Raiffeisen Bank Albania

Annual Report 2016

WEL

Raiffeisen BANK

Fitoni çdo sfidë

MOVE FORWARD.

We often hear how success takes willpower, intelligence, determination, and grit. And this is not wrong, even though it's partially true. The key element to success it's actually continuity, regardless of the outcome.

Continuity by definition means consistent existence or operation of something over time. If you think harder, you will discover that this is the only true reality of it. It actually implies that continuity is the bridge to start over, always learning from previous experiences.

By this you can finally see "moving forward" as the starting function of "trying".
The best way to measure your progress at something is the number of setbacks and disappointments you've had. If you haven't failed yet, chances are you aren't trying very hard. All the great men and women throughout history had one main thing in common. Even at times when success was considered a miracle, they all kept moving forward relentlessly. Think of the most mentioned example of trial and error: Thomas Edison. How many experiments he pursued to find the right filament for his light bulb? There are various estimates, but they all range in the ballpark of a whole heck of a lot. Henry Ford was aware of the turnout of his expectations. So much so that he is quoted for saying the following: "Disappointment is the opportunity to begin again, more intelligently."

Success lies in seeing movement as a tool and learning how to recognize why you did not succeed, and how you're going to compensate for it.

Success occurs in leaps and bounds for people who are ready for it. To genuinely create value, day in and day out, requires determination, purpose, and most of all, that subtle yet all-important trait known as character. Disappointment is a far better character builder than any affirmation or fleeting goal. While each achievement will propel you by a small amount, moving forward will forge your career and your personality like nothing else will on your way to success.

COME

Raiffeisen Bank Albania

Annual Report 2016

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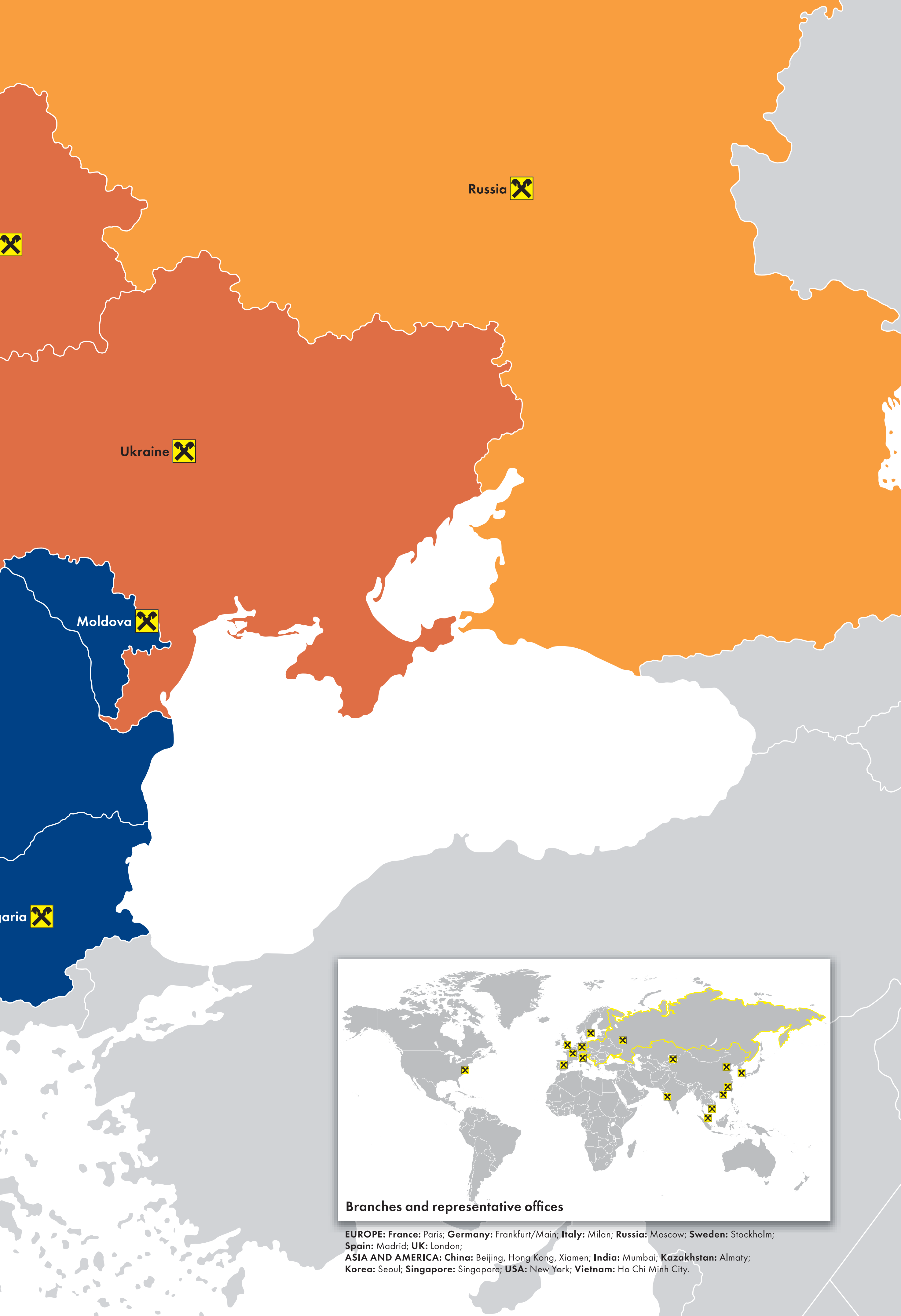
Russia
Belarus
Poland
Czech Republic
Slovakia
Austria
Hungary
Romania
Slovenia
Croatia
Bosnia and Herzegovina
Serbia
Kosovo
Albania
= CE
= SEE
= CIS other
= Russia



Branches and representative offices

EUROPE: France: Paris; **Germany:** Frankfurt/Main; **Italy:** Milan; **Russia:** Moscow; **Sweden:** Stockholm; **Spain:** Madrid; **UK:** London;
ASIA AND AMERICA: China: Beijing, Hong Kong, Xiamen; **India:** Mumbai; **Kazakhstan:** Almaty; **Korea:** Seoul; **Singapore:** Singapore; **USA:** New York; **Vietnam:** Ho Chi Minh City.

The members of Raiffeisen Bank Sh.a Management Board (from left to right):

Christian Canacaris	**Elona Mullahi (Koçi)**
Chief Executive Officer	Board Member Corporate & SE

John McNaughton
Board Member Retail

Alexander Zsolnai
Vice-chairman of the Management Board

Report of the Supervisory Board

Ladies and Gentlemen,

The 2016 financial year was dominated by two key issues: Firstly, the market environment, which remained challenging due to the very low interest rate level and continuing high regulatory and political pressures; secondly, the start of the process of evaluating a merger of RBI and RZB.

The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. February 2015 saw the implementation of a transformation program designed to strengthen the capital base – it targeted a CET1 ratio (fully loaded) of at least 12 per cent, a reduction of complexity and a substantial reduction of costs. With a CET1 ratio (fully loaded) of 13 per cent at 31 December 2016, RBI achieved its target ahead of schedule.

Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RBI and RZB. The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The merger is effective once it has been entered in the commercial register, which is expected by the end of March 2017 at the latest.

The strengths of the merged entity will build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria.

The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

As far as Raiffeisen Bank Sh.a is concerned, I would like to state that despite the difficult year 2016, they had very good results especially in Retail Segment. The PI loan portofolio grew to € 191 million, by marking the highest score achieved in ten years of lending.

I would like to take this opportunity to thank all employees of Raiffeisen Bank Sh.a for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

On behalf of the Supervisory Board,

Helmut Breit
Chairman of the Supervisory Board

Message from the CEO

The year 2016 was a difficult year for Raiffeisen Bank in Albania, but despite this we suceeded to have very good results in Retail Banking. The PI loan portfolio grew to € 191 million, the highest score achieved in ten years of lending. This way our presence in the market has increased by reaching 17 per cent of the loan market for individuals.

In addition, we are pleased to serve more than 700,000 customers nationwide, providing them with a broad range of saving, loan and payment products. Raiffeisen Bank in Albania continues to have the widest branches and ATM network in the country.
During 2016, the country saw a positive GDP growth at 3.6 per cent, which was reflected in the total banking assets, that grew by 6.8 per cent year on year. Raiffeisen Bank is the second biggest lender in the loan market representing 17.9 per cent of market share.

We continued to focus on improving and expanding the range of services and products we provide to our customers throughout the year. Along with the internet banking and mobile banking; M-pay allows our customers to access their accounts and order transactions 24 hours a day, seven days a week, wherever they are.

Furthermore, Raiffeisen Leasing Sh.a. continued to be the favorite choice for companies and individuals who wanted to finance machinery, equipment, freight vehicles and cars. Raiffeisen Leasing Sh.a. is the leader company in the Albanian leasing market, owning more than 60 per cent of it.

Additionally, Raiffeisen INVEST Sh.a remained the leading asset management company in the Albanian financial market with a clear focus on investor care and implementation of best asset management practices. Raiffeisen INVEST promotes the funds for the broad mass of investors and it is oriented toward sustainable growth and the development of the investment funds and voluntary pension funds market in general.

2017 will be a challenging year for us, but we will have to work hard to achieve our objectives. We will achieve this as our employees are well-trained, focused and decisive for Raiffeisen Bank Sh.a to be the bank of the first choice in the domestic banking sector.

Finally, on behalf of the Management Board, I would like to sincerely thank all our employees, customers and business partners for their cooperation and support during 2016 and I am looking forward to the year 2017, which I strongly believe will be a succesful year.

Christian CANACARIS
Chief Executive Officer
Chairman of the Management Board

Mission

We raise banking standards and make a difference to our customers’ lives by providing competitive products and top quality service.

We seek long-term customer relationships.

As a member of Raiffeisen Bank International, we cooperate closely with RBI and the other members of the Group.

We achieve sustainable and above-average return on equity.

We empower our employees to be entrepreneurial and to show initiative, and we foster their development.

Perspectives and Future Plans for 2017

Raiffeisen Bank plans to continue its development and offer more to the country's economy. Competition will remain high in 2017. We will respond to this by continuing to focus on close and cooperative customer relationships, and by continuing our investments in products, services and new technology.

In this framework and in order to keep pace with latest technologies and innovations, Raiffeisen Bank will be focused in developing a new, unified digital banking platform to serve all customer segments: Retail, Micro, SE and Corporate customers. This digital banking platform will face the client with the supreme experience in our Bank by joining together superior banking services with handy personal operational control over all these services. With the new platform our main objective is to make banking easier for our customers with the best user experience across all channels and innovative features.

In 2016, Raiffeisen Bank in Albania remained the first choice for more than 700,000 customers all over the country. The quality of customer service in all our segments will continue to be a priority. In addition, Retail Segment will continue to focus in offering the customers the best products and services in the market like consumers loans, digital banking, etc. Training and development of employees, improving efficiency, simplified processes and a better access through more convenient distribution channels will help to achieve this goal. At the same time, the branch network will continue to improve by the establishment of new standards as well as the relocation of some branches to larger and more suitable places.

In addition, we will continue to serve to our Corporate and SE clients by focusing on good projects and will continue to provide a wide range of banking services to both businesses and their employees. The digital banking services will also be a priority for these segments.

We went through this year having the best employees in the Albanian banking market. We work and win challenges as a team. Therefore, we would like to thank all our employees for the hard work and their efforts. We will keep this pace and master the new challenges of 2017 as well.

Finally, we would like to sincerely thank all our customers and business partners for their cooperation and support during 2016. We remain fully committed to meeting your banking requirements and providing high quality service at every meeting point that you may have with us. We will do our best to remain your first choice as a banking partner.

Management Board
Raiffeisen Bank Sh.a

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

John McNaughton
Board Member Retail

Elona Mullahi (Koçi)
Board Member Corporate & SE

THE GREATEST
PERSPECTIVE
IS TO BE
FOUND
INSIDE

Report of the Management Board

Economic Developments

The economy accelerated at 3.5 per cent in 2016 compared to the moderate growth of 2.6 per cent in 2015. The strengthened recovery of the GDP growth in 2016 was mostly supported from trade, transport, accommodation and food services, construction and some other services. The agriculture marked positive dynamics in 2016 while the extracting industry suffered during the entire year from the low commodity prices. The economy is expected to strengthen to around 4 per cent in 2017 sustained by continued FDIs (Foreign Direct Investments) from large projects in energy and a gradual recovery of the domestic demand.

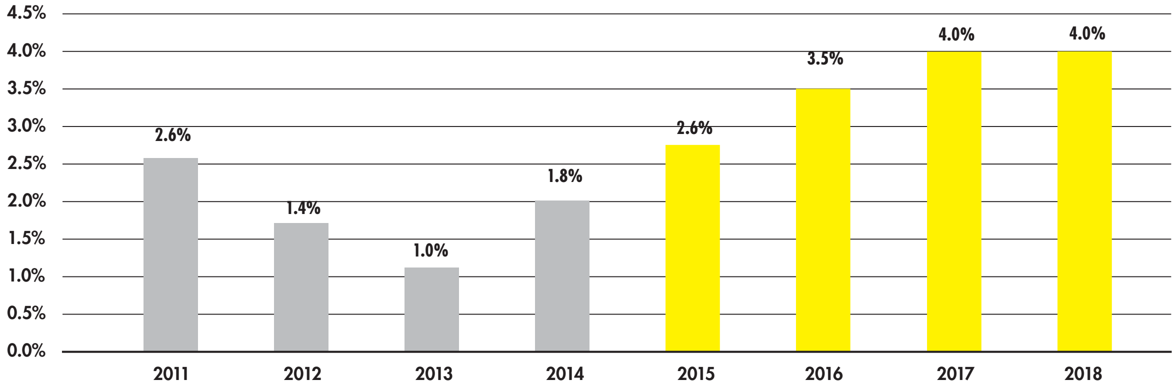
The inflation gradually increased in second part of 2016 to hit the highest level of the year of 2.2 per cent by December 2016, with the major contribution of food and oil prices. In a persistent low inflation environment, when the average inflation rate in 2016 was only 1.3 per cent compared to the target of 3 per cent, the monetary policy in 2016 has been expansionary with a base rate at its historical low of 1.3 per cent since May 2016. For 2017 we expect an average inflation rate of 2.5 per cent and a return on target by 2018, therefore the monetary policy is not expected to lower the stimulus intensity till last quarter of 2017.

The fiscal consolidation continued in 2016, the budget deficit resulted at € 198.3 million, or 53.9 per cent less than in 2015. Total budget revenues grew by 7.3 per cent, year to year, but remained under the budget by 1.8 per cent. The capital spending pickup in the last month of the year bringing the total expenditures only 0.8 per cent less than in 2015. The public debt has started to decline for the first time in in five years from 72.2 per cent of GDP in December 2015 to about 71 per cent of GDP by December 2016. The fiscal consolidation is expected to continue and the debt to GDP ratio will be around 69 per cent of GDP in 2017.

The external position of the country improved in 2016 with the current account deficit at € 1.03 billion, narrowing by 6.8 per cent from year to year in 2016. The exports of goods and services grew by 11.1 per cent from year to year in 2016 because of exports of services increased significantly by 18.1 per cent, year to year, mostly because of good performance of tourism, while exports of goods have continued the underperformance dropping by 7.4 per cent, year to year, in 2016. Meanwhile imports of goods and services grew by 7.5 per cent in 2016 mostly because imports of goods has increased due to construction of the big projects in the energy sector. FDIs volume peaked at € 983 million by the end of 2016 growing by 10.4 per cent in 2016, financing the 95.4 per cent of the current account deficit. The remittances (€ 614.5 million) increased by 2.9 per cent in 2016. The trade deficit will remain high as imports are expected to rise in 2017 because of investments in large projects such as the Trans Adriatic Pipeline.

