities					
Deposits from customers	1,125,770	1,023	2,079	96	1,128,968
Due to banks	7,534	-	894	-	8,428
Subordinated debt	-	-	-	-	-
Other non-derivative financial liabilities	-	-	16,832	-	16,832
Other derivative financial liabilities	-	-	(236)	337	101
Total financial liabilities	**1,133,304**	**1,023**	**19,569**	**433**	**1,154,329**
Net gap position as at 31 December 2022	**(935,526)**	**46,922**	**127,527**	**862,485**	**101,408**

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 2023 and 2022 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 2023 and 2022 is set out below:

	Kosovo	EU	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	165,965	19,173	-	185,138
Due from banks	-	11,961	-	11,961
Loans and advances to customers	925,540	-	-	925,540
Investment securities	76,854	179,172	-	256,026
Other assets	2,550	-	-	2,550
Total financial assets	**1,170,909**	**210,306**	**-**	**1,381,215**
Liabilities				
Deposits from customers	1,168,849	16,800	33,637	1,219,286
Deposits from banks	7,491	230	-	7,721
Subordinated debt	-	-	-	-
Other liabilities	45,445	-	101	45,546
Total financial liabilities	**1,221,785**	**17,030**	**33,738**	**1,272,553**
Net gap position at 31 December 2023	**(50,876)**	**193,276**	**(33,738)**	**108,663**

	Kosovo	**EU**	**Other**	**Total**
Assets				
Cash and cash equivalents and mandatory liquidity reserve	155,121	10,069	-	165,190
Due from banks	-	25,885	-	25,885
Loans and advances to customers	862,946	-	-	862,946
Investment securities	44,313	153,471	-	197,784
Other assets	3,932	-	-	3,932
Total financial assets	**1,066,312**	**189,425**	**-**	**1,255,737**
Liabilities				
Deposits from customers	1,080,756	15,077	33,135	1,128,968
Deposits from banks	7,534	894	-	8,428
Subordinated debt	-	-	-	-
Other liabilities	16,832	-	101	16,933
Total financial liabilities	**1,105,122**	**15,971**	**33,236**	**1,154,329**
Net gap position as at 31 December 2022	**(38,810)**	**173,454**	**(33,236)**	**101,408**

Currency risk

This is a form of risk that arises from the change in price of one currency against functional currency. The currency risk is managed through monitoring and managing 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, as well as stop-loss limits, which are monitored daily, and hedged accordingly by entering offsetting positions. The use of euro in Kosovo allows the bank to enter in highly liquid derivatives, such as cross-currency swaps, to be used as hedging tools to the short-term liquidity variances.

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 2023 and 2022. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currency and translated into Euro '000.

	Euro	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	185,138	-	-	185,138
Due from banks	11,961	-	-	11,961
Loans and advances to customers	925,540	-	-	925,540
Investment securities	208,627	47,399	-	256,026
Other assets	2,550	-	-	2,550
Total financial assets	**1,333,816**	**47,399**	**-**	**1,381,215**
Liabilities				
Deposits from customers	1,140,829	68,150	10,307	1,219,286
Deposits from banks	7,721	-	-	7,721
Subordinated debt	-	-	-	-
Other liabilities	45,546	-	-	45,546
Total financial liabilities	**1,194,096**	**68,150**	**10,307**	**1,272,553**
Net gap position at 31 December 2023	**139,721**	**(20,751)**	**(10,307)**	**108,663**

	Euro	USD	Other	Total
Assets				
Cash and cash equivalents and mandatory liquidity reserve	165,190	-	-	165,190
Due from banks	25,885	-	-	25,885
Loans and advances to customers	862,946	-	-	862,946
Investment securities	179,350	18,434	-	197,784
Other assets	3,932	-	-	3,932
Total financial assets	**1,237,303**	**18,434**	**-**	**1,255,737**
Liabilities				
Deposits from customers	1,071,742	43,722	13,504	1,128,968
Deposits from banks	8,428	-	-	8,428
Subordinated debt	-	-	-	-
Other liabilities	16,933	-	-	16,933
Total financial liabilities	**1,097,103**	**43,722**	**13,504**	**1,154,329**
Net gap position at 31 December 2022	**140,200**	**(25,288)**	**(13,504)**	**101,408**

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 EUR	31 December 2023	31 December 2022
1 USD	1.105005	1.0666
1 CHF	0.926	0.9847
1 GBP	0.86905	0.887

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 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 2028 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	185,138	-	-	-	-	185,138
Due from banks	11,961	-	-	-	-	11,961
Loans and advances to customers	19,944	28,870	195,937	680,789	-	925,540
Investment securities	-		-	256,026	-	256,026
Other assets	-	-	-	-	2,550	2,550
Total financial assets	**217,043**	**28,870**	**195,937**	**936,815**	**2,550**	**1,381,215**
Liabilities						
Deposits from customers	127,276	925	1,738	147	1,089,200	1,219,286
Deposits from banks	7,261	-	230	-	230	7,721
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	45,546	45,546
Total financial liabilities	**134,537**	**925**	**1,968**	**147**	**1,134,976**	**1,272,553**
Net gap position at 31 December 2023	**82,506**	**27,945**	**193,969**	**936,668**	**(1,132,426)**	**108,663**

Non-interest bearing deposits in the amount of € 1,089,430 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	165,190	-	-	-	-	165,190
Due from banks	25,885	-	-	-	-	25,885
Loans and advances to customers	6,703	47,945	143,164	665,134	-	862,946
Investment securities	-	-	-	197,784	-	197,784
Other assets	-	-	-	-	3,932	3,932
Total financial assets	**197,778**	**47,945**	**143,164**	**862,918**	**3,932**	**1,255,737**
Liabilities						
Deposits from customers	133,343	1,023	2,079	96	992,427	1,128,968
Deposits from banks	6,640	-	894	-	894	8,428
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	16,933	16,933
Total financial liabilities	**139,983**	**1,023**	**2,973**	**96**	**1,010,254**	**1,154,329**
Net gap position as at 31 December 2022	**57,795**	**46,922**	**140,191**	**862,822**	**(1,006,322)**	**101,408**