In 2016, the overall activity of the banking sector expanded, marking an annual growth of 6.8 per cent of total assets (1.9 per cent in 2015). Unlike the contraction by 1.5 per cent in 2015, the lending activity recovered at a moderate pace of 2.5 per cent in 2016. The new loans volume in 2016 were in local currency, reflecting the transmission of the expansionary monetary policy. Looking ahead in 2017, the lending perspective is positive, reflecting the economic strengthening to around 4 per cent. The non-performing loans (NPL) level improved at 18.3 per cent of the total loans by the end of 2016 however it remains an issue. The approve of legal package for non-performing loans treatment from the Albanian parliament by the end of 2016, especially the bankruptcy law and some improvements in the bailiff processes, revisions of the restructuring regulations ensures the NPL reducing process is on the focus of the sector. The implementation of the reform in judiciary system would be another factor to ensure the appropriate treatment of the bad loans. The banking system is profitable, liquid and well capitalized.

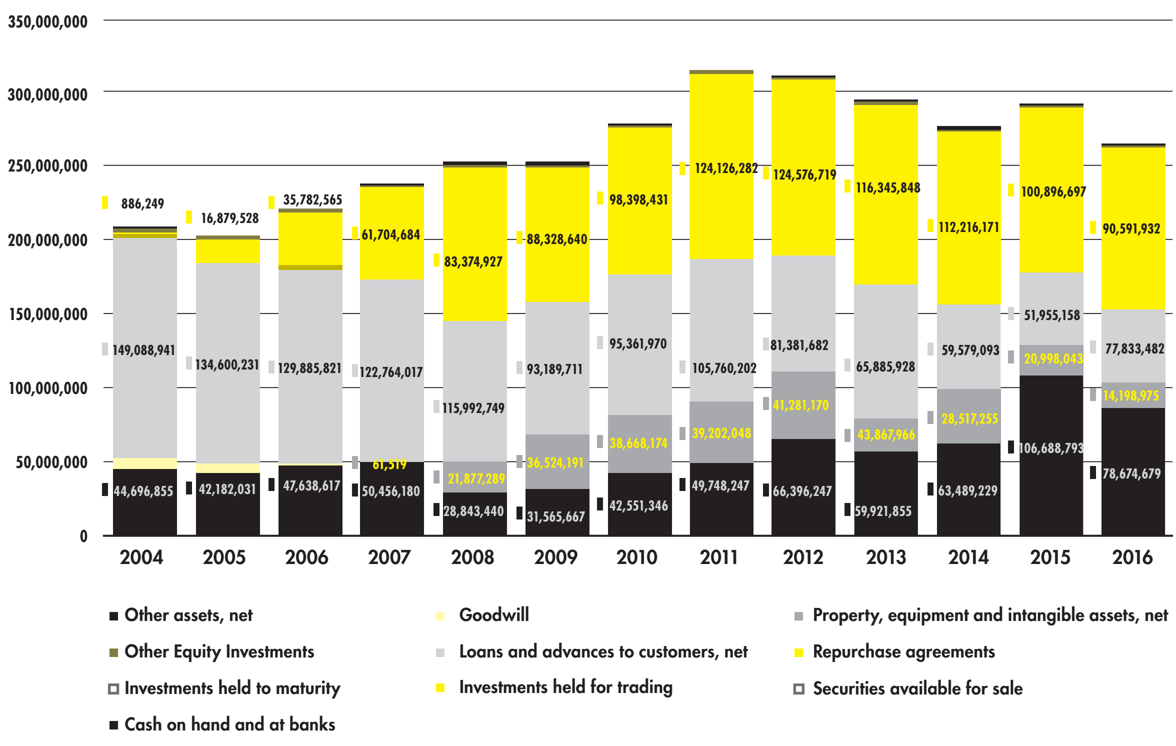
Real GDP Growth (%YoY)



Financial Results

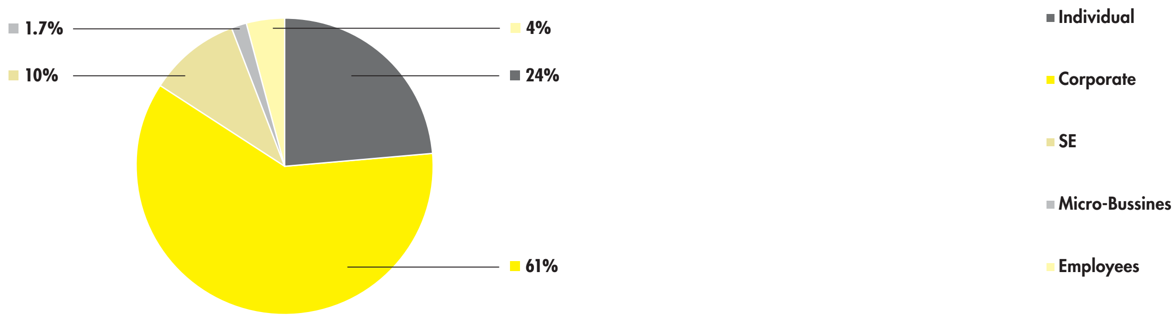
Total assets at the end of 2016 were ALL 270,537 million (2015: ALL 290,458 million). The loan book at the end of 2016 represented 33 per cent (2015: 35 per cent) of the Bank's total assets. The investments in securities represented nearly 35 per cent of it in 2016 (2015: 26 per cent).

Structure of Balance Sheet Assets
(in '000 LEK)



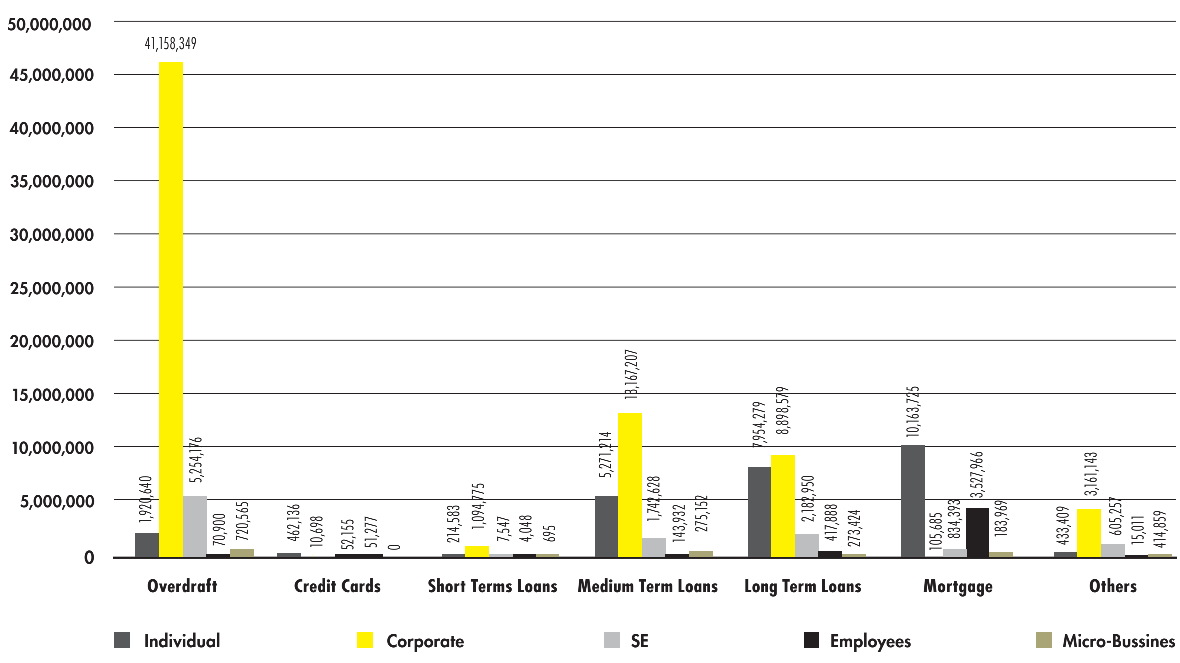
Total gross loans and advances to customers at year end 2016 totaled ALL 110,383 million (2015: ALL 114,611 million) representing a 4 per cent decrease in lending over the year. Corporate Sector in percentage terms is 61 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 67,450 million (2015: ALL 75,722 million). The SE recorded a 5 per cent increase and Micro Business recorded a 7 per cent decrease in its outstanding loan book amounting to ALL 1,859 million (2015: ALL 2,008 million).

Structure of Loans to Customers

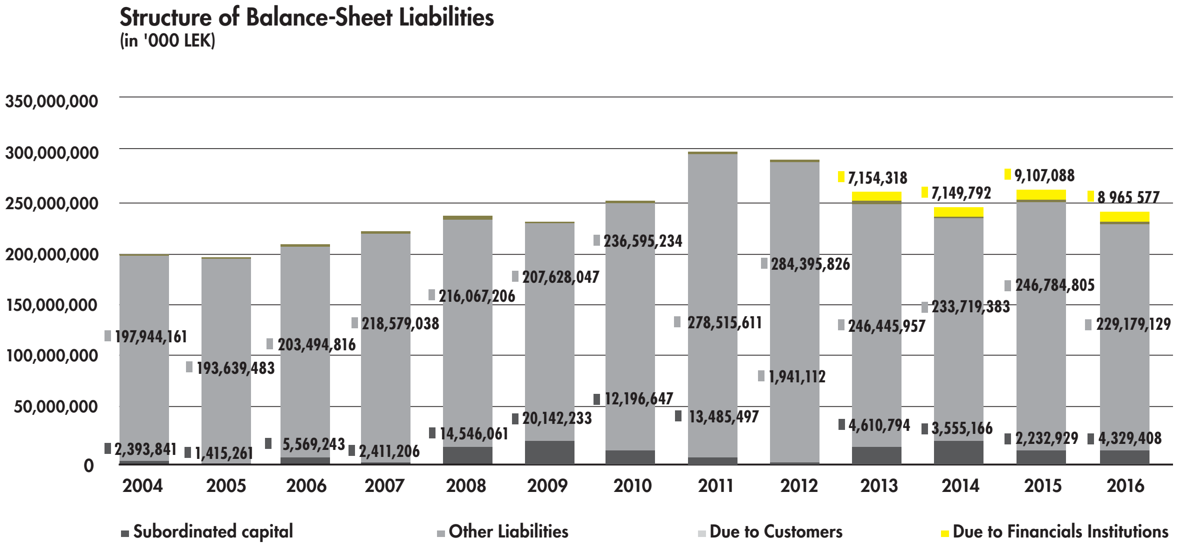


In 2016 the lending product portfolio was mainly a combination of overdrafts of 44 per cent (2015: 46 per cent), medium term loans of 19 per cent (2015: 19 per cent) and long term loans of 18 per cent of the Bank's loan portfolio in 2016 (2015: 18 per cent).

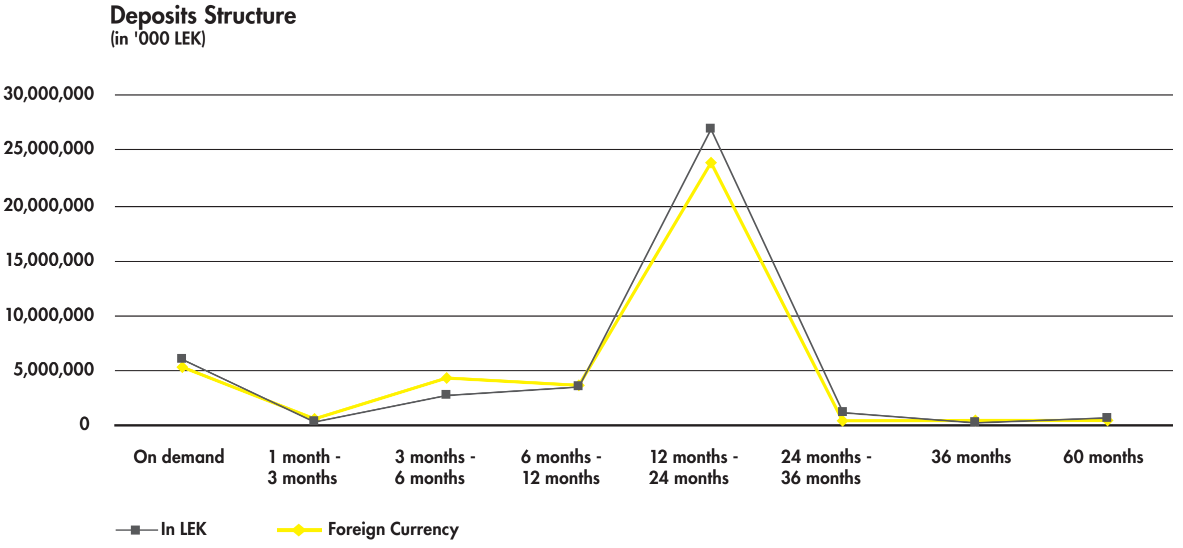
Loans for the year end 2016
(in '000 LEK)



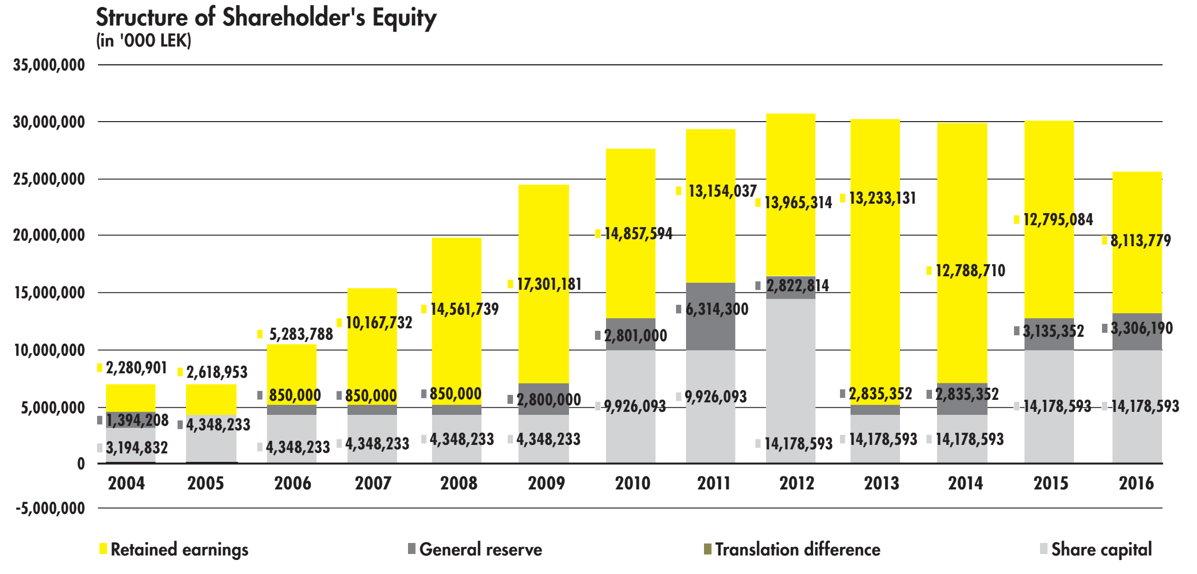
The total liabilities at the end of 2016 were ALL 244,939 million (2015: ALL 260,247 million). In 2016, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 94 per cent (2015: 95 per cent) of the Bank's total liabilities.



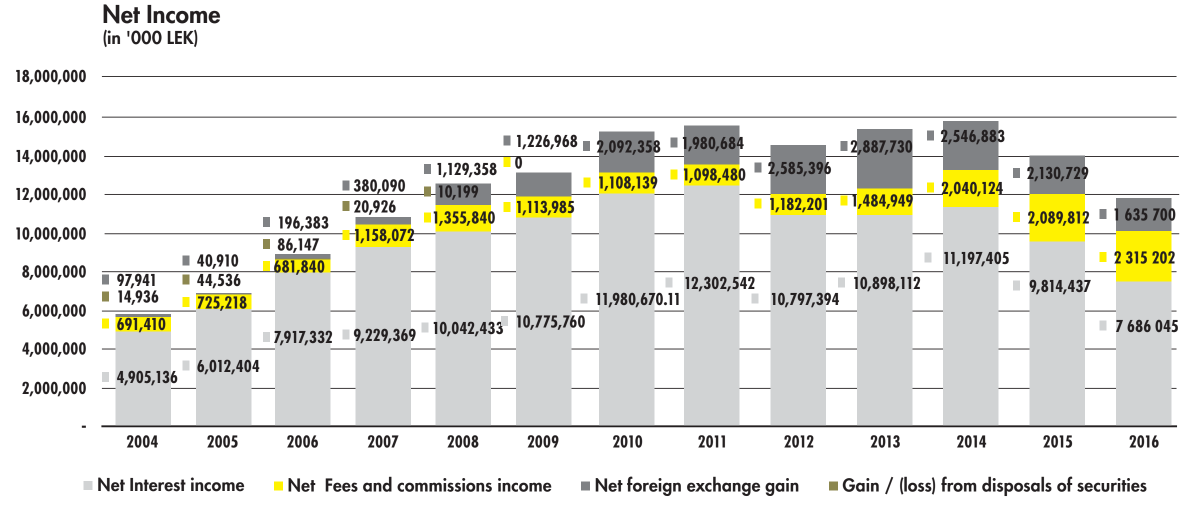
Like in 2015, the profile of customer deposits in 2016 shows a movement away from shorter term deposits. In order to take advantage of higher rates available the customers are extending their deposits in longer maturities. Total term customer deposits at the end of 2016 were ALL 77,730 million (2015: ALL 120,299 million).



2016 showed a 305 per cent decrease in net profit after tax over 2015 to ALL -4,204 million (2015: ALL 2,047 million) changing the Bank's return on equity ratio from 6.24 per cent in 2015 to 0 per cent in 2016. Dividend declared and paid in 2016 is ALL 281 million (2015: ALL 1,740 million).

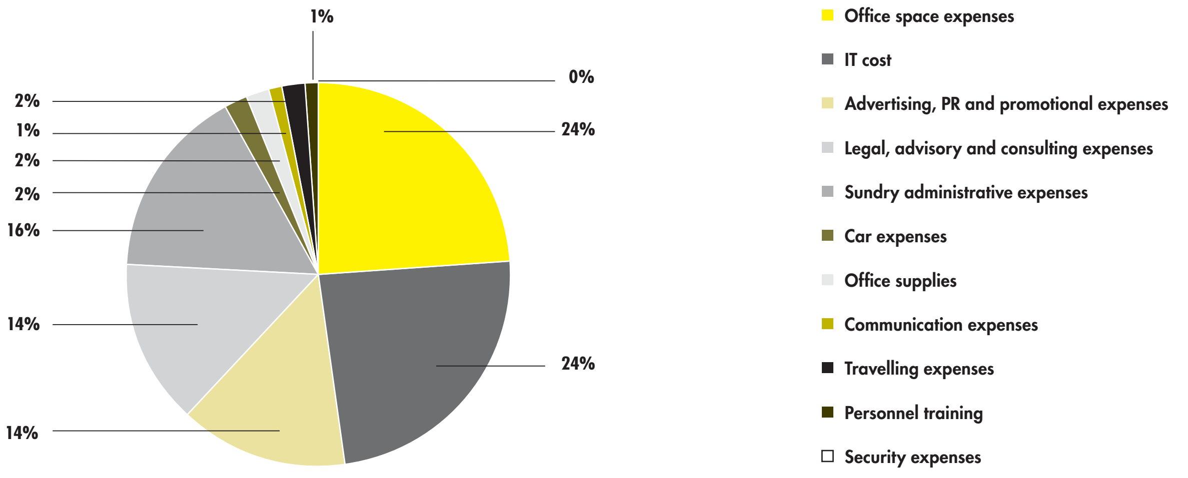


The Bank's Net interest income decreased by 22 per cent, or ALL 9,814 million in 2015 to ALL 7,686 million in 2016. This decrease together with the decrease in the Bank's total balance sheet, which came to 6.9 per cent, decrease the net interest margin (calculated in relation to average balance sheet – total) by 72 basis points from 3.46 per cent in 2015 to 2.74 per cent in 2016.

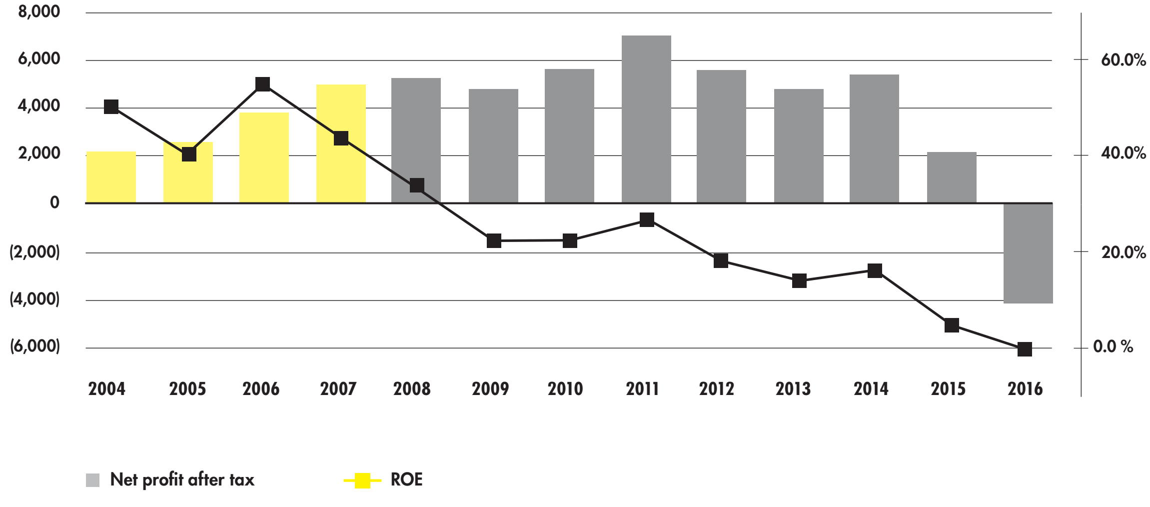


Total general administrative expenses during 2016 were ALL 2,725 million (2015: ALL 2,621 million). The Bank's operating efficiency – the cost/income ratio changed – from 50.12 per cent to 60.45 per cent. The staff expenses increased by 2.9 per cent or ALL 2,571 million in 2016 to ALL 2,499 million in 2015.

General Administrative Expenses 2016

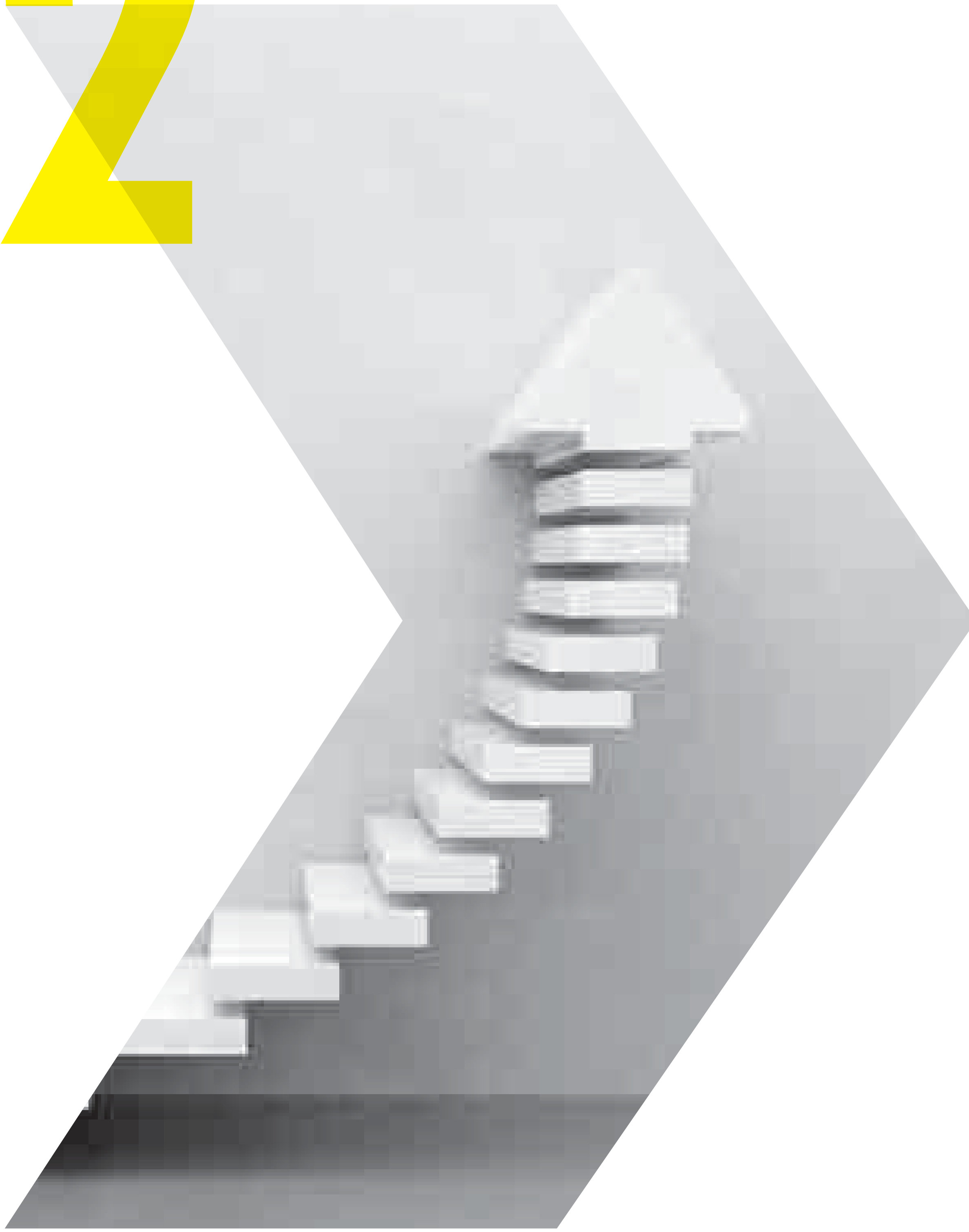


Profit & ROE
(in '000,000 ALL)



BANKING
IS THE
CONTINUATION
OF PROGRESS
BY OTHER
MEANS

2



Segment Reports

Corporate Segment

Year 2016, signs the 12th year of operation for Raiffeisen Bank Sh.a in Albania and simultaneously of serving corporate clients. The continuous efforts to be among first bank introducing bespoke and innovative solutions to help clients meet their financial goals, confirm the already established strong and long term relationship with the customers of this segment.

Following the previous year positive experience, even during year 2016 a special focus has been in promoting the utilization of electronic channels. We managed to successfully increase by 29 per cent the number of transactions performed through these channels.

During 2016 Corporate Segment has continued to maintain the market share in Trade Finance Products. This is achieved by a dedicated team that closely supports our customers in better understanding and structuring their needs for such products in order to mitigate their risk in international trade.

A special attention during the last year was improving relationship with existing customers. Our key success is linked with the valuable and highly dedicated staff which works in deal team, including both sales force and products. We are continuously enhancing our product offer through new and innovative solutions. Know-how and synergy is flowing freely throughout Raiffeisen Group Network which give us a strong competitive advantage in serving our customers with the same professionalism and banking standards of a European bank.

Portfolio quality continued to be one of the main drivers in corporate segment. The generation of new business and the existing loan portfolio are carefully analyzed with purpose mitigating the risk undertaken and also protecting the customer future business.

Continuous improvement of sales techniques by developing new sales initiatives introduced to Corporate aimed to enhance efficiency, increase the product usage per customer;

Corporate Division serves to the following customer categories:

- Domestic Corporate Clients;
- International Corporate Clients
- Public Institutions and Central & Local Government Entities and Non-Governmental Organizations

Public Sector

Raiffeisen Bank, considers the Albanian Government as the main financial partner and continuously invests in developing and introducing new banking standards which sustain an important role in supporting public projects through specific strategies, dedicated solutions for banking products and services and communication systems.

This close collaboration has lead to an improved communication between the bank and different public institutions and also facilitated a more transparent and efficient operation of public funds.

A dedicated team is specially focused into fully supporting the day to day business with government entities, with the purpose of creating a positive and favorable climate and ensuring the continuity of successful long term relationship with all Public Entities.

Small Enterprises segment (SE)

Small Enterprises represent a significant potential, not only for Albania - being an important driver for the country's stability and growth, but also for the growth, profitability and portfolio diversification opportunities of the bank. As such, Raiffeisen Bank Sh.a is committed to sustain the growth of our SE Customers by leveraging Customer Service as the key driver.

During 2016 the SE Segment in Raiffeisen Bank has continued the road of steadily and consciously growing.
Assets Volume have increased with 7.5 per cent, while new assets volume increased with 13 per cent from the previous year.

Capital light products have continued to be a main focus for us. We were above the budget for Trade Finance volume and gross incomes respectively with 42 per cent and 48 per cent, while the payment number increased with 10 per cent from previous year and their respective gross income with 40 per cent. All in all, Net Commission result was ahead of budget with 22 per cent.

A strong focus during 2016 has been boosting the utilization of e-channels as a way of decreasing the transactions costs. Through the dedicated and continuous efforts of our Relationship and Product managers, the e-payments ratio reached 28 per cent by the end of December 2016 compared to six per cent in December 2015.

With the continuous synergy offered from all banks structure, several initiatives were taken for streamlining the processes in order to secure efficiency improvement, cost reduction and profit maximization.

Our dedication in always improving the quality of service and products offered to our SE customers, is considered our main competitive advantage in a highly competitive market, especially for this segment.

Portfolio quality is always a priority for us. We closely monitor the portfolio customer's performance and focus on "in time" reactions, by proposing alternative solutions to those customers who have faced deviations in their business operations via joint efforts between all departments of the bank. From the continuous and permanent work done in this regard, our non-performing loan ratio has improved to 13 per cent as of end of year 2016 compared to 16.5 per cent of the previous year.

Significant actions have been done during 2016 for introducing credit risk mitigation instruments as a tool for lending enhancement while reducing risk costs. In this regard, by the end of December 2016, the Guarantee Agreement with European Investment Fund was signed (unfunded risk participation covering up to 70 per cent of risks). .

Corporate and SE products Division

Trade Finance and Short Term Financing Products

Trade Finance and Short Term Financing Unit, through a specialized staff, offers to its customers advising services, related to the proper use of the Trade Finance Transactions such as Bank Guarantees, Letters of Credit and Documentary Collections, aiming to reduce the risk of trading relations with relative international and domestic partners.

The bank has the proper technical expertise and plays a significant role in educating customers regarding the advantages of using the Trade Finance Products. The work of Trade Finance and Short Term Financing Unit in cooperation with Sales staff has contributed in keeping again a high level of business volumes in this area during the year 2016. During year 2016 we have continued to highly contribute in the increase of awareness and usage of such products from our customers.

During the year 2016 the bank has continued to preserve its competitive advantage in the trade finance field, in comparison to other local banks and Financial Institutions, by having a high level of expertise, which is continuously improving with the support of RBI Group in Vienna and cooperation with other Network Banks, making use of well-balanced structures and wide distribution channels.

Project Finance

The Project Finance Unit is committed to assess the financing needs and provide financial services for Industrial and Real Estate Projects as well as structured long term transactions like mergers and acquisitions. We are continuously focused to increase cooperation with our clients who find in Raiffeisen Bank an outstanding partner by offering tailor made products and solutions in complying with market best practices. The professional experience and competences displayed during our collaborations, have ranked Raiffeisen Bank as an outstanding partner among international financial institutions, becoming an active party of national and also cross border / international financing syndications.

Emphasizing the clients' needs oriented approach, the Unit is committed to cover the technical, legal, financial modeling aspects and monitor each project from the very preliminary phase up to project completion and business operation.

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

Cash Management Products

During 2016, product team has been focused in offering a full range of banking services including cash and liquidity management, trade services and treasury solutions.

Raiffeisen Bank has continued to be a strategic partner to bank customers and providing tailor made solutions to them, in order to optimize their payment businesses and improved cash flow.

Should be mentioned the following developments:

- New developments for Electronic Channels
- Improving Utility services by offering real time transactions and reporting for Utility Companies and their Subscribers.

Corporate and Small Businesses Development

The main objective of the Corporate and Small Business Development Unit during this year, has been the improvement of service quality and process efficiency for all Corporate and Small business clients, through dedicated business staff allocated in main branches.