The table below summarises the Bank's exposure to variable interest rate (EURIBOR). 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	Total
Assets					
Cash and cash equivalents and mandatory liquidity reserve	-	-	-	-	-
Due from banks	-	-	-	-	-
Loans and advances to customers	1,452	2,213	12,429	102,359	118,453
Investment securities	-	-	-	-	-
Other assets	-	-	-	-	-
Total financial assets	**1,452**	**2,213**	**12,429**	**102,359**	**118,453**
Liabilities					
Deposits from customers	-	-	-	-	-
Deposits from banks	-	-	-	-	-
Subordinated debt	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**
Net gap position at 31 December 2023	**1,452**	**2,213**	**12,429**	**102,359**	**118,453**

	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	-	-	-	-	-
Due from banks	-	-	-	-	-
Loans and advances to customers	752	1,452	12,132	238,350	252,686
Investment securities	-	-	-	-	-
Other assets	-	-	-	-	-
Total financial assets	**3,795**	**2,477**	**11,504**	**207,432**	**225,208**
Liabilities					
Deposits from customers	-	-	-	-	-
Deposits from banks	-	-	-	-	-
Subordinated debt	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**
Net gap position at 31 December 2022	**752**	**1,452**	**12,132**	**238,350**	**252,686**

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	2023				2022			
	Euro	USD	CHF	GBP	Euro	USD	CHF	GBP
Assets								
Balance with Central Bank	(0.06)	-	-	-	(0.06)	-	-	-
Due from banks	0.16	1.13	0.01	0.02	0.16	1.13	0.01	0.02
Government Bonds AC yield	1.72	-	-	-	1.72	-	-	-
Government Bonds Non-trading through FV yield	35.45	-	-	-	35.45	-	-	-
Government Bonds OCI yield	0.60	1.81	-	-	0.60	1.81	-	-
Bonds held for trading yield	(0.16)	0.50	-	1.32	(0.16)	0.50	-	1.32
Loans and advances to customers	1.55	-	-	-	1.55	-	-	-
Liabilities								
Customer accounts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Term deposits	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Savings accounts	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Subordinated loan	(6.21)	-	-	-	(6.21)	-	-	-
IRS	(6.74)	-	-	-	(6.74)	-	-	-

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 the end of 2023 and 2022.

	+ 200 bps		- 200 bps	
Main Categories of sensitivity 2023	**Y1**	**Y2**	**Y1**	**Y2**
NII Sensitivity	4.60M	6.77M	-8.33M	-12.42M
Valuation sensitivity	-3.13M	0.41M	4.25M	-0.52M
Total Sensitivity	1.48M	7.18M	-4.07M	-12.94M
Main Categories of sensitivity 2022	**Y1**	**Y2**	**Y1**	**Y2**
NII Sensitivity	4.60M	6.77M	-8.33M	-12.42M
Valuation sensitivity	-3.13M	0.41M	4.25M	-0.52M
Total Sensitivity	1.48M	7.18M	-4.07M	-12.94M

Value at risk as of 31 December 2023 is Euro value At Risk (99%, 1d) in Banking Book, is EUR 1,012 thousand. The results of the sensitivity analysis are presented to the management on a monthly basis and are independently reviewed by RBI Vienna Risk Management.

Interest rate risk control

The mechanism of control interest rate risk is utilized through the daily Basis Point Value (BPV) reports. The Bank currently has a total BPV limit of EUR 40 thousand and USD 5 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, i.e. Tier 1 Capital plus Ties 2 Capital (2023: 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 yearend 2023 and 2022.

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 2023	31 December 2022
Total risk weighted assets	877,460	826,317
Total risk weighted off balance exposures	69,361	66,922
Total risk weighted assets for operational risk	69,213	63,229
Total	**1,016,034**	**956,468**
Regulatory capital (Total Capital)	171,632	138,532
Capital adequacy ratio (Total Capital)	17%	14%

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:

	2023	2022
Debt	-	-
Equity	151,098	142,740
Net debt to equity ratio	**0%**	**0%**

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 fixed 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 categorized.

Assets	Carrying value 2023	Fair value Level 3 2023	Carrying value 2022	Fair value Level 3 2022
Loans and advances to customers	925,540	923,610	862,946	862,380
Liabilities				
Deposits from customers	1,219,286	1,219,286	1,128,968	1,128,968
Deposits from banks	7,721	7,721	8,428	8,428

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 22				
Non-derivatives	**Carrying value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**
Investment securities	***256,026***	***226,571***	***19,460***	***9,995***
Financial investments at fair value through profit or loss	-	-	-	-
Financial investments- Held for trading	1,734	-	1,734	-
Financial investments at fair value through OCI	128,852	111,125	17,726	-
Financial investments at amortised cost	125,440	115,446	-	9,995
Derivatives	**101**	**101**	**-**	**-**
Derivatives held for risk management	101	101	-	-

6. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

The table below shows the ECL charges on financial instruments for the year 2023 recorded in the income statement:

Credit loss expense 2023	Stage 1 Individual	Stage 1	Stage 2 Individual	Stage 2	Stage 3	POCI	Total
Loans and advances to customers	-	785	-	(6,634)	(5,076)	(2,986)	**(13,911)**
Debt instruments measured at FVOCI	5						**5**
Off balance (Financial guarantees and loan commitments)	-	90	-	(608)	0	-	**(518)**
Total impairment losses	**5**	**875**	**-**	**(7,242)**	**(5,076)**	**(2,986)**	**(14,424)**