To guarantee a high performance and professionalism in serving our clients, continuous trainings and coaching from our unit have been undertaken. In addition, we have revised our internal procedures so that processing time and quality of service is kept at the highest levels.

Moreover "the voice of the customer" is continuously in our focus, keen in hearing and managing every single complain addressed to us. We consider this process to have a double value, as on one side gives us the chance to serve a proper solution to the specific customer while on the other, gives a direct contribution in improving our services and processes in the future.

REFLECTION
IS A PAUSE
BETWEEN
EXPERIENCE
AND
ACHIEVEMENT

Retail Banking

Customer Segment Development

Mass Private Individuals Customers

The Mass Private Individuals segment customer-centric approach has continued and it has paid off by increasing the customer base activity and primary relationships.

Raiffeisen Bank managed to increase the salary customers' base mainly due to further formalization of private sector economy, showing our bank is well regarded in the market. As such, we managed to increase on this sector by 5 per cent in a challenging and competitive environment. Also there has been a slight increase in the salary customers' base of the public sector during this year.

These first quality customers boosted the lending activity by expanding the lending base of customers. Our focus has been offering more affordable and flexible loan products to them as for their demands. Sustained by marketing campaigns in place for all over the year, new personal loan disbursements grew by 32 per cent year-on-year. We had a very good year during 2016 in personal loans, thus impacted mainly from the highest maximum loan amount in the market, a wide variety of fixed interest rates, and the releases done in order for our customers to have tailored products and exploit new customer segments.

The Mass Private Individuals customers also increased their day-to-day activity with the bank, which helped us growing our fee business and achieving a fee/income ratio of 20 per cent from 16 per cent in the previous year.

The Customer Relationship Management (aCRM) platform completed in 2015 has continued to pay off its investment. Through this platform we are able to better know our customers and target those most valuable or most potential. This has permitted us to be more efficient in our CRM activities. During 2016, we have increased by 25 per cent the targeting of active customers which has resulted with higher sales. The loans generated by CRM increased by 17 per cent year-on-year. Even higher results were from the credit cards where the CRM sales increased by 27 per cent.

Supported by this platform, we have started to test other approaches that may boost our results. Customers analytics permits us to implement a customer lifecycle approach which we hope to increase by cross selling and to reduce retention. Also, they will help us improve our results in a cost-conscious effort. These are initiatives that started in 2016 and will serve as basis for higher results in 2017.

Premium Segment

Raiffeisen Bank has led the market in serving affluent customers since the launch of Premium Banking in early 2010.
Currently there are over 13,805 customers in the Premium Banking segment with varying banking needs from basic accounts to complex, full service banking. There are 2 levels of Premium Banking:

- Classic for which clients receive a dedicated service from senior branch positions
- Club, the most exclusive and upscale service channel offered to affluent clients in Albania.

Club Premium customers are served in more private areas of the branch by Premium Relationship Managers.
Premium Relationship Managers are located in the bigger cities at 15 main branches and they not only provide highly personalized service, but are trained to offer financial advisory services as well.

Premium Segment's strategy is growth of lending and transactional business to continue increasing contribution into Retail revenues. Last year, the Premium Banking Asset Portfolio increased by 41 per cent.

We will continue to deliver the highest degree of customer service and relationship management through Premium Banking.

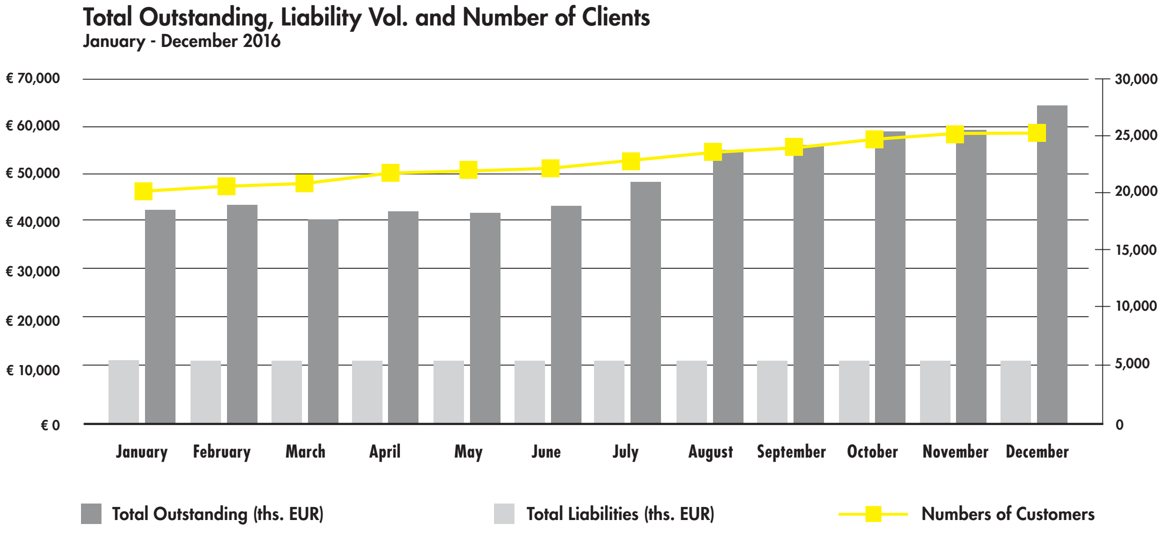
Micro Segment

Raiffeisen Bank has now a seven years' experience in Micro businesses, delivering professional services for this segment. We have been focused on customer acquisition through special programs and offering Micro customers a bundle of three value added packages to choose from.

Our value proposition is a combination of competitive products and dedicated support, offering a strong partnership and counseling to Micro businesses in immediate or future needs, always providing high standards of service. We continue to invest in the development of our dedicated sales force in offering banking services to this customers' segment in main branches within bigger cities across Albania.

The year 2016 resulted with approx. 7,300 new customers which helped to maintain our Micro customer base up to 25,000. Micro Assets portfolio by end of 2016 was € 11 million, while the liability portfolio reached € 65 million. Liability portfolio increased by 56 per cent in last year due to new customers' acquisition and activations.

In 2017, the Micro business segment will continue to focus on increasing market share by acquiring new active customers, increase primary customer relationships, and high quality relationship based lending.



Product Management Division

Term Deposits and Savings Products

During 2016 retail deposits remained the largest funder of the bank balance sheet. Market Rates hit record lows in 2016 due to excess liquidity in the banking system. Consequently, Term Deposits Rates continued to drop significantly. Raiffeisen Bank was able to offer clients alternative wealth management options through our subsidiary asset management company, Raiffeisen Invest – the company offering investment funds to the public. The vast majority of our clients continued to place their trust in our bank by keeping their deposits with us despite low interest rates. But also a significant portion of our customer base opted for Raiffeisen Invest Funds, where good annualized returns, well above the Term Deposits market rates, were achieved.

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

e-ALEAT SERVICES

Part of our bank's innovation during 2016 was the integration of the biometric technology in some of our branches. Biometric identification was first presented in January 2016 as a pilot project in "Abdyl Frashëri" branch in Tirana and then expanded in 10 branches across the country. This innovative project introduced the finger print technology as a unique biologic feature. Biometric unicity ensures optimal precision in the identification process of our customers compared to other methods. Biometric identification ensures correct customer identification and prevents illegal actions and ID fraud in banking transactions and duplications in our systems.

BANCASSURANCE

On October 31, 2016 meeting, the Board of Albanian Financial Supervisory Authority licensed Raiffeisen Bank as a Broker in insurance products for both life and non-life categories. Brokerage activity for Raiffeisen Bank will be conducted through internal staff also licensed as private brokers.
Further utilizing the existing branch network and sales staff, the brokerage activity that will be conducted will strongly contribute in increasing Bank's revenues in the coming years.

Individual Loans

During 2016 Raiffeisen Bank gave Individual Loans a special emphasis and focus, as part of a broader strategy to increase the loan portfolio, maximizing efficiency through the automation of processes and the implementation of regulatory requirements aiming to increase transparency.

Special priority was given to Mortgage Loan products through various promotional campaigns, designed to fit every customer needs by offering the best market terms and conditions. Also, like every year, there have been promotional campaigns focusing on Consumer Loans, which have the purpose to further increase choice and selection of the customers by offering them a wide range of competitive advantages such as: the diversity of products, flexibility of terms and conditions and the fast loan processing.

All the initiatives launched during 2016 proved to be a success story as client's enthusiastic response to promotional campaign and portfolio growth during 2016 were extraordinary. The loan portfolio grew to € 191 million, the highest score achieved in ten years of lending. This way our presence in the market has increased by reaching 17 per cent of the loan market for individuals.

2017 is expected to be another important and successful year. Raiffeisen Bank will continue with other serious initiatives, taking advantage of the core values including products, sales and fast process, raising market standards for individual loans. The focus will remain on the loan portfolio growth, combined with careful risk management and implementation of regulations while substantially improve transparency to optimize customer's experience
.

Cards Business and E-Banking Division

Payment Cards

Credit Card business of Raiffeisen Bank during 2016 continued to have a steady growth. Also, cards usage increased, as a result of "Cash Back" campaigns performed during 2016.

Raiffeisen Bank retained an important Debit Card market position. The number of transactions performed with these cards in ATMs and POS terminals increased by 7 per cent. Furthermore, the number of cards used in Points of Sale (POS) increased, demonstrating continual customer development for these types of payments.

POS Network

Raiffeisen Bank is a major POS acquirer with an extensive national network serving more than 60 different merchant categories including hotels, travel agencies, shops, restaurants, petrol stations, hypermarkets and the largest shopping malls in the country.

This service offers the cardholders the possibility to use their debit and credit cards, Visa, Visa Electron, MasterCard and Maestro brands, to perform purchases at Points of Sale and also Cash Advance transactions in the main bank branches.

In 2016 Raiffeisen Bank worked to improve the cost efficiency and profitability of the POS network by reallocating terminals to more optimal locations. In addition, the bank upgraded the network by replacing terminals with modern, contactless terminals, being the first bank in the country accepting contactless card payments.

Internet Acquiring

Raiffeisen Bank was the first Bank that offered E-commerce service in the Albanian market in 2012. During 2016 this service was expanded to different merchant types, including discount stores, payable TV subscription, internet services etc.
Internet Acquiring from the bank offers to the businesses the possibility to sell their products and services through the internet. The bank uses 3-D Secure Technology, the most advanced standard of payment security.

ATM Network

During 2016 Raiffeisen Bank increased the cost effectiveness of the ATM Network by redeploying machines to higher traffic locations, and retiring older and less used ATMs. The overall network was reduced by 20 ATMs, however Raiffeisen still has the highest number of ATMs in the market with over 104 ATMs, which represents about 22 per cent share of the market. ATM service is offered to all the cards issued globally under VISA, VISA Electron, PLUS, MasterCard, Maestro and Cirrus brands.

The Bank has 44 ATM's across the country that provides cash in EUR currency, with a special focus on the tourist areas, shopping malls and key areas of the major cities.

The bank introduced a new feature in the ATM called Dynamic Currency Converter for MasterCard, Maestro, and Cirrus that offered cardholders using the machines from outside Albania more options when making withdrawals in Albanian currency. This additional service increased revenues generated. Raiffeisen Bank will continue to add new functionalities on the ATMs where it will better serve customers and improve revenues for the bank.

Electronic Banking

Raiffeisen Bank will continue to lead innovation and transformation of the Albanian market by offering a wide range of electronic channels and making it easier for customers to access banking services.

It started offering Internet and SMS banking in 2010, followed by Mobile Banking only one year later. These solutions enabled customers to check their accounts, deposits, cards, loans, or perform utility payments. Mobile payments (MPAY) was introduced in 2013 offering customers the possibility to top up their phone or pay their utility bills at any time, by using their mobile handset. It is a very simple but useful utility payment service that appeals to all individual customers.

The number of customers with access to e-channels reached over 82,000.

In order to keep pace with latest technologies and innovations, the Bank developed a new unified digital banking platform to serve all customer segments (Retail, SE and Corporate customers) that works equally easily across devices (desktop to mobile phone). This platform is part of a digital banking ecosystem being developed for Retail Banking that will transform the way Albanians do their banking. The digital platform and ecosystem will increase significantly banking convenience and access to the Albanian population while ultimately lowering operating costs for the bank. In this regard, Raiffeisen has a very clear leadership position in the market.

Payments and Transfers

The number of Payments and Transfers made by Individual, Affluent and Micro customers during 2016 increased by 22 per cent compared to the previous year, while the commissions generated from these services increased by 26 per cent. The number of transactions and commission revenues from payments and transfers performed by Micro segment clients significantly increased during the year due to the government economy formalization policies.
Payments initiated via electronic channels reached 33 per cent and are expected to increase strongly in 2017 and 2018 due to the new digital banking channels, thereby increasing the cost efficiency of these banking processes.

Distribution Channels

During 2016, Distribution Channels Division continued to optimize the efficiency of the Branch Network, investing in bigger branches and consolidating in smaller areas. The investments in the network premises throughout the year have been considerable, including expansions in two of our key branches (ETC branch and Vlora main branch). The branch network remains the largest in Albania with 79 locations across the country.

On Sales and Service Management, there were two main achievements. Creation of a Platform with the aim to maintain and insure the bank sales and service standards. The SFE (Sales Force Efficiency) Platform collect all Sales Tool used in Sales and Distribution such as coaching sessions, premium activities, branch visits and assessment reports, lean visits reports. This is accessible from all managerial levels in Sales and Distribution and insures a structural way to monitor the frequency and quality of the most important pillars of Sales Management. In the Service area, the Branch Service Index (BSI) was upgraded with higher standards during second half of the year, as service levels were consistently outperforming the previous standards. The BSI tracks service and customer satisfaction in branches using multiple points of measure. As well, the bank continued to invest in branch management training by engaging managers in the network through an intensive Branch Manager Academy run by Raiffeisen Bank International and external experts.

Regarding Micro segment, the bank restructured the business and sales model to align with an adjusted strategy of focusing on growth in active customers and revenue growth per customer (fees and loans). The Micro customer base grew significantly with over 7,100 new clients in 2016.

Sales through alternative channels, including Direct Sales and Retail Sales Finance now contribute to over 20 per cent of retail sales. Due to its success, the Direct Sales channel was expanded.

2016 was the best year for Retail Sales since 2007 due to improved terms and conditions, increased sales power and the beginning of market growth after a few years of being flat. Raiffeisen outgrew the market significantly, increasing market share.

A new Mortgage sales concept was developed to expand support for customers buying a home. The launch of the "Shtepia Ime" ('My Home") mobile app in collaboration with real estate agencies, construction companies and developers is a step forward in the mortgage market showing our focus in creating strong and long lasting relationship with our customers.

During this year we will continue to stay focused in serving our customers the best products and services in the banking system. Raiffeisen Bank will continue investing in the branches network and trainings while we will introduce to the market a new world-class digital banking platform to increase online banking, thereby giving customers the ultimate in banking convenience while increasing cost efficiency for our distribution model. The new platform works across devices (computers, laptops, tablets and mobile phones) and will allow our customers to have access to their accounts, loans and deposits 24/7 from anywhere, without having to visit a branch.

UNIVERSE SERVES AS THE ETALON FOR WISDOM AND CURIOSITY

Treasury and Investment Banking

Fixed Income

During this year we continued to have a well-structured portfolio, composed from securities investments as hold to maturity, and trading / fair value portfolios. More than 70 per cent of the total portfolio consisted in Treasury Bonds. We continued even during 2016 to enrich our portfolio with different international corporate, sovereign and covered bonds issued in Euro, in way to alternate our investments even in other currencies beside local one.

These developments are mainly impacted from a very accurate and strict regulatory framework of European Union and its institutions have further impacted the risk weighted assets and our securities investments as well. One of our main target was to keep at a certain level our investment portfolio being always in line with local and international regulators and their legal framework.

This last year should be considered a tough year when we faced different challenges and difficulties, especially the decrease of the securities rates to their historical minimum levels, which on the other side impacted directly our new investment and floating rate notes.