Credit loss expense 2022	Stage 1 Individual	Stage 1	Stage 2 Individual	Stage 2	Stage 3	POCI	Total
Loans and advances to customers	-	(24)	-	(2,215)	(4,146)	(436)	**(6,821)**
Debt instruments measured at FVOCI	7	-	-	-	-	-	**7**
Off balance (Financial guarantees and loan c commitments)	-	30	-	(147)	1	-	**(116)**
Total impairment losses	**7**	**6**	**-**	**(2,362)**	**(4,145)**	**(436)**	**(6,930)**

7. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2023	Cash flows	Declaration of Dividends	31 December 2023
Interest bearing borrowings Note 15	7,534	(43)	-	7,491
Dividends payable	-	-	23,500	23,500
Lease payments	-	(871)	-	(871)
Total liabilities from financing activities	7,534	(914)	23,500	30,120

	1 January 2022	Cash flows	Declaration of Dividends	31 December 2022
Interest bearing borrowings Note 16	5,504	2,030	-	7,534
Subordinated debt	19,298	(19,298)	-	-
Dividends payable	-	(22,000)	22,000	-
Lease payments	-	(966)	-	(966)
Total liabilities from financing activities	**24,802**	**(40,234)**	**22,000**	**6,568**

8. CASH AND CASH EQUIVALENTS AND MANDATORY RESERVE

	2023	2022
Cash on hand	90,676	82,734
Balances with the CBK	74,171	71,545
Correspondent accounts with other banks	20,291	10,911
Allowance for accounts with other banks	-	-
Total	**185,138**	**165,190**

Cash, cash equivalents and mandatory reserve include a mandatory liquidity reserve balance with CBK of EUR 120,274 thousand (31 December 2022: EUR 111,167 thousand). The liquidity reserve balance requirement is calculated as the average of daily balance for each day of the previous calendar month and should be maintained at 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 of 31 December 2023 and 2022 the Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	2023	2022
Term deposits (note 9)	10,614	24,851
Cash and cash equivalents and mandatory reserve	185,138	165,190
Less: Mandatory liquidity reserve	(120,274)	(111,167)
Cash and cash equivalents for the purposes of cash flow statement	**75,478**	**78,874**

Negative interest has been applied on the balances (above the liquidity reserve requirement) with CBK for current reporting year (0.1 per cent) and previous reporting year (0.1 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 EUR 12 thousand (31 December 2022: EUR 26 thousand).

Guarantee deposits include an amount of EUR 1,348 thousand as of 31 December 2023 (31 December 2022: EUR 1,034 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.

	2023	**2022**
Term deposits	10,614	24,851
Guarantee deposits	1,347	1,034
Allowances for impairment	-	-
Total due from banks	**11,961**	**25,885**

10. INVESTMENT SECURITIES

	2023	2022
Investment securities designated as at FVTPL	-	-
Investment securities held for trading	1,734	100
Investment securities measured at FVOCI	128,881	160,109
Investment securities measured at amortized cost	125,464	37,633
Allowances for impairment	(53)	(58)
Total investment securities	256,026	197,784

Investment securities are held in different business model divided between investment securities at FVOCI, FVTPL, at amortized cost and held for trading.

Investment securities designated at FVTPL and debt securities at FVOCI as of 31 December 2023 represent one month to five year bonds and treasury bills denominated in EUR and US dollar issued by Germany, 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.

	2023			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing	-	-	-	-
Excellent	107,153	-	-	107,153
Strong	3,975	-	-	3,975
Good	-	-	-	-
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	17,753	-	-	17,753
Total	**128,881**	**-**	**-**	**128,881**

	2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing	-	-	-	-
Excellent	132,931	-	-	132,931
Strong	9,215	-	-	9,215
Good	699	-	-	699
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	17,264	-	-	17,264
Total	**160,109**	**-**	**-**	**160,109**

The movements in gross carrying amounts and the corresponding ECLs for the debt securities at FVOCI, as follows:

	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2023	160,109	-	-	160,109
New assets originated or purchased	87,321	-	-	87,321
Assets derecognised or matured	(120,006)	-	-	(120,006)
Change in fair value	1,457	-	-	1,457
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not recognized	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2023	128,881	-	-	128,881

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Fair value as at 1 January 2022	152,217	-	-	152,217
New assets originated or purchased	126,899	-	-	126,899
Assets derecognized or matured	(116,863)	-	-	(116,863)
Change in fair value	(2,144)	-	-	(2,144)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not recognized	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2022	**160,109**	**-**	**-**	**160,109**

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2023	34	-	-	34
New assets originated or purchased	36	-	-	36
Assets derecognised or matured	(16)	-	-	(16)
Change in fair value (excluding write offs)	(24)	-	-	(24)
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	-	-	-	-
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 2023	**30**	**-**	**-**	**30**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2022	51	-	-	51
New assets originated or purchased	19	-	-	19
Assets derecognised or matured	(27)	-	-	(27)
Change in fair value (excluding write offs)	(9)	-	-	(9)
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	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Loss allowance as at 31 December 2022	**34**	**-**	**-**	**34**

11. LOANS AND ADVANCES TO CUSTOMERS

	2023	2022
Non-retail customers		
Current and restructured loans	303,376	315,147
Overdraft facilities	61,345	52,896
	364,721	**368,043**
Retail customers		
Current and restructured loans	577,436	501,744
Overdraft facilities	22,829	22,148
	600,265	**523,892**
Loans and advances to customers	**964,986**	**891,935**
Less: Allowance for impairment	(39,446)	(28,988)
Loans and advances to customers, net	**925,540**	**862,946**

Loans and advances to customers include accrued interest income for EUR 2,938 thousand (31 December 2022: EUR 2,786 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:

					2023	2022
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	204,358	13,081	-	4	217,443	224,691
Strong	117,810	53,812	-	57	171,679	207,915
Good	118,224	10,798	-	854	129,876	119,094
Satisfactory	163,258	26,465	-	-	189,723	184,793
Substandard	4,188	17,559	-	-	21,747	43,611
Credit impaired	-	-	23,147	8,665	31,812	24,243
Unrated	133,058	69,474	-	174	202,706	87,588
Total	**740,896**	**191,189**	**23,147**	**9,754**	**964,986**	**891,935**

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 2023	810,922	55,636	18,042	7,335	891,935
New assets originated or purchased	427,195	90,729	1,211	4,336	523,471
Assets derecognised or repaid	(265,643)	(26,765)	(747)	(721)	(293,876)
Transfers to Stage 1	6,070	(5,998)	(72)	-	-
Transfers to Stage 2	(88,869)	88,998	(129)	-	-
Transfers to Stage 3	(5,177)	(4,053)	9,230	-	-
Changes due to change in credit risk (net)	(143,562)	(7,319)	(1,688)	(520)	(153,089)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(40)	(39)	(2,700)	(676)	(3,455)
Foreign exchange adjustments	-	-	-	-	-
Gross carrying amount as at 31 December 2023	**740,896**	**191,189**	**23,147**	**9,754**	**964,986**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2023	4,013	5,552	15,241	4,182	28,988
New assets originated or purchased	1,762	5,367	745	3,618	11,492
Assets derecognised or repaid	(909)	(2,317)	(429)	(619)	(4,274)
Transfers to Stage 1	67	(66)	(1)	-	-
Transfers to Stage 2	(5,491)	5,502	(11)	-	-
Transfers to Stage 3	(3,309)	(2,778)	6,087	-	-
Changes due to change in credit risk (net)	7,107	846	(1,240)	(18)	6,695
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(40)	(39)	(2,700)	(676)	(3,455)
Foreign exchange adjustments	-	-	-	-	-
Loss allowance as at 31 December 2023	3,200	12,067	17,692	6,487	39,446

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 2022	683,566	95,882	18,000	7,258	804,706
New assets originated or purchased	463,678	21,540	1,212	1,430	487,860
Assets derecognised or repaid	(243,496)	(36,308)	(817)	(342)	(280,963)
Transfers to Stage 1	19,214	(18,776)	(438)	-	-
Transfers to Stage 2	(10,162)	10,298	(136)	-	-
Transfers to Stage 3	(2,847)	(2,972)	5,819	-	-
Changes due to change in credit risk (net)	(98,883)	(13,786)	(2,142)	(570)	(115,381)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(148)	(242)	(3,456)	(441)	(4,287)
Foreign exchange adjustments	-	-	-	-	-
Gross carrying amount as at 31 December 2022	810,922	55,636	18,042	7,335	891,935

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2022 (2021: nil).

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2022	3,999	3,372	14,903	4,183	26,457
New assets originated or purchased	2,231	3,195	908	706	7,040
Assets derecognised or repaid	(1,199)	(377)	(354)	(169)	(2,099)
Transfers to Stage 1	64	(59)	(5)	-	-
Transfers to Stage 2	(1,019)	1,042	(23)	-	-
Transfers to Stage 3	(1,998)	(2,269)	4,267	-	-
Changes due to change in credit risk (net)	2,083	890	(999)	(97)	1,877
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(148)	(242)	(3,456)	(441)	(4,287)
Foreign exchange adjustments	-	-	-	-	-
Loss allowance as at 31 December 2022	4,013	5,552	15,241	4,182	28,988

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.

					2023	2022
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	-	-	-	-	-	325
Strong	6,307	123	-	-	6,430	24,641
Good	114,187	2,643	-	-	116,830	104,554
Satisfactory	163,258	26,465	-	-	189,723	184,793
Substandard	4,188	17,558	-	-	21,746	43,610
Credit impaired	-	-	3,453	8,665	12,118	10,085
Unrated	1,961	4,913	-	-	17,874	35
Total	**300,901**	**51,702**	**3,453**	**8,665**	**364,721**	**368,043**

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 2023	322,957	35,001	3,883	6,202	368,043
New assets originated or purchased	211,655	33,784	319	4,050	249,808
Assets derecognised or repaid	(156,117)	(23,736)	(238)	(630)	(180,721)
Transfers to Stage 1	1,656	(1,654)	(2)	-	-
Transfers to Stage 2	(12 ,56)	12,256	-	-	-
Transfers to Stage 3	-	(181)	181	-	-
Changes due to change in credit risk (net)	(66,994)	(3,768)	(589)	(337)	(71,688)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(101)	(620)	(721)
Foreign exchange adjustments					
Gross carrying amount as at 31 December 2023	**300,901**	**51,702**	**3,453**	**8,665**	**364,721**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2023	482	3,023	3,070	3,463	10,038
New assets originated or purchased	525	2,283	210	3,421	6,439
Assets derecognised or repaid	(217)	(2,153)	(118)	(544)	(3,032)
Transfers to Stage 1	2	(2)	-	-	-
Transfers to Stage 2	(335)	335	-	-	-
Transfers to Stage 3	1	(143)	143	-	1
Changes due to change in credit risk (net)	235	(355)	(643)	43	(720)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(100)	(625)	(725)
Foreign exchange adjustments					
Loss allowance as at 31 December 2023	**693**	**2,988**	**2,562**	**5,758**	**12,001**