The fixed income unit has managed to keep the portfolio stable especially the held to maturity investments. The management of the existing but even new investments produce a relative high positive result for the trading portfolio. Throughout the whole 2016 we continued to be active in retail but even in the secondary market. We aimed to increase and diversify the investment opportunities and alternatives for our customers, offering them different securities and maturities. Consequently, it is worth underlining that we continue to be one of the major contributors in the retail market of treasury bills and bonds by trading them at all our branches across the country. During 2016 the volume and transactions number of treasury bonds traded in secondary market was 27 per cent higher comparing to previous year. We continued to accomplish the role of the custodian of securities issued by the government of Albania, enabling foreign and domestic investors to participate in our securities market.

Money Market

Money Market as an active unit has given its contribution to achieve its main objective to earn income from its reserves and to maintain liquidity to the optimal levels in way to meet the uncertain cash demand of the depositors. It also contributed in developing the local interbank activity and has been in role of the central bank's monetary policy.

Money Market unit as an important part of the Dealing Room in Treasury department has taken an active role on optimization of the bank risk weighted assets (RWA) target for 2016. It has used different instruments in obtaining the risk weighted assets in the target level according to the local regulatory requirements and also for the group level. The unit has continuously contributed to maintain the Central Bank liquidity ratio at the required level as per Bank of Albania's new regulation.

The money market portfolio throughout the whole year 2016 has been well managed and expanded in different maturities, according the new Central Bank regulation regarding the bank exposure toward large banks and also respecting all the limits constrains by assuring and fulfilling in any moment bank's liquidity needs for each currency.
Money Market portfolio is invested in high quality instruments by respecting all the necessary requirements according to the Central Bank new regulations and also by respecting all the necessary requirements in group level by respecting the entire Basel III framework requirement.

Despite the entire market developments and challenges during 2016, the Money Market Unit has done its maximum efforts to successfully manage the short term liquidity by generating a good performance in an ongoing low-interest-rate and challenging environment.

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

Foreign Exchange

During this year EUR/USD pair followed a downward trend affected from FED and ECB monetary policy and especially the US electoral campaign developed in the second half of the year. The EUR/USD pair's quotation felt below 1.0400. Foreign Exchange Unit has been carefully managing the bank position and risk associated with it based on very professional analysis on financial markets. Foreign Exchange Unit closed the year with outstanding result.

Domestic market has been characterized by a strong evaluation of local currency versus Euro driven mostly by supply –demand of the market participants and reached the highest level since 2009, quoted to 134.39.

On the other hand, the US dollar continued to be quoted in its highest level versus domestic currency following same trend as in international market. It reached the maximum level of 129.55 after US election.

European economic crises continued to be present and has been reflected in the Albanian market by reducing significantly the Albanian business financial activities.

Foreign exchange unit gave its maximum support in the local market by maintaining a small spread in the bid / ask and quoting at very competitive prices in the interbank market and with customers.

Volumes of foreign exchange transactions continued to be high, by running at € 220 million per month, where EUR/USD transactions comprised the most part.

Treasury Sales

The last year, was a difficult one regarding financial markets. The economic crisis was also reflected in the Albanian market, affecting in a negative way the business. Even in the middle of this crisis, Treasury Sales Sector, with more than ten years of experience now, was able to realize its objectives. And the most important, it stayed close to its clients, fulfilling all their requests and giving the right answers for their needs. Thanks to collaboration with all business channels in Raiffeisen Bank, Treasury Sales, even in 2016, managed to be a leader in the Albanian financial market, offering the most competitive prices in Treasury products.

A GENIUS
TRAIT IS
APPROACHING
PROBLEMS
AS IF
THEY ARE
THE
SOLUTION


5

Corporate Social Responsibility

Raiffeisen Bank in Albania remains committed to the Corporate Social Responsibility aiming to contribute in sustainability and improvement of the social, health and environmental conditions of the community in Albania. We believe that we are at our best when we combine our business strength with our desire to do good things for our community.

The contribution of Raiffeisen Bank to the sphere of education has been considerable and consistent throughout the year, and it supported the educative and cultural projects for the high schools in the country as well as for the Universities. This has been done through the donation of equipment or through the support given to various activities, which aimed at the fulfillment of students needs in order to develop better the learning process. This year the projects were done in collaboration with the Education Directorates in Vlora, Shkodra, Fier, Berat, Durrës, Krujë, Malësi e Madhe, Gramsh, Përmet, Kurbin, Lezhë, Elbasan, Sarandë, and Tirana. Another important project which we very gladly supported, was the one that aimed to increase the safety in schools, by installing video cameras in several schools in Durrës and Korça.

Raiffeisen Bank in Albania has continued to support the health sector as we regard it a very important one, which contributes directly in the improvement of community's life. This year, we have supported the hospitals and public health institutions in Fier, Lezha, Sarandë, Milot, Laç, Korça, Patos and Përmet through buying medical equipment, or reconstruction of the premises.

Raiffeisen Bank has continued also its contribution for the projects with social impact. A good tradition has become that of sponsoring the activities for the International Awareness Day of Autism, and the World Day of Down Syndrome. The Orphanage "Zyber Hallulli" Tirana, was assisted with the purchase of school books from grade one until grade nine. An important collaboration was that with Different Weekend, through which 200 school bags with equipment were purchased and distributed in rural area schools, for the children in need.

The environmental projects have also found the support of Raiffeisen Bank. We have continued to support the projects for the greening areas, planting trees, etc with several institutions like in Pogradec, Durrës and Gramsh. Meanwhile, Raiffeisen Bank has continued the support for cleaning actions undertaken voluntarily where the staff of Raiffeisen Bank has also participated.

In addition, we have sponsored several projects in collaboration with the Municipalities, where as important ones we can point out the one with Tirana Municipality, where we supported the construction of five playgrounds, as well as the enrichment of the public libraries with books, with the "City of Readers" initiative. The "City of Readers" project was extended in Fier Municipality. Important projects also include the reconstruction of kindergartens in the cities Kavajë, Berat and Memaliaj.

The end of 2016 saw the staff of Raiffeisen bank involved first person in helping with initiative "food for families in need ". During the end of year festivity period, Raiffeisen Bank organized a charity campaign for the families in need in Tirana area, in collaboration with "Different weekend" Foundation. All of the staff participate in this initiative, donating food packages, which were distributed to the families in need. Two tons of solid food were collected, a lot of toys and children clothes, which were distributed to 15 families in extreme poverty. Also a few activities were organized in the Banks' premises to gather funds and gifts for children in need, mainly in the orphanage.

Culture is another socially sensitive subject, as we at Raiffeisen Bank are determined to increase the impact of art and culture in society. Therefore, numerable projects were carried out in this field, such as the collaboration with the National Theater of Opera and Ballet and the National Theater supporting their shows throughout the year.

Raiffeisen Bank in Albania besides offering banking services and products, remains always committed to contribute and support projects that help the community and the improvement of its life, as part of its social responsibility.

Human Resources

With a staff of 1,374 employees, Raiffeisen Bank is one of the biggest and best employers in Albania, offering a competitive environment in terms of staff compensation, development and motivation.

Recruitment and Selection

During 2016, staff recruitment and selection process aimed to ensure the selection of qualified, experienced personnel, with professional skills at all levels of service at the bank, in order to support the business needs in all the areas where it operates. In order to evaluate and select the best candidates and the most qualified people in the market, a structured recruitment process is applied, which consists in several stages: logical tests, technical tests and/or psychometric tests and personality tests. The selected candidates are interviewed by an interview panel, composed by the respective supervisors in Departments/Districts and representatives from Human Resources Division.

For Raiffeisen Bank, staff promotion and development remains its primary focus. The internal candidates, based on their performance, are considered as the main potential for vacant positions announced in the Bank. This gives them the opportunity to build a successful career within the Bank and thus increases the staff motivation.

In order to meet the needs for staff in entry level positions, but not only, 80 new employees were hired during 2016, where Internship and Direct Sales Agents - DSA program students were the main source of filling these vacancies.

Internship Program

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

Direct Sales Agents Student Program

In 2016, DSA Student Program consolidated the cooperation with many universities in the country. The focus of this program, initiated by Direct and Relationship Sales Department, is to increase business sales of various products in the branches. More than 265 students were interviewed for this program, out of whom 121 joined DSA program. The selected students, who serve as Direct Sales Agents, are offered training and coaching by experienced sales teams through this one-year program. At the end of the program, they acquire knowledge of Bank products and processes and are qualified for vacant positions in the Bank. In addition to growing the business in the Branches, this program is a very good source of staff recruitment.

Employees with leased contract

In order to meet the needs for staff in entry-level positions, in 2016 Raiffeisen Bank has enabled a cooperation with an outsourced company which hires staff in different positions for a temporary period according to the bank needs, in the Network Branches and Head Office Departments.

They are offered classroom trainings and on job training in order to efficiently perform the required tasks of the positions. The best performers are encouraged to be part of the recruitment processes in filling the bank vacancies for internal staff.

Training

In addition to the approach to attract and select the best candidates in the market, Raiffeisen Bank is also committed to staff development and enhancement of their knowledge and professional skills. Training and development programs are a strategic investment for the achievement of the business objectives.

Raiffeisen Bank offers an Orientation Training Package to facilitate the onboarding of new hired staff. This training is highly important as it introduces them to the new tasks that they will perform and it facilitates a smooth integration in the workplace. During their employment, many opportunities for development and qualifications are offered to them. The Bank provided a wide range of training programs and initiatives of professional development, which were organized through the internal sources of expertise or outsourced experts. During 2016, the annual training plan reflects each Department's needs for training sessions that aim at updating or enhancing their technical knowledge or competencies/skills needed to cope with challenges and meet targets and results. In this context, 4,188 days of classroom training were held and over 90 per cent of the staff attended at least one training session.

In addition to the classroom training, the bank staff was given the opportunity to attend electronic training on e-learning platform, which serves as a tool for knowledge and information management. The training menu in this platform has been enriched with new modules during 2016, following therequests of different departments. In addition to internally developed modules, this platform offers trainings held by RBI Group. The usage of this online platform shows the broad interest in this learning method, which offers a lot of flexibility. An employee can attend the training module in the workplace and when he chooses to.

Human Resources Division supports long-term business goals by focusing on implementation of Talent Management and Succession Planning policies. The bank is focused on identification of employees who demonstrate high potential for achievement and constant performance and implements plans for their development, retention and engagement. Leadership and management education is another focus of Raiffeisen Bank. The Management training programs provided during 2016 aimed to strengthen the competencies and behaviors the bank managers should reflect in order to lead their teams towards continued success. The rotation programs were another tool provided for the development of key staff. These programs were offered locally and group-wide. The aim of these initiatives is to exchange experience, knowledge and best practices through visits to colleagues in related departments in and outside the Bank.

Raiffeisen Bank Remuneration Policy

In Raiffeisen Bank the remuneration policy is designed by Human Resources and approved by Management Board and Supervisory Board. It is applied to all bank employees and Raiffeisen Bank subsidiaries.

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

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

The categories of Identified Staff are as follows:

1. Material or Fully Affected Identified Staff. This category has a direct material risk impact on Bank's risk profile, because the amount of risk which can be taken individually or collectively, can have significant impact on Bank's results and balance sheet. The number of staff who falls under this category is 35 and includes Supervisory Board members, CEO, Board Members, Audit Committee Members, Head of Divisions, Head of Departments and Team Leaders.
2. Less Material or Partially Affected Identified Staff. This category has an influence on Bank's risk profile but not necessarily in a direct way. The number of staff who falls under this category is 36 and includes Head of Divisions, Head of Departments, District Managers and Team Leaders.

The salary and other employee benefits are defined by the bank, with the aim of establishing satisfactory and competitive levels. The policy followed by the bank in defining the salary system and structure aims to guarantee the achievement of 5 main objectives:

- Reward based on work performance and quality;
- Maintaining the competitive position in the market. The general compensation shall be in the third quarter of the domestic market (between the 50 and 75 per cent), whereas for the managerial positions, it should be in the highest level in the market, between 75 per cent and 100 per cent.
- Motivation of employees through differentiated remuneration (salary) for differentiated responsibility, job positions and professional skills;
- The extra benefits shall be competitive, but not leaders in the market;
- The salary expenses in the total cost of personnel and bank budget in general, shall be in acceptable parameters.

For the Middle Management and Sale Staff positions, the salary is composed of two components:

- Base Pay (Salary)
- Variable Pay

The Structure of Base Salary:
- represents the gross income, excluding bonuses and other extra benefits;
- is administered through salary bands, which are based on the grading structure, level of living standards in the country and market data.

Variable Pay (Bonus and Incentive Schemes):
- is closely related to the RBI Group / Bank / individual's performance results;
- is capped in order to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
  shall be up to:
  - *16 per cent of monthly/yearly base salary for Business functions*
  - *12 per cent of monthly/yearly base salary for Business Enabling functions*
  - *can be paid in Cash, in Kind or in Other Instruments as per the decision of the Supervisory Board;*

In case of Identified Staff, a special bonus pay-out model is applied if their total variable compensation is over € 30'000.

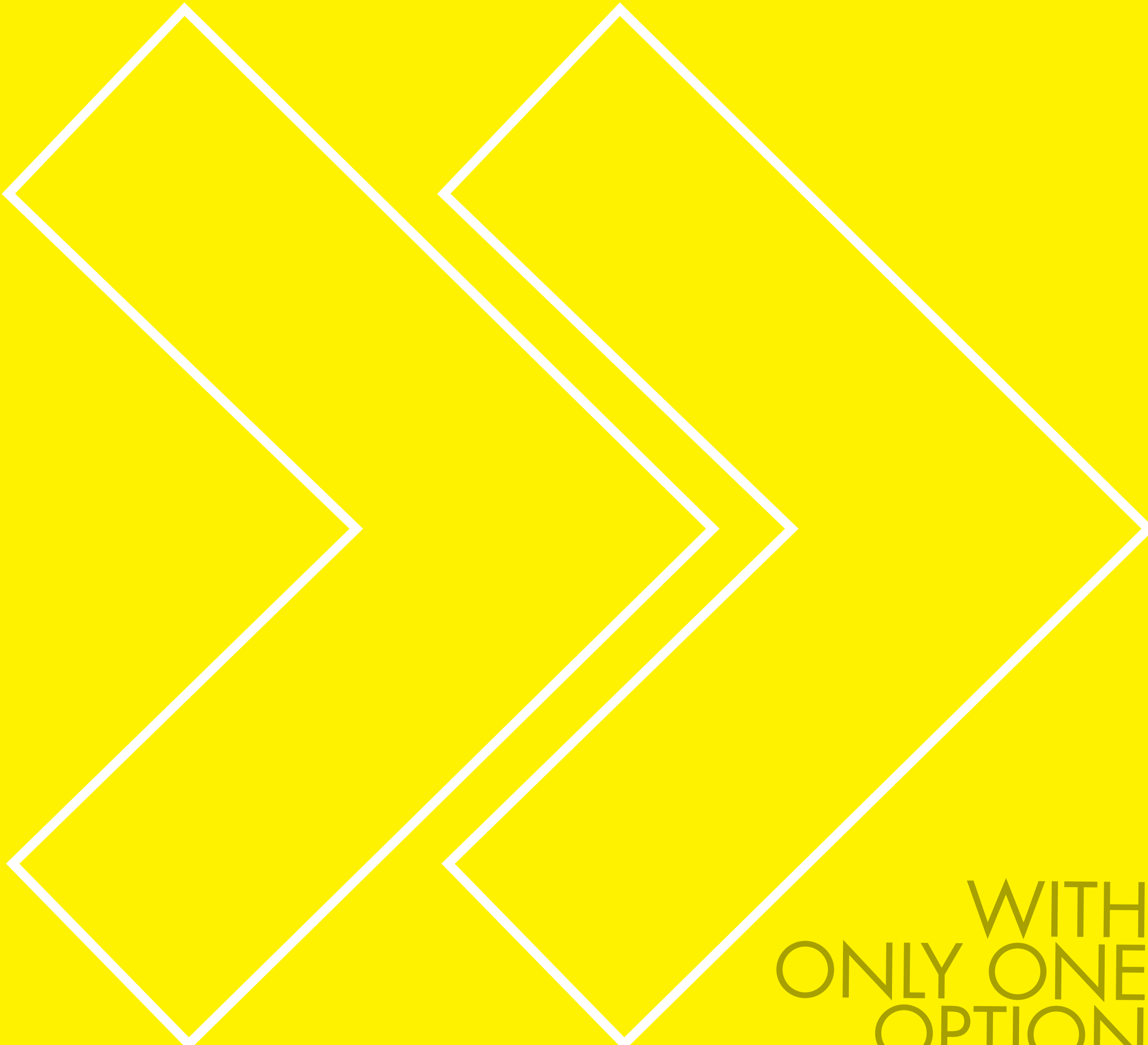
Forms and elements of remuneration for the Steering Council *(every year end)*
(in 000/ ALL)

Forms and elements of temuneration for Steering Council (in 000/ ALL)	Immediate/for the actual period Year 2016	Deferred Year 2015
Fixed remuneration	10,856	34,070
Cash/bonus	10,856	34,070
Shares		
Other		
Variable remuneration		
Cash/bonus		
Shares		
Other		

** This table shall be filled in separately for a) Steering Council and b) Executive Directors.

Forms and elements of remuneration for the Executive Directors *(every year end)*
(in 000/ ALL)

Total value of remuneration awards for the current fiscal year	Immediate/for the actual period Year 2016	Deferred Year 2015
Fixed remuneration	189,296	172,782
Cash/bonus	171,575	172,782
Shares		
Other	17,721	
Variable remuneration	12,216	31,035
Cash/bonus	1,867	
Shares	10,349	3,979
Other		27,056



WITH
ONLY ONE
OPTION
ABSOLUTE
FOCUS
CAN BE
APPLIED

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RAIFFEISEN BANK SH.A.