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 2022	255,809	74,010	4,177	5,868	339,864
New assets originated or purchased	229,252	16,028	49	1,203	246,532
Assets derecognised or repaid	(145,191)	(32,635)	(450)	(202)	(178,478)
Transfers to Stage 1	16,094	(16,094)	-	-	-
Transfers to Stage 2	(4,272)	4,272	-	-	-
Transfers to Stage 3	(50)	(473)	523	-	-
Changes due to change in credit risk (net)	(28,685)	(9,919)	(205)	(272)	(39,081)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	(188)	(211)	(395)	(794)
Foreign exchange adjustments					
Gross carrying amount as at 31 December 2022	**322,957**	**35,001**	**3,883**	**6,202**	**368,043**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2022	968	847	3,365	3,117	8,297
New assets originated or purchased	409	2,368	17	547	3,341
Assets derecognised or repaid	(638)	(24)	(405)	(117)	(1,184)
Transfers to Stage 1	8	(8)	-	-	-
Transfers to Stage 2	(108)	108	-	-	-
Transfers to Stage 3	(45)	(256)	302	-	1
Changes due to change in credit risk (net)	(112)	176	2	311	377
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	(188)	(211)	(395)	(794)
Foreign exchange adjustments					
Loss allowance as at 31 December 2022	482	3,023	3,070	3,463	10,038

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2023 (2022: 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 for retail loans are, as follows:

					2023	2022
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Performing	-	-	-	-	-	-
Excellent	204,359	13,081	-	4	217,444	224,365
Strong	111,503	53,689	-	57	165,249	183,275
Good	4,037	8,155	-	854	13,046	14,540
Satisfactory	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Credit impaired	-	-	19,694	-	19,694	14,159
Unrated	120,096	64,562	-	174	184,832	87,553
Total	**439,995**	**139,487**	**19,694**	**1,089**	**600,265**	**523,892**

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 2023	487,964	20,636	14,159	1,133	523,892
New assets originated or purchased	215,540	56,945	892	286	273,663
Assets derecognised or repaid	(109,526)	(3,029)	(509)	(91)	(113,155)
Transfers to Stage 1	4,414	(4 344)	(70)	-	-
Transfers to Stage 2	(76,613)	76,742	(129)	-	-
Transfers to Stage 3	(5,177)	(3,872)	9,049	-	-
Changes due to change in credit risk (net)	(76,567)	(3,552)	(1,099)	(183)	(81,401)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(40)	(39)	(2,599)	(56)	(2,734)
Foreign exchange adjustments	-	-	-	-	-
Gross carrying amount as at 31 December 2023	**439,995**	**139,487**	**19,694**	**1,089**	**600,265**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2023	3,532	2,529	12,172	718	18,951
New assets originated or purchased	1,237	3,083	535	196	5,051
Assets derecognised or repaid	(692)	(164)	(311)	(75)	(1,242)
Transfers to Stage 1	65	(64)	(1)	-	-
Transfers to Stage 2	(5,156)	5,167	(11)	-	-
Transfers to Stage 3	(3,310)	(2,635)	5,944	-	(1)
Changes due to change in credit risk (net)	6,871	1,202	(598)	(59)	7,416
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(40)	(39)	(2,600)	(51)	(2,730)
Foreign exchange adjustments	-	-	-	-	-
Loss allowance as at 31 December 2023	**2,507**	**9,079**	**15,130**	**729**	**27,445**

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 2022	427,757	21,872	13,823	1,390	464,842
New assets originated or purchased	234,426	5,512	1,163	227	241,328
Assets derecognised or repaid	(98,305)	(3,673)	(367)	(140)	(102,485)
Transfers to Stage 1	3,120	(2,682)	(438)	-	-
Transfers to Stage 2	(5,890)	6,026	(136)	-	-
Transfers to Stage 3	(2,797)	(2,499)	5,296	-	-
Changes due to change in credit risk (net)	(70,199)	(3,866)	(1,937)	(298)	(76,300)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(148)	(54)	(3,245)	(46)	(3,493)
Foreign exchange adjustments	-	-	-	-	-
Gross carrying amount as at 31 December 2022	**487,964**	**20,636**	**14,159**	**1,133**	**523,892**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2022	3,031	2,525	11,538	1,066	18,160
New assets originated or purchased	1,823	827	891	159	3,700
Assets derecognised or repaid	(561)	(353)	51	(52)	(915)
Transfers to Stage 1	56	(51)	(5)	-	-
Transfers to Stage 2	(911)	934	(23)	-	-
Transfers to Stage 3	(1,952)	(2,013)	3,964	-	(1)
Changes due to change in credit risk (net)	2,194	714	(999)	(409)	1,500
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	(148)	(54)	(3,245)	(46)	(3,493)
Foreign exchange adjustments	-	-	-	-	-
Loss allowance as at 31 December 2022	**3,532**	**2,529**	**12,172**	**718**	**18,951**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2023 (2022: nil).

As at 31 December 2023 the Bank has 745 borrowers (31 December 2022: 561 borrowers) with aggregated loan amounts above EUR 100 thousand. The aggregate amount of these loans is EUR 409,860 thousand or 42 per cent of the gross loan portfolio (31 December 2021: EUR 390,567 thousand or 44 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 percent of Tier I Capital or EUR 23,970 thousand.

12. OTHER ASSETS

	2023	2022
Prepayments and advances for services	1,189	729
Receivables from clearing transactions	124	730
Other receivables	2,426	3,202
Repossessed properties	-	36
Total other assets	3,739	4,697

13. INVESTMENTS IN SUBSIDIARIES

	2023	2022
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:

Subsidiary	**Principal place of business**	**Ownership interest**	
		2023	**2022**
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 Insurance Broker is EUR 249 thousand (2022: 152 thousand), and from Raiffeisen Leasing Kosovo LLC we haven't received any for 2023 (2022: EUR 953 thousand).

14. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

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

	2023	2022
Property, plant and equipment	30,550	30,376
Intangible assets	8,062	7,309
Right-of-use assets (ROU) under IFRS 16	2,041	1,769
Property, Plant and Equipment and Intangible Assets	**40,653**	**39,454**

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

	2023			
	Property	**Vehicles**	**IT equipment**	**Total**
Balance at 1 January	1,710	13	46	1,769
Additions in current year	1,321	-	-	1,321
Depreciation charge for the year	(812)	(2)	(13)	(827)
Disposals	(222)	-	-	(222)
Balance at 31 December	**1,997**	**11**	**33**	**2,041**

	2022			
	Property	Vehicles	IT equipment	Total
Balance as at 1 January	2,137	19	59	2,215
Additions in current year	533	-	-	533
Depreciation charge for the year	(845)	(6)	(13)	(864)
Disposals	(115)	-	-	(115)
Balance as at 31 December	1,710	13	46	1,769

The total cash outflow for leases amount to EUR 871 thousand (2022: EUR 966 thousand).

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

	2023	**2022**
Less than one year	70	121
One to five years	2,058	1,743
More than five years	-	-
Total undiscounted lease liabilities at 31 December	**2,128**	**1,864**
Lease liabilities included in Note 18 as at 31 December	**2,128**	**1,864**

As at 31 December 2023 and 2022, there are no restrictions or covenants imposed by leases. The Bank uses reasonable certainty on extension and termination option for lease contracts on initial recognition.

Short term lease commitments. The future minimum lease payments under non-cancellable leases, where the Bank is the lessee, and are subject to exemption from recognition criteria of IFRS 16 Leases.

	2023	**2022**
Short-term lease commitments	147	14

	Buildings and land used for own purposes-work in progress	IT Equipment	Other equipment and leasehold improvements	Intangible assets	Total
Cost					
Opening Balance as at 1 January 2023	**24,765**	**15,009**	**9,457**	**29,267**	**78,498**
Additions	43	1,685	1,442	3,711	6,881
Disposals	-	(463)	(991)	-	(1,454)
Cost As at 31 December 2023	**24,808**	**16,231**	**9,908**	**32,978**	**83,925**
Accumulated depreciation and amortization					
Opening Balance as at 1 January 2023	**1,401**	**11,453**	**6,001**	**21,958**	**40,813**
Depreciation/amortization charge for the year (Note 25)	455	1,142	1,214	2,959	5,770
Disposals	-	(431)	(838)	-	(1,269)
As at 31 December 2023	**1,856**	**12,164**	**6,377**	**24,917**	**45,314**
Net book value at 31 December 2023	**22,952**	**4,067**	**3,531**	**8,062**	**38,611**

	Buildings and land used for own purposes-work in progress	**IT equipment**	**Other equipment and leasehold improvements**	**Intangible assets**	**Total**
Cost					
As at 1 January 2022	**24,728**	**14,246**	**9,488**	**25,238**	**73,700**
Additions	37	859	691	4,029	5,616
Disposals	-	(96)	(722)	-	(818)
Cost As at 31 December 2022	**24,765**	**15,009**	**9,457**	**29,267**	**78,498**
Accumulated depreciation and amortization					
As at 1 January 2022	**943**	**10,437**	**5,532**	**19,686**	**36,598**
Depreciation/amortization charge for the year (Note 26)	454	1,073	1,159	2,272	4,958
Disposals	4	(57)	(690)	-	(743)
As at 31 December 2022	**1,401**	**11,453**	**6,001**	**21,958**	**40,813**
Net book value as at 31 December 2022	**23,364**	**3,556**	**3,456**	**7,309**	**37,685**

As at December 2023 and 2022 there are no property, equipment and intangible assets encumbered of pledged to secure bank liabilities.

15. DUE TO BANKS

	2023	2022
Borrowings		
Overdrawn accounts used for operational purposes with other commercial Banks - OECD Countries	7,491	7,534
Deposits		
Other commercial banks - non OECD Countries	230	894
Total due to banks	**7,721**	**8,428**

16. DEPOSITS FROM CUSTOMERS

	2023	2022
Corporate customers:		
Current accounts	163,746	154,225
Savings accounts	1,578	1,354
Term deposits	-	-
	165,324	**155,579**
Retail customers:		
Current accounts	925,455	838,202
Savings accounts	125,697	131,990
Term deposits	2,810	3,197
	1,053,962	**973,389**
Total customer accounts	**1,219,286**	**1,128,968**

As of 31 December 2023, customer accounts include nil accrued interest (31 December 2022: nil). As of 31 December 2023, the Bank has 1,669 customers each with balances above EUR 100 thousand (31 December 2022: 1,434 customers). The aggregate balances of these customers are EUR 507,223 thousand or 41 per cent of total customer accounts (31 December 2022: EUR 374,748 thousand or 33 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 2023 was a gain of EUR 0 thousand (2022: a gain of EUR 387 thousand).

Fair value of SWAP contracts as at 31 December 2023 was EUR 101 thousand and reported as liability (2022: loss of EUR 101 thousand). Details of related party balances are presented in Note 29.

	2023	2022
Opening balance 01 January	**101**	**458**
Interest payable on Swaps		(744)
Change from fair value	-	387
Fair value as of 31 December	**101**	**101**

18. PROVISIONS AND OTHER LIABILITIES

	2023	2022
Clearing deposits from payment transfer business	7,967	2,715
Deferred income	297	263
Accrued staff costs	1,291	589
Payables to suppliers	5,887	7,935
Dividend liability	23,500	-
Accrued operating expenses	1,370	998
Other taxes payable	1,119	1,057
Lease liability	2,128	1,864
Other	2,183	1,674
Other liabilities	**45,742**	**17,095**

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 EUR 7,967 thousand as at 31 December 2023 (31 December 2022: EUR 2,715 thousand).

Deferred income as at 31 December 2023 and 31 December 2022 represents the amount of deferred fees for customer overdrafts.

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

	2023	2022
Provision for litigations and off-balance sheet credit exposures at the beginning of the year	**630**	**883**
Provision for off balance sheet credit exposures (note 6)	518	116
(Release of provision) for legal litigations (note 27)	(5)	(369)
Other provisions	67	-
Provision for litigations and off-balance sheet credit exposures at the end of the year	**1,210**	**630**

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

	2023	2022
Provision for off balance sheet credit exposures	1,033	514
Provision for litigations	177	116
Total Provision	**1,210**	**630**

For more details regarding off balance sheet credit commitments, refer to Note 29.

19. 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 2023 and 2022 is as follows:

	2023			2022		
Shareholder	Number of shares	Amount in '000 Euro	Voting share	Number of shares	Amount in '000 Euro	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.

The following table presents the information on dividend per share for years 2023 and 2022:

	2023	2022
Dividend per share	235	220

20. INTEREST INCOME AND EXPENSE

	2023	2022
Interest income at effective interest		
Non-trading financial assets mandatorily at fair value through profit or loss	1,244	120
Financial assets at fair value through other comprehensive income	1,180	1,373
Financial assets at amortised cost	61,992	53,268
Total interest income	**64,416**	**54,761**
Interest expense		
Financial liabilities held for trading	(48)	(124)
Financial liabilities measured at amortised cost	(62)	(1,732)
Other liabilities	(538)	(86)
Interest expense on financial assets	156	(46)
Interest expense on lease liabilities	(128)	(241)
Total interest expense	**(620)**	**(2,229)**
Net interest income	**63,796**	**52,532**

21. DIVIDEND INCOME

	2023	2022
Dividend income from investments in subsidiaries	249	1,105

Dividend received from bank's subsidiaries as disclosed in the note 13 above.

Dividend amount from Raiffeisen Insurance Broker is EUR 249 thousand (2022: EUR 152 thousand), and from Raiffeisen Leasing Kosovo LLC for 2023 is nil (2022: EUR 953 thousand).

22. FEE AND COMMISSION INCOME AND EXPENSE

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major business lines.

	2023	2022
ATM & Card related fees	15,658	14,931
Account service fees	6,182	5,538
Payments transfer fees	4,285	4,066
Trade finance commission	1,048	961
Other banking services	86	43
Total fee and commission income from contracts with customers	27,259	25,539
Financial guarantee contracts and loan commitments	-	-
Total fee and commission income	**27,259**	**25,539**
Payment transfer business	(11,079)	(9,839)
Other banking services	(1,352)	(1,318)
Total fee and commission expense	**(12,431)**	**(11,157)**
Net fee and commission income	**14,828**	**14,382**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with customer. The Bank recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and the related revenue recognition policies.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms
ATM & Card related fees	The Bank provides ATM & Card related services to customers including ATM deposit and withdrawal services, card merchant transactions, currency conversion, maintenance/servicing fee, etc. Transaction-based fees for interchange, foreign currency conversions and card transaction related fees are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed at least annually by the Bank.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms
Account service fees	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Deferred Income' as included under 'Other liabilities' in the statement of financial position, represents the Bank's obligation to transfer services to a customer related to overdraft facilities maintenance for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Bank performs.
Payments transfer fees	The Bank provides payment transfer services to its retail and corporate clients, including national and international settlement of payments. The Bank sets the rates separately for retail and corporate banking customers at least on an annual basis. Transaction-based fees for payments transfer services are charged to the customer's account when the transaction takes place.

23. GAINS OR (-) LOSSES ON FINANCIAL ASSETS AND LIABILITIES

	2023	2022
Gains or losses on economic hedge derivatives (BB derivatives)	115	544
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	1,156	(927)
Exchange differences (gain or loss)	158	98
Total gains or losses on financial assets and liabilities	**1,429**	**(285)**

24. OTHER OPERATING INCOME

	2023	2022
Competence center income	5,517	4,208
Foreign currency business (trading income)	2,396	2,711
Profit from sale of repossessed assets	232	57
Profit from fixed assets disposal	58	20
Other operational income	(20)	746
Cash in transit service fees	4	4
Total other operating income	**8,187**	**7,746**

Competence Center income includes income from bank's department which offers IT services to Raiffeisen Bank International AG with head office in Vienna, Austria. Income for the services is recognized as revenue by the bank in the period the service was rendered. The invoicing is done for all services rendered during the reporting period and any due amounts at the yearend are included in the other receivables account disclosed under other assets as receivable from parent company. There are no contractual obligations that where invoiced and undelivered at the end of year.

25. PERSONNEL EXPENSES

	2023	2022
Salaries and wages	16,380	15,491
Pension contributions	810	707
Other voluntary social expenses	2,943	2,344
Share incentives	-	-
Total personnel expenses	**20,133**	**18,542**

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 2023 amounted to EUR 762 thousand (2022: EUR 972 thousand).

26. DEPRECIATION AND AMORTIZATION

	2023	2022
Depreciation of tangible assets	2,836	2,718
Depreciation for ROU	827	864
Total Depreciation of property and equipment	**3,663**	**3,582**

	2023	2022
Amortization of intangible assets	2,959	2,272

27. OTHER OPERATING EXPENSES

	2023	2022
IT cost	4,717	3,489
Legal, advisory and consulting expenses	2,462	2,709
Deposit insurance fees	1,891	1,730
Office space expenses (rental, maintenance, other)	1,186	1,091
Advertising, PR and promotional expenses	1,388	1,426
Security expenses	1,019	798
Expenses for legal litigations	(5)	(370)
Other administrative expense	349	533
Training expenses for staff	263	299
Communication expenses	320	255
Office supplies	204	208
Car expenses	250	245
Travelling expenses	431	288
Total other operating expenses	**14,475**	**12,701**

27.1 Audit fees

For the year ended December 31, 2023 and 2022, contracted fees for the audit services were as follows:

	2023	2022
Audit fees for statutory reporting	40	36
Other audit related fees for group purposes	34	31
Review report for regulatory purposes	19	10
Other fees related to permissible NAS	17	14
Total	**110**	**91**

28. INCOME TAX EXPENSE

The income tax rate applicable to the Bank's income is 10 per cent (31 December 2022: 10 per cent). The reconciliation between the expected and the actual taxation charge is provided below.