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report
31 December 2016

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General Information

Directors and Management as of 31 December 2016 and 31 December 2015

Board of Directors (Supervisory Board)

Helmut Breit	Chairman
Heinz Hodl	Member
Razvan Munteanu	Member
Harald Kreuzmair	Member
Andreas Engels	Member

Audit Committee

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Benoit	Member

Management Board

Christian Canacaris	Chief Executive Officer
Alexander Zsolnai	Vice-chairman of the Management Board
John McNaughton	Member
Elona Mullahi	Member

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Auditor

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Telephone: +355 (4) 451 7920/ 451 7954
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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank sh.a. Group (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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

Deloitte Audit Albania sh.p.k
Rr. Elbasanit, Pallati poshte Fakultetit Gjeologji - Miniera,
Tirana, Albania
Identification number (NUIS): L41709002H

Engagement Partner
Elvis Ziu
Statutory Auditor
June 14, 2017

Consolidated statement of financial position as at 31 December 2016
(amounts in Lek'000, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	7	57,046,334	78,056,475
Restricted balances	8	21,628,345	28,632,318
Investments held for trading	9.1	14,198,975	20,998,043
Held-to-maturity investment securities	9.2	77,833,482	51,955,158
Other securities designated at fair value	9.3	2,528,780	3,423,858
Loans and advances to customers, net	10	90,591,932	100,896,697
Current income tax prepayment		746,741	614,274
Deferred income tax asset	11	28,039	33,271
Goodwill	12	92,783	92,783
Intangible assets	13	1,557,194	1,601,633
Premises and equipment	14	1,603,016	1,587,464
Other assets	15	2,681,832	2,565,730
Total assets		**270,537,453**	**290,457,704**
Liabilities			
Due to financial institutions	16	4,329,408	2,232,929
Due to customers	17	229,179,129	246,784,805
Other liabilities	18	2,464,777	2,121,884
Subordinated debt	19	8,965,577	9,107,088
Total liabilities		**244,938,891**	**260,246,706**
Equity			
Share capital	20	14,178,593	14,178,593
Retained earnings		8,113,779	12,795,084
Other reserves	21	3,306,190	3,135,352
Net assets attributable to the Bank owners		**25,598,562**	**30,109,029**
Non-controlling interest	22	-	**101,969**
Total equity		**25,598,562**	**30,210,998**
Total liabilities and equity		**270,537,453**	**290,457,704**

These consolidated financial statements have been approved by the Supervisory Board of the Bank.

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 52 to 106.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

(amounts in LEK'000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	23	8,133,956	10,479,384
Interest expense	24	(447,911)	(664,947)
Net interest income		**7,686,045**	**9,814,437**
Provision for impairment of loans to customers	10,18	(8,940,259)	(4,251,269)
Net interest income/(expense) after provision for loan impairment		**(1,254,214)**	**5,563,168**
Fee and commission income	25	2,852,797	2,539,209
Fee and commission expense	26	(537,595)	(449,397)
Net fee and commission income		**2,315,202**	**2,089,812**
Net income from investments	9.3	**257,582**	**120,053**
Net trading income	27	1,635,700	2,124,858
Net other operating income	28	(351,464)	(926,976)
		1,541,818	**1,317,935**
Deposit insurance premium	29	(665,358)	(675,379)
Personnel expenses	30	(2,571,417)	(2,498,988)
Depreciation and amortisation	13,14	(696,369)	(686,422)
General and administrative expenses	31	(2,725,721)	(2,621,489)
		(6,658,865	**(6,482,278)**
(Loss)/Profit before income tax		**(4,056,059)**	**2,488,637**
Income tax	32	(147,688)	(441,822)
(Loss)/Profit for the year		**(4,203,747)**	**2,046,815**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments: - Gains less losses arising during the year - Gains less losses reclassified to profit or loss upon disposal or impairment		-	-
Other comprehensive income for the year		**-**	**-**
		-	**-**
Total comprehensive (expense)/income for the year		**(4,203,747)**	**2,046,815**

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

(amounts in LEK'000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUE)

	Year ended 31 December 2016	Year ended 31 December 2015
(Loss)/Profit is attributable to:		
- Owners of the Bank	(4,224,514)	2,031,506
- Non-controlling interest	20,767	15,309
(Loss)/Profit for the year	**(4,203,747)**	**2,046,815**
Total comprehensive income/(expense) is attributable to:		
- Owners of the Bank	(4,203,747)	2,031,506
- Non-controlling interest	-	15,309
Total comprehensive income/(expense) for the year	**(4,203,747)**	**2,046,815**
Earnings per share for (loss)/profit attributable to the owners of the Bank, basic and diluted (expressed in LEK per share)	**(603,502)**	**290,215**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 52 to 106.

Consolidated Statement of Changes in Equity for the year ended 31 December 2016
(amounts in Lek'000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Bank						
	Share Capital	General Reserves	Revaluation reserve	Retained Earnings	Total	Non-controlling interest	Total equity
Balance as at 31 December 2015	**14,178,593**	**2,835,352**	**-**	**12,788,710**	**29,802,655**	**101,365**	**29,904,020**
Transfer to General Reserves	-	300,000	-	(300,000)	-	-	**-**
Dividend payment	-	-	-	(1,725,132)	(1,725,132)	(14,705)	**(1,739,837)**
Profit for the year	-	-	-	**2,031,506**	**2,031,506**	**15,309**	**2,046,815**
Balance as at 31 December 2015	**14,178,593**	**3,135,352**	**-**	**12,795,084**	**30,109,029**	**101,969**	**30,210,998**
Transfer to General Reserves	-	170,838	-	(170,838)	-	-	-
Dividend payment	-	-	-	(266,073)	(266,073)	(15,309)	(281,382)
Loss for the year	-	-	-	(4,224,514)	(4,224,514)	20,767	(4,203,747)
NCI sale				(19,880)	(19,880)	(107,427)	(127,307)
Balance as at 31 December 2016	**14,178,593**	**3,306,190**	**-**	**8,113,779**	**25,598,562**	**-**	**25,598,562**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 52 to 106.

Consolidated Statement of Cash Flows for the year ended 31 December 2016
(amounts in Lek'000)

		Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
(Loss)/Profit for the year before taxation		**(4,056,059)**	**2,488,637**
Non-cash items in the statement of comprehensive income			
Depreciation and amortization	13,14	696,369	686,422
Profit from sale of fixed assets	28	33,350	(54,959)
Net impairment loss on financial assets		8,940,259	4,231,536
Net Interest income		(8,594,354)	(10,727,978)
Net income from revaluation of trading securities		(417,853)	(631,509)
Net income from revaluation of other securties designated at fair value through profit or loss		(174,876)	(97,037)
Changes in provision for other debtors		(131,912)	(4,984)
Changes in provision for litigation		(739,697)	740,195
Revaluation effect of cash and cash equivalents		70,657	397,037
Net decrease / (increase) in other securities designated at fair value through profit or loss		1,069,954	3,594,837
Increase in other assets		16,915	(184,343)
Decrease in due to financial institutions		1,561,934	(603,594)
Increase / (Decrease) in due to customers		(17,378,127)	13,321,868
Decrease in other liabilities		1,084,187	(720,194)
Operating cash flows after changes in working capital		**(1,967,661)**	**20,751,326**
Interest received		8,611,589	11,573,587
Interest paid		(867,253)	(947,976)
Corporate income tax paid		(383,781)	(926,233)
Net cash generated from operating activities		**5,392,894**	**30,450,704**
Cash flows from investing activities			
Acquisition of subsidiary		(127,307)	-
Purchases of premises and equipment	14	(551,712)	(350,781)
Purchases of intangible assets	13	(213,512)	(314,680)
Proceeds from sale of fixed assets		64,468	16,318
Proceeds from matured financial assets held-to-maturity		59,239,397	74,788,563
Purchase of financial assets held-to-maturity		(84,462,329)	(66,951,632)
Net cash generated from investing activities		**(26,050,995)**	**7,187,788**
Cash flows from financing activities			
Dividends paid		(281,383)	(1,739,837)
Increase in Subordinated debt		-	**1,916,200**
Net cash generated from / (used in) financing activities		**(281,383)**	**176,363**
Increase in cash and cash equivalents during the year		**(20,939,484)**	**37,814,855**
Cash and cash equivalents at the beginning of the year	**7**	**78,056,475**	**40,638,657**
Revaluation effect of cash and cash equivalents		(70,657)	(397,037)
Cash and cash equivalents at the end of the year	**7**	**57,046,334**	**78,056,475**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 52 to 106.

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Raiffiesen Bank sh.a. (the "Bank") and its subsidiaries (the "Group"). Raiffeisen Bank Sh.a. (the "Bank") is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies", and Law 9662, dated 18 December 2006 "On Banks in the Republic of Albania", as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen Bank International AG, Austria, which is the ultimate controlling party.

Principal activity. The Group's principal business activity is retail banking operations within the Republic of Albania. The Bank operates through a banking network of 79 service points, as of 31 December 2016, (31 December 2015: 89 service points) throughout Albania, which are managed through 8 Districts and has no overseas operations.

The consolidated financial statements for the year ended 31 December 2016 were authorized for issue by the Board of Directors on June 8, 2017. Approval of the financial statements by the Shareholders will take place in the Annual General Meeting of the Shareholders.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.

Presentation currency. These consolidated financial statements are presented in Albanian Lek ("LEK"), unless otherwise stated. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all the periods presented, unless otherwise stated.

a) Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.
Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
a) Consolidated financial statements (continued)

unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Based on the nature of the activity, the Groups' subsidiaries have several specific accounting policies which are detailed in note 3(n) for Raiffeisen Leasing sh.a. and in notes 3 (t) and 3 (u), for Raiffeisen INVEST.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.
The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.
The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2016 and 31 December 2015, according to Bank of Albania were as below:

	31 December 2016		31 December 2015	
	Period end	*Average*	*Year end*	*Average*
United States dollar (USD)	128.17	124.61	125.79	105.75
European Union currency unit (EUR)	135.23	137.35	137.28	139.93

c) Interest

Interest income and expense are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(c) Interest (continued)

The calculation of the effective interest rate includes all 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 liability.
Interest income and expense presented as profit or loss in the consolidated statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

d Fees and commission

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

Other fees and commission income, including account servicing fees, sales commission, placement fees, are recognised as the related services are performed. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

f) Operating lease and other operating expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. The operating expenses are recognised when incurred.

g) Employee benefits

- *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Group makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

- *Paid annual leave*

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

- *Short-term benefits*

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

- *Termination benefits*

For termination benefits, the Group specified that amounts payable are recognised when, and only when, the Company is demonstrably committed to either:

- terminated the employment of an employee or group of employees before the normal retirement date, or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Group is demonstrably committed to a termination when, and when, it has a detailed formal plan for the termination and is without realistic possibly of withdrawal.

h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(h) Income tax expense (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

i) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below. 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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 37.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
i) Financial instruments - key measurement terms (continued)

amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

j) Cash and cash equivalents

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

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

k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of the portfolio that is managed together for the short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of the trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

l) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

n) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.
The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

o) Finance lease receivables

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease). The difference between the gross receivable and the present value represents unearned finance income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(o) Finance lease receivables (continued)

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease). The difference between the gross receivable and the present value represents unearned finance income.

This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other operating income in profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables.

The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

p) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit or loss

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3 (i).

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(iv) Other securities at fair value through profit or loss.

Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

r) Premises and equipment

(i) Recognition and measurement

Items of premises and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of premises and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of premises and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of premises and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and work in progress are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	2016 *(in years)*	**2015 (in years)**
Premises	*20*	*20*
Computers and IT equipment	*4*	*4*
Vehicles	*5*	*5*
Leasehold improvements	*1 to 10*	*1 to 10*
Other (Office furniture)	*5*	*5*

Useful lives and residual values are reassessed each reporting date.

s) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use.
The estimate useful life of intangible assets is eight years. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated statement of comprehensive income as an expense as incurred.

t) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of auction value and fair value less costs to sell, recognised in the consolidated statement of financial position under 'Other assets'. Management intention on repossessed properties is to sale as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Voluntary pension fund and Investment Funds

Raiffeisen INVEST acts as a Management Company for the following Defined Contribution Funds:

- The Defined Contribution Fund "Raiffeisen Voluntary Pension Fund" which was approved by the Albanian Financial Supervisory Authority on October 18, 2010;
- "Raiffeisen Prestige" which was approved by the Albanian Financial Supervisory Authority on 13 December 2011;
- "Raiffeisen Invest Euro Investment Fund" which was approved by the Albanian Financial Supervisory Authority on 26 September 2012.

New law No. 10197 dated on 10 December 2009 "On voluntary pension funds" and law No. 10198 dated on 10 December 2009 "On collective investment undertakings" requirements, include responsibility of the Management Company to prepare separate financial statements for the Company and the Funds.
On 30 November 2011, based on decision of the General Assembly of the Sole Shareholder, the Management Company's object of activity was extended to include:

- manage voluntary pension funds through collecting and investing funds based on the law no. 10197, dated 10 December 2009 "On Voluntary Pension Funds", as well as in accordance with the principle of risk-spreading (diversification), for the purpose of providing retirement benefits for the persons that participate in the pension fund. The Company may provide also pensions delivery,
- to establish and/or manage the Collective Investment Undertakings based on the law no. 10198, dated 10 December 2009 "On collective investment undertakings",
- other activities as defined in the law no. 10198, dated December 10, 2009 "On collective Investment undertakings".

As at 31 December 2016, the net assets value of Raiffeisen voluntary pension fund amount to LEK 412,208 thousand (2015: LEK 324,298 thousand), Raiffeisen Prestige amount LEK 51,667,310 thousand (2015: LEK 56,633,644 thousand) and Raiffeisen Invest Euro amount LEK 13,606,434 thousand (2015: LEK 10,355,508 thousand).

v) Defined contribution plans (Voluntary Pension Fund and Investment Funds)

Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid, and the investment earnings of the fund. Obligations are recognised in profit or loss when they are due and are disclosed as interest credited to the pension fund within investment income and income from transactions.

The Funds operate according to law No. 10197, dated 10 December 2009 "On the Voluntary Pension Fund" and law No. 10198, dated 10 December 2009 "On collective investment undertakings". Also, the investment strategy of these Funds' assets is based on the internal policy of investment of the Management Company and the regulation "For the permitted assets, the limitations and maximum limit of the investment of the pension fund" approved by the Albanian Financial Supervisory Authority.