	2023	2022
Current tax charge	4,246	3,386
Deferred taxation	(94)	368
Income tax expense for the year	**4,152**	**3,754**

		2023		2022
Profit before taxation		**34,554**		**33,109**
Tax charge for the year at the applicable statutory rate	10%	3,455	10%	3,311
Tax effect of items which are not deductible for taxation purposes and other regulatory differences	2,29%	792	0,23%	75
Current tax charge (effective income tax rate)	**12,29%**	**4,247**	**10,23%**	**3,386**

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 differences are presented in the table below.

	2022	Movement 2023	2023
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	-	(12)	**(12)**
Term deposits – accrued interest	-	(48)	**(48)**
Other legal provisions	-	(60)	**(60)**
Gross deferred tax asset			
Tax effect of taxable temporary differences	12	(12)	0
Provision for off-balance sheet credit exposure	12	(12)	0
Property, equipment and intangible assets	103	90	193
Other payables to staff	113	(113)	0
Total deferred tax liability	0	(35)	193
Total net deferred tax liability	0	(95)	133

	2021	Movement 2022	2022
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	35	(35)	-
Term deposits – accrued interest	2	(2)	-
Other legal provisions	81	(81)	-
Gross deferred tax asset	**118**	**(118)**	**-**
Tax effect of taxable temporary differences			
Loan impairment provision	-	12	**12**
Provision for off-balance sheet credit exposure	-	103	**103**
Property, equipment and intangible assets	-	113	**113**
Total deferred tax liability	**-**	**228**	**228**
Total net deferred tax (liability)/asset	**118**	**110**	**228**

Tax relating to other comprehensive income items presents the amount of tax related to income from financial investments through OCI. The following table presents the amounts of income tax related to other comprehensive income for year 2023 and 2022:

	2023	2022
Income tax on financial investments through OCI	**146**	**44**

29. CONTIGENCIES AND COMMITMENTS

Legal proceedings & other regulatory fines

From time to time and in the normal course of business, claims against the Bank are received. As at 31 December 2023, the Bank had a number of legal cases pending in the court. On the basis of internal judgement based on previous court rulings and Management decision, the Bank has made a total provision of EUR 111 thousand (2022: EUR 116 thousand) as the nearest estimate of possible cash outflows arising from possible court decisions and the fine.

Capital commitments

As of 31 December 2023 the Bank has no capital commitments in respect of the purchase of equipment and software (31 December 2022: nil).

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 if 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. 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:

	2023	2022
Commitments to extend credit	55,201	53,284
Guarantees (credit facility)	38,430	38,407
Guarantees (cash covered)	4,595	4,332
Letters of credit (credit facility)	2,120	3,122
Letters of credit (cash cover)	-	41,07
Trade Finance line of credit	9,489	6,132
Stand by letter of credit	1,810	2,041
Total credit related commitments	**111,645**	**107,359**
Allowance for credit related commitments (Note 18)	(1,033)	(514)
Net credit related commitments	**110,612**	**106,845**

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 is currently ongoing an tax inspection for fiscal year 2016. The procedure was initiated in December 2023 and is expected to be closed during 2024.

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 2023, the Bank has three interest rate SWAP contracts with a notional amount of EUR 850 thousand (2022: EUR 1,830 thousand).

30. 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, where the Bank conducts a TTP analysis by independent external provider confirming that such terms have been substantiated. The outstanding balances at the year end and related income and expense items during the year with related parties are as follows:

	2023			2022		
	Parent	**Subsid-iaries**	**Other related party**	**Parent**	**Subsid-iaries**	**Other related party**
Assets	**1,355**	**3,234**	**887**	**1,579**	**3,235**	**778**
Cash and cash equivalents and mandatory reserve	-	-	-	-	-	-
Due from banks	1,119	-	-	842	-	-
Loans and advances to customers	-	1,000		-	1,001	
Other loans	-	-	-	-	-	-
Other assets	124	-	851	730	-	730
Investments in subsidiaries	-	2,234	-	-	2,234	-
Property, equipment and intangible assets – NBV	112	-	36	7	-	48
Liabilities	**305**	**2,781**	**-**	**1,737**	**1,494**	**1,808**
Customer accounts						
Due to banks	-	2,781	-	-	1,494	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	305	-	-	1,737	-	1,808

	2023			2022		
	Parent	Subsidiaries	Other related party	Parent	Subsidiaries	Other related party
Statement of profit and loss and other comprehensive income	**1,985**	**264**	**(1,068)**	**(198)**	**1,128**	**(1,517)**
Interest income	-	3	-	-	11	-
Interest expense	(251)	-	(2)	(1,773)	-	(2)
Dividend income	-	249		-	1,105	
Net fees and commission	(554)	-	(1,649)	(638)	-	(1,355)
Net valuation result financial instruments carried at fair value	115	-	-	544	-	-
Other operating income	4,620	12	897	3,185	12	29
Other operating expenses	(1,945)	-	(313)	(1,516)	-	(189)
Off Balance Sheet	**50**	**2,005**	**-**	**-**	**2,005**	**-**
Guarantees	50		-	-		-
Letter of credit	-		-	-		-
Other commitments		2,005			2,005	

In the following table are presented management remuneration for the year ended 31 December 2023 and 2022:

	2023	2022
Short-term employee benefits	251	972

31. SUBSEQUENT EVENTS

There are no subsequent events after the end of the reporting period that require adjustment or disclosure in the separate financial statements.

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