As at 31 December 2016 and 2015 the investment portfolio of the Funds includes government bonds and treasury bills, short term deposits in the second tier Banks operating in Albania and other cash and cash equivalents. First Investment Bank Albania sh.a. acts as the custodian bank of all the Funds.

Net value of assets

The net value of assets is equal with the total of the net assets minus the Fund's obligations.

The value of pension fund unit

The value of the unit is equal to the net value of assets divided with the number of units at the reporting date. Based in each Fund's policy, the opening value of one unit has been equal to Lek 1,000.

Interest income

Interest income includes incomes from bonds' coupons and interest from deposits. Interest income is presented based on accrual basis.

The fee to the Management Company

Each Fund should pay to the Management Company a fee which differs for each Fund. Raiffeisen Invest Prestige Fund

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Defined contribution plans (Voluntary Pension Fund and Investment Funds) (continued)

pays a fee of 1.25% (annually) of net assets value (2015: 1.25%) to the Management Company. Raiffeisen Invest Euro Fund pays a fee of 1.5% of net assets value (2015: 1.5%). Raiffeisen Voluntary Pension Fund pays a fee of 1.5 % on net assets value (2015: 1.5%).

Realized gain / losses and unrealized gain / losses

Realized gain / losses are recognised based on the sale of the securities with a difference between the offered price with the value of principal and matured interest of securities bought with premium or discount. These differences are recognised in profit or loss when occurred. Unrealized gain/losses are recognised as the difference between the cost and the fair value. When the securities are sold the unrealized gain/loss is transferred in the profit and loss for the period.

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension funds and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2016 consolidated financial statements.

w) Deposits and other financial liabilities

Deposits and other financial liabilities are the Group's main sources of debt funding. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Deposits and other financial liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

x) Sale and repurchase agreements and lending of securities

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

y) Impairment of non-financial assets

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing 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 asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

z) Provisions

A provision is recognised if, as a result of a past event, the Group 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, where appropriate, the risks specific to the liability.

Loan loss provisions for contingent liabilities and commitments

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(z) Provisions (continued)

Commitments and contingent are liabilities such as undrawn agreements to lend in case that they are formally binding and not just internal limits. 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 provisionis recorded. 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 has to be made as indicated in the impairment of Loans and Advances to customers.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Albanian legislation identifies the basis of distribution as the current year net profit.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

(aa) Credit related commitments.

The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

(bb) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(cc) Presentation of statement of financial position in order of liquidity.

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 33.

(dd) Comparability

All amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(i) Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of LEK LEK 603,061 thousand (2015: LEK 88,073 thousand) or a decrease in loan impairment losses of LEK 51,122 thousand (2015: LEK 76,583 thousand) respectively.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period :

- ***IFRS 14 "Regulatory Deferral Accounts"*** (effective for annual periods beginning on or after 1 January 2016),
- ***Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investiments in Associates and Joint Ventures"*** – Investiment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- ***Amendments to IFRS 11 "Joint Arrangements"*** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- ***Amendments to IAS 1 "Presentation of Financial Statements"*** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- ***Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intagible Assets"*** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- ***Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"*** – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- ***Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"*** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies.

6. NEW ACCOUNTING PRONOUNCEMENTS

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

- **IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2016 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:**

  Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

  Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives).

  Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

  Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

  Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

  Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

  The Bank is currently assessing the impact of the new standard on its consolidated financial statements.

  Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the new standard on its consolidated financial statements.

- ***IFRS 15 "Revenue from Contracts with Customers"*** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- ***IFRS 16 "Leases"*** (effective for annual periods beginning on or after 1 January 2019),
- ***Amendments to IFRS 2 "Share-based Payment"*** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- ***Amendments to IFRS 4 "Insurance Contracts"*** - Appying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- ***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 and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- ***Amendments to IAS 7 "Statement of Cash Flows"*** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- ***Amendments to IAS 12 "Income Taxes"*** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- ***Amendments to IAS 40 "Investiment Property"*** - Transfer of Investiment Property (effective for annual periods beginning on or after 1 January 2018),
- ***Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"*** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- ***IFRIC 22 "Foreign Currency Transactions and Advance Consideration"*** (effective for annual periods beginning on or after 1 January 2018).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Except for the impact of IFRS 9, which is being assessed by the Group, the Group anticipates that the adoption of the other standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

7. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	3,331,400	3,172,435
Central Bank		
Current accounts	20,453,888	33,252,590
Deposit accounts	6,760,000	-
Accrued interest in deposit account	93	-
Banks		
Current accounts with resident banks	4,275	6,818
Current accounts with non-resident banks	2,000,850	1,784,395
Deposits with resident banks of less than three months	2,142,185	2,404,099
Deposits with non-resident banks of less than three months	22,353,643	37,436,138
Total	**57,046,334**	**78,056,475**

Current accounts with the Bank of Albania bear no interest. The annual interest rates on term deposits with the Bank of Albania as at 31 December 2016 is 0.25% (31 December 2015: none). The annual interest rates on term deposits with resident banks as at 31 December 2016 varies from 0.7% to 1.25% (31 December 2015: 1.20% to 1.75%). The annual interest rates on term deposits with non-resident banks as at 31 December 2016 vary from -6.00% to 0.41% (31 December 2015: -0.11% to 0.128%).

8. RESTRICTED BALANCES

	31 December 2016	31 December 2015
Central Bank		
Obligatory reserves	21,394,739	23,342,882
Banks		
Deposits with non-resident banks with original maturities of more than three months	-	3,432,978
Guarantee accounts	233,606	1,856,458
Total	**21,628,345**	**28,632,318**

Obligatory reserves with Central Bank are not for everyday use by the Bank and represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 10% of the average amount of deposits for the month owed to banks and customers, and are both in LEK and in foreign currency (USD and EUR). The annual interest rates on term deposits with non-resident banks as at 31 December 2015 vary from -1% to 1.85%.

The credit quality of cash and cash equivalents and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2016:

	2016	2015
A-1	7,008,228	11,744,571
A-1+	472,677	2,553,599
A-2	7,268,044	21,671,089
A-3	15,429	3,398
B	25,694	26,083
P-1	-	6,110,640
P-2	2,027,427	-
Unrated	61,857,180	64,579,413
Carrying amount	**78,674,679**	**106,688,793**

Included in unrated balances is cash and cash equivalents and restricted balances with Central Bank.

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

Investments held for trading comprise treasury bills and bonds of Albanian Government as follows:

	31 December 2016	31 December 2015
Government Bonds	14,109,250	20,996,111
Treasury bills	89,725	1,932
Total	**14,198,975**	**20,998,043**

9. INVESTMENT IN SECURITIES (CONTINUED)

Treasury bills as at 31 December 2016 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 1.29% to 3.1% per annum (31 December 2015: from 2.45% to 3.64%).

Government bonds as at 31 December 2016 represent 2-year, 3-year, 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 3.77% to 10.85% per annum (31 December 2015: from 4.82% to 10.85%).

9.2 Held-to-maturity investment securities

The held-to-maturity investment securities comprise treasury bills and bonds of Albanian Government as follows:

	31 December 2016	31 December 2015
Treasury Bills (note 9.2.1)	19,688,013	17,686,691
Government Bonds (note 9.2.2)	32,672,165	30,153,216
Covered Bonds (note 9.2.3)	13,674,467	-
Government bonds non-resident (note 9.2.4)	9,822,586	-
Corporate Bonds (note 9.2.5)	1,976,251	4,115,251
Total	**77,833,482**	**51,955,158**

9.2.1 Treasury bills

Treasury bills as at 31 December 2016 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 0.95% to 3.82% per annum (31 December 2015: from 2.3% to 4.5%).

	31 December 2016	31 December 2015
Nominal value of treasury bills	19,782,673	17,864,231
Unamortised discount	(94,660)	(177,540)
Total	**19,688,013**	**17,686,691**

9.2.2 Government bonds

Government bonds as at 31 December 2016 represent 2-year, 3-year, 5-year, 7-year and 10-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 1.5% to 10.85% per annum (31 December 2015: from 4.59% to 10.85%).

	31 December 2016	31 December 2015
Nominal value of bonds	32,292,529	29,700,425
Unamortised discount	18,726	3,304
Accrued interest	360,910	449,487
Total	**32,672,165**	**30,153,216**

9. INVESTMENT IN SECURITIES (CONTINUED)
9.2 Held-to-maturity investment securities (continued)

9.2.3 Covered bonds
Covered bonds as at 31 December 2016 represent 1-year and 3-year bonds denominated in EUR issued by Raiffeisen Bank Czech Republic with coupon rates ranging from 0.75% to 0.93% per annum (31 December 2015: none).

	31 December 2016	31 December 2015
Nominal value of bonds	13,523,000	-
Unamortised discount	138,891	-
Accrued interest	12,576	-
Total	**13,674,467**	**-**

9.2.4 Government bonds non-resident
Covered bonds as at 31 December 2016 represent 1-year and 3-year bonds denominated in EUR issued by Raiffeisen Bank Czech Republic with coupon rates ranging from 0.75% to 0.93% per annum (31 December 2015: none).

	31 December 2016	31 December 2015
Nominal value of bonds	9,466,100	-
Unamortised premium	3,452	-
Accrued interest	353,034	-
Total	**9,822,586**	**-**

9.2.5 Corporate bonds
Corporate bonds as at 31 December 2016 represent 1 year bonds denominated in EUR with coupon rates ranging from 3.88% to 5.13% per annum (31 December 2015: from 0.75% to 5.88%).

	31 December 2016	31 December 2015
Nominal value of bonds	1,893,220	3,981,120
Unamortised discount	9,711	105,700
Accrued interest	73,320	28,431
Total	**1,976,251**	**4,115,251**

9.3 Other securities designated at fair value through profit or loss
Other securities designated at fair value through profit or loss comprise bonds from Albania Government whose performance is managed and evaluated on a fair value basis , in accordance with the Bank's investment strategy. The information on that basis is regularly provided to and reviewed by the Group's Board of Directors.

	31 December 2016	31 December 2015
Government bonds	2,528,780	3,423,858
Total	**2,528,780**	**3,423,858**

Government bonds as at 31 December 2016 represent 2-year, 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 6.62% to 7.85% per annum (31 December 2015: 4.89% to 7.85%).

9. INVESTMENT IN SECURITIES (CONTINUED)
9.3 Other securities designated at fair value through profit or loss (continued)

The credit quality of investment securities may be summarised based on Standard and Poor's ratings as follows at 31 December 2016:

	Investments held for trading		Held-to-maturity investment securities		Other securities designated at fair value through profit or loss	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Neither past due nor impaired						
B+	14,198,975	20,998,043	52,360,178	47,839,907	2,528,780	3,423,858
A1	-	-	13,674,467	724,085	-	-
A2	-	-	702,519	692,851	-	-
A3	-	-	-	715,152	-	-
A-	-	-	704,809	1,286,393	-	-
Aa2	-	-	-	553,592	-	-
AA	-	-	-	143,178	-	-
A+	-	-	568,923	-	-	-
Aaau	-	-	9,822,586	-	-	-
Carrying amount	**14,198,975**	**20,998,043**	**77,833,482**	**51,955,158**	**2,528,780**	**3,423,858**

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	31 December 2015
Loans and advances to customers	110,382,716	114,610,752
Allowance for loan loss impairment	(19,790,784)	(13,714,055)
Net carrying amount	**90,591,932**	**100,896,697**

Movements in net allowance for loan loss impairment are as follows:

	2016	2015
Balance at the beginning of the year	13,714,055	13,817,545
Allowance for loan loss impairment	12,363,471	6,652,888
Release for loan loss impairment	(3,440,183)	(2,407,882)
Reserve for the purchase of Tirana Leasing Portfolio	-	108,502
Loans written off	(2,846,559)	(4,456,998)
Balance at the end of the year	**19,790,784**	**13,714,055**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The interest rates of loans and advances to customers vary from 0.17% % to 12.17% p.a. in foreign currencies and from 3.77% to 15.64 % p.a. in LEK (31 December 2014: from 1.57% to 11.58% p.a. in foreign currencies and from 3.21% to 19.13% p.a. in LEK).

Loans and advances to customers detailed in business segments as at 31 December 2016 and 2015 are presented in the following tables:

						31 December 2016
	Individuals	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Overdraft	1,920,640	41,158,349	5,254,176	720,565	70,900	49,124,630
Credit Card	462,136	10,698	52,155	-	51,277	576,266
Loans						
Short term	214,583	1,094,775	7,547	695	4,048	1,321,648
Medium term	5,271,214	13,167,207	1,742,628	275,152	143,932	20,600,133
Long term	7,954,279	8,898,579	2,182,950	273,424	417,888	19,727,120
	13,440,076	**23,160,561**	**3,933,125**	**549,271**	**565,868**	**41,648,901**
Mortgage	10,163,725	105,685	834,393	183,969	3,527,966	14,815,738
Other	433,409	3,161,143	605,257	414,859	15,012	4,629,680
less Administrative Fee	**(216,603)**	(146,669)	(39,226)	(10,001)	**-**	(412,499)
TOTAL	**26,203,383**	**67,449,767**	**10,639,880**	**1,858,663**	**4,231,023**	**110,382,716**

						31 December 2015
	Individuals	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Overdraft	2,005,399	46,337,285	4,246,007	620,927	68,776	53,278,394
Credit Card	469,748	10,668	11,337	-	51,123	542,876
Loans						
Short term	169,075	2,177,692	40,339	885	3,846	2,391,837
Medium term	4,588,310	14,726,220	2,110,138	340,708	136,844	21,902,220
Long term	6,891,439	10,275,529	2,506,845	338,794	351,057	20,363,664
	11,648,824	**27,179,441**	**4,657,322**	**680,387**	**491,747**	**44,657,721**
Mortgage	**8,630,060**	**-**	**591,380**	**209,278**	**3,079,127**	**12,509,845**
Other	**446,481**	**2,391,420**	**681,187**	**507,266**	**16,343**	**4,042,697**
less Administrative Fee	**(175,785)**	(196,624)	(38,291)	(10,081)	**-**	(420,781)
Total	**23,024,727**	**75,722,190**	**10,148,942**	**2,007,777**	**3,707,116**	**114,610,752**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for impairment of loans and advances to customers detailed in business segments as at 31 December 2016 and 31 December 2015 are presented in the following tables:

						31 December 2016
	Individuals	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Balance at the beginning of the year	**1,784,557**	**10,570,309**	**1,085,878**	**269,940**	**3,371**	**13,714,055**
Allowance for loan loss impairment	1,264,515	10,607,680	348,011	98,882	44,383	**12,363,471**
Release for loan loss impairment	(346,597)	(2,829,478)	(207,999)	(55,825)	(284)	**(3,440,183)**
Loans written off	(392,427)	(2,183,647)	(267,698)	(3,654)	867	**(2,846,559)**
Balance at the end of the year	**2,310,048**	**16,164,864**	**958,192**	**309,343**	**48,337**	**19,790,784**

						31 December 2015
	Individuals	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Balance at the beginning of the year	**1,694,679**	**10,326,786**	**1,462,779**	**328,907**	**4,394**	**13,817,545**
Allowance for loan loss impairment	573,021	5,601,006	378,699	99,640	522	**6,652,888**
Release for loan loss impairment	(328,330)	(1,720,669)	(280,747)	(76,594)	(1,542)	**(2,407,882)**
Reserve for the purchase of Tirana Leasing Portfolio	17,385	41,360	13,073	36,684	-	**108,502**
Loans written off	(172,198)	(3,678,174)	(487,926)	(118,697)	**(3)**	**(4,456,998)**
Balance at the end of the year	**1,784,557**	**10,570,309**	**1,085,878**	**269,940**	**3,371**	**13,714,055**

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

In thousands of LEK	**2016**		**2015**	
	Amount	**%**	**Amount**	**%**
Trade, repair of motor vehicles and household items	29,506,661	27%	31,763,616	28%
Households	30,242,930	27%	26,787,647	23%
Production and distribution of electricity, gas and water	21,187,836	19%	22,958,973	20%
Processing industry	8,110,404	7%	8,488,403	7%
Construction	5,361,822	5%	6,500,532	6%
Transportation, Storage and Telecommunications	2,633,084	2%	3,407,346	3%
Monetary and financial intermediation	1,347,324	1%	2,317,477	2%
Extracting industry	4,169,637	4%	4,709,244	4%
Agriculture and hunting	1,944,124	2%	1,839,321	2%
Collective, social and personal	1,933,269	2%	2,044,445	2%
Health and social work	1,248,098	1%	1,100,196	1%
Other	2,697,527	3%	2,693,552	2%
Total loans and advances to customers (before impairment)	**110,382,716**	**100%**	**114,610,752**	**100%**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

At 31 December 2016 the Group had 13 borrowers (2015:15 borrowers) with aggregated loan amounts above LEK 1,000,000 thousand. The total aggregate amount of these loans was LEK 39,946,683 thousand (2015: LEK 46,434,150 thousand) or 36.15% of the gross loan portfolio (2015: 40.6%).

Information about collateral at 31 December 2016 is as follows:

	Individuals	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Unsecured loans	15,618,769	1,611,866	197,059	328,855	743,333	**18,499,882**
Loans guaranteed by other parties, including credit insurance	1,292,331	24,681,787	520,133	204,262	758,544	**27,457,057**
Loans collateralised by:						
- residential real estate	7,986,433	974,242	1,936,882	391,917	2,625,615	**13,915,089**
- other real estate	594,346	21,806,567	5,636,814	374,291	89,352	**28,501,370**
- cash deposits	288,463	1,004,043	42,979	5,004	160	**1,340,649**
- other assets	21,311	15,387,935	1,710,606	158,751	-	**17,278,603**
- Leased Vehicles- Movable Assets / Equipment	401,730	1,983,327	595,407	395,583	14,019	**3,390,066**
Total loans and advances to customers	**26,203,383**	**67,449,767**	**10,639,880**	**1,858,663**	**4,231,023**	**110,382,716**

Information about collateral at 31 December 2015 is as follows:

	Individuals	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Unsecured loans	13,737,215	132,643	72,318	40,419	667,922	**14,650,517**
Loans guaranteed by other parties, including credit insurance	780,713	25,740,805	360,025	472,531	631,849	**27,985,923**
Loans collateralised by:						
- residential real estate	6,894,928	4,162,904	2,431,836	491,833	2,324,740	**16,306,241**
- other real estate	694,995	24,813,875	5,096,559	341,934	59,625	**31,006,988**
- cash deposits	409,480	1,149,639	2,128	4,231	125	**1,565,603**
- other assets	93,508	17,345,976	1,512,355	167,963	-	**19,119,802**
-Leased Vehicles- Movable Assets /Equipment	413,889	2,376,346	673,722	488,866	22,855	**3,975,678**
-Leased Vehicles- Movable Assets /Equipment	272,581	2,351,084	625,634	191,426	21,419	**3,462,144**
Total loans and advances to customers	**23,024,728**	**75,722,188**	**10,148,943**	**2,007,777**	**3,707,116**	**114,610,752**

Other assets mainly include equipment and receivables. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

	Corporate	Small Enteprises	Micro SMEs	Individuals	Employees	Total
Neither past due nor impaired						
Grade 2B	1,024,572	-	-	-	-	1,024,572
Grade 4A	6,432	-	-	-	-	6,432
Grade 4B	5,420	1,417,151	-	-	-	1,422,571
Grade 4C	123,685	-	-	-	-	123,685
Grade 5A	221,865	-	-	-	-	221,865
Grade 5B	2,116,017	2,007,601	-	-	-	4,123,618
Grade 5C	347,910	-	-	-	-	347,910
Grade 6A	3,132,017	860,629	-	-	-	3,992,646
Grade 6B	1,162,921	1,076,579	-	-	-	2,239,500
Grade 6C	21,002,229	384,414	-	-	-	21,386,643
Grade 6.2	1,003,950	-	-	-	-	1,003,950
Grade 7A	3,452,480	497,900	-	-	-	3,950,380
Grade 7B	2,218,868	309,742	-	-	-	2,528,610
Grade 7C	103,331	521,873	-	-	-	625,204
Grade 8A	1,021,510	218,352	-	-	-	1,239,862
Grade 8B	253,917	247,929	-	-	-	501,846
Grade 8C	1,536,340	160,164	-	-	-	1,696,504
Grade 9A	2,546,751	-	-	-	-	2,546,751
Grade 9B	221,977	703,128	-	-	-	925,105
Grade 9C	683,109	-	-	-	-	683,109
Grade 10	5,049	-	-	-	-	5,049
Grade (unrated)	634,216	6,767	1,280,354	22,528,270	4,106,234	28,555,841
Total neither past due nor impaired	**42,824,566**	**8,412,229**	**1,280,354**	**22,528,270**	**4,106,234**	**79,151,653**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Past due but not impaired	Corporate	Small Enteprises	Micro SMEs	Individuals	Employees	Total
- less than 30 days overdue	1,354,011	646,163	80,337	980,000	124,219	3,184,730
- 30 to 60 days overdue	1,554,987	138,851	54,926	245,109	112	1,993,985
- 60 to 90 days overdue	673,417	19,849	21,424	58,811	-	773,501
- 90 to 180 days overdue	9,869	105,129	29,581	153,507	-	298,086
- 180 to 360 days overdue	431,191	15,097	9,891	19,306	-	475,485
- over 360 days overdue	125,014	144,103	5,386	27,732	-	302,235
Total past due but not impaired	**4,148,489**	**1,069,192**	**201,545**	**1,484,465**	**124,331**	**7,028,022**
- less than 30 days overdue	5,016,810	402	38,395	322,829	350	5,378,786
- 30 to 60 days overdue	-	132	1,756	64,743	-	66,631
- 60 to 90 days overdue	129	-	7,299	154,031	-	161,459
- 90 to 180 days overdue	1,509,426	13,552	26,439	259,242	108	1,808,767
- 180 to 360 days overdue	5,275,478	47,705	51,770	384,671	-	5,759,624
- over 360 days overdue	8,674,869	1,096,668	251,105	1,005,132	-	11,027,774
Total individually impaired loans (gross)	**20,476,712**	**1,158,459**	**376,764**	**2,190,648**	**458**	**24,203,041**
Less impairment provisions	**(16,164,864)**	**(958,192)**	**(309,343)**	**(2,310,048)**	**(48,337)**	**(19,790,784)**
Total loans and advances to customers	**51,284,903**	**9,681,688**	**1,549,320**	**23,893,335**	**4,182,686**	**90,591,932**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

	Corporate	Small Enterprises	Micro SMEs	Individuals	Employees	Total
Neither past due nor impaired						
Grade 2B	870,662	-	-	-	-	870,662
Grade 4A	3,092	-	-	-	-	3,092
Grade 4B	46,449	965,995	-	-	-	1,012,444
Grade 5A	1,891,576	-	-	-	-	1,891,576
Grade 5B	5,145	2,278,666	-	-	-	2,283,811
Grade 5C	265,751	-	-	-	-	265,751
Grade 6A	57,031	596,459	-	-	-	653,490
Grade 6B	438,844	714,175	-	-	-	1,153,019
Grade 6C	2,659,454	515,517	-	-	-	3,174,971
Grade 6.2	2,300,642	-	-	-	-	2,300,642
Grade 6.3	816,033	-	-	-	-	816,033
Grade 7A	2,287,961	713,174	-	-	-	3,001,135
Grade 7B	4,097,358	420,882	-	-	-	4,518,240
Grade 7C	25,134,986	256,160	-	-	-	25,391,146
Grade 8A	2,801,161	140,099	-	-	-	2,941,260
Grade 8B	2,612,668	360,091	-	-	-	2,972,759
Grade 8C	2,009,200	153,310	-	-	-	2,162,510
Grade 9A	770,753	-	-	-	-	770,753
Grade 9B	723,909	424,456	-	-	-	1,148,365
Grade 9C	1,841,970	-	-	-	-	1,841,970
Grade (unrated)	120,362	40,015	1,245,602	18,803,640	3,615,107	23,824,726
Total neither past due nor impaired	**51,755,007**	**7,578,999**	**1,245,602**	**18,803,640**	**3,615,107**	**82,998,355**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Past due but not impaired	**Corporate**	**Small Enterprises**	**Micro SMEs**	**Individuals**	**Employees**	**Total**
- less than 30 days overdue	4,404,874	682,153	130,093	1,247,789	84,398	6,549,307
- 30 to 60 days overdue	452,063	187,487	71,241	283,026	-	993,817
- 60 to 90 days overdue	1,567,374	27,445	162,208	808,654	-	2,565,681
- 90 to 180 days overdue	1,613,148	195,628	31,227	15,497	-	1,855,500
- 180 to 360 days overdue	-	84	8,283	34,203	-	42,570
- over 360 days overdue	90,647	6,350	20,541	27,335	-	144,873
Total past due but not impaired	**8,128,106**	**1,099,147**	**423,593**	**2,416,504**	**84,398**	**12,151,748**

- less than 30 days overdue	16	668	9,455	211,305	426	221,870
- 30 to 60 days overdue	35,991	9,700	485	52,463	-	98,639
- 60 to 90 days overdue	350	448	13,049	55,102	-	68,949
- 90 to 180 days overdue	5,374,945	60,467	9,454	62,254	-	5,507,120
- 180 to 360 days overdue	2,205,638	162,703	56,048	302,489	-	2,726,878
- over 360 days overdue	8,222,133	1,236,812	250,093	1,128,155	-	10,837,193
Total individually impaired loans (gross)	**15,839,073**	**1,470,798**	**338,584**	**1,811,768**	**426**	**19,460,649**
Less impairment provisions	(10,570,309)	(1,085,878)	(269,940)	(1,784,557)	(3,371)	(13,714,055)
Total loans and advances to customers	**65,151,877**	**9,063,066**	**1,737,839**	**21,247,355**	**3,696,560**	**100,896,697**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Neither past due nor impaired loans and securities
For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. An explanation of the credit quality of neither past due nor impaired loans according to thei risk grades classification is given below:

Rating scale	Description
(1A, 1B)*, 1C	Minimal risk
2.A, 2B, 2C	Excellent credit standing
3A, 3B, 3C	Very good credit standing
4A, 4B, 4C	Good credit standing
5A, 5B, 5C	Sound credit standing
6A, 6B, 6C	Acceptable credit standing
7A, 7B, 7C	Marginal credit standing
8A, 8B, 8C	Weak credit standing / sub-standard
9A, 9B, 9C	Very weak credit standing / doubtful
10A, 10B, 10C	Default

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 10 A in the Group's internal credit risk grading system. The Bank has a structured policy applied to the evaluation of collateral on loans determined as individually impaired. Depending on the class/type of collateral there are specific discount rates applied, ranging from 0% to 100%. This is due to complex legal requirements and significant delays in recovering and realising the collateral.

Past due but not impaired loans
Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security /collateral available and / or the stage of collection of amounts owed to the Group.

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 Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2016 restructured loans were LEK 15,882,761 thousand (2015: LEK 25,950,058 thousand).

Allowances for impairment
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy
The Group writes off a loan / security balance (and any related allowances for impairment losses) when Bank Problem Loans Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

As at 31 December 2016 and 2015, the loans and advances to customers with regard to outstanding balance and impairment assessment were as follows:

	Loans and advances to customers	
31 December 2016		
	Gross	**Net**
Individually impaired	24,203,044	5,676,434
Total	**24,203,044**	**5,676,434**

31 December 2015		
	Gross	**Net**
Individually impaired	19,460,648	6,893,909
Total	**19,460,648**	**6,893,909**

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally re-valued annually by both, external and internal evaluators. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 and 2015.

31 December 2016	Against individually impaired	Against collectively impaired	Total
Property	171,097,714	20,127,563	191,225,277
Pledge	500	3,700,021	3,700,521
Cash	44,296,863	18,182,134	62,478,997
Guarantee	629,174	2,457,051	3,086,225
Life insurance	159,958,198	91,858,129	251,816,327
Total	**375,982,449**	**136,324,898**	**512,307,347**

31 December 2015	Against individually impaired	Against collectively impaired	Total
Property	33,190,864	157,667,098	190,857,963
Pledge	19,438,688	91,527,575	110,966,263
Cash	389,449	6,354,782	6,744,231
Guarantee	4,624,988	53,724,999	58,349,987
Life insurance	168,577	2,393,883	2,562,459
Total	**57,812,566**	**311,668,337**	**369,480,903**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of collateral at 31 December 2016:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate	15,667,170	425,802,745	10,975,356	4,592,867
Small Enterprises	4,268,670	30,650,785	1,067,319	535,044
Micro SMEs	1,090,808	4,680,643	219,180	96,776
Households	12,604,362	45,632,333	731,886	403,062

The effect of collateral at 31 December 2015:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate	66,979,695	283,810,445	8,935,285	1,910,992
Small Enterprises	7,854,196	24,205,379	2,332,983	317,705
Micro SMEs	1,868,693	5,431,891	149,119	91,693
Households	12,130,131	53,492,176	14,773,548	52,047

11. DEFERRED INCOME TAX ASSETS

The movement in the deferred income tax account is as follows:

	31 December 2016	31 December 2015
Balance at the beginning of the year	33,271	44,630
Deferred tax benefit relating to the origination and reversal of temporary differences (note 32)	(5,232)	(11,359)
Balance at the end of the year	**28,039**	**33,271**

Movements in temporary differences during the year are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income.
Deferred tax has been calculated based on the enacted tax rate for 2016 of 15% (2015: 15%). As at 31 December 2016 and 31 December 2015 deferred tax assets and liabilities have been recognised for the following items:

	31 December 2016	31 December 2015
Deferred tax asset		
Accelerated depreciation	1,741	1,713
Deferred lease disbursement fees	26,298	31,558
	28,039	**33,271**
Deferred tax liability		
Allowance for impairment losses	-	-
Net deferred tax assets	**28,039**	**33,271**

12. GOODWILL

During the year 2008, Raiffeisen Bank purchased 100% of the shares of the Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST "), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2015, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2016 (2015: Lek 90 million).

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

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2016, the carrying amount of the subsidiary (the cash generating unit to which goodwill has been allocated), does not exceed its recoverable amount and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2016 (2015: nil).

13. INTANGIBLE ASSETS

Movements in intangible assets for the year ended 31 December 2016 and 2015 are detailed as follows:

	Acquired software	Licences	Total
Cost			
At 1 January 2015	2,061,270	364,902	2,426,172
Additions	154,031	160,649	314,680
Disposals	(1,175)	23	(1,152)
At 31 December 2015	**2,214,126**	**525,574**	**2,739,700**
At 1 January 2016	2,214,126	525,574	2,739,700
Additions	203,676	**9,837**	**213,513**
Disposals	(153,882)	(25,164)	(179,045)
At 31 December 2016	**2,263,920**	**510,247**	**2,774,168**
Amortization			
At 1 January 2015	(635,070)	(272,190)	(907,260)
Amortization charge	(214,938)	(15,869)	(230,807)
At 31 December 2015	**(850,008)**	**(288,059)**	**(1,138,067)**
At 1 January 2016	(850,008)	(288,059)	(1,138,067)
Amortization charge	(226,090)	(31,824)	(257,915)
Disposals	153,844	25,164	179,008
At 31 December 2016	**(922,254)**	**(294,719)**	**(1,216,974)**
Net book value			
At 1 January 2016	**1,364,118**	**237,515**	**1,601,633**
At 31 December 2016	**1,341,666**	**215,528**	**1,557,194**

There are no assets pledged as collateral as at 31 December 2016 (2015: none).

14. PREMISES AND EQUIPMENT

Movements in premises and equipment for the year ended 31 December 2016 and 2015 are detailed as follows:

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
At 1 January 2015	1,366,562	2,412,405	293,279	2,179	611,700	4,686,125
Additions	10,474	130,210	45,668	117,679	46,748	350,779
Disposals	(32,782)	(205,106)	(13,821)	-	(34,296)	(286,005)
Transfers	101,662	41,797	18,159	(110,958)	6,263	56,923
At 31 December 2015	**1,445,916**	**2,379,306**	**343,285**	**8,900**	**630,415**	**4,807,822**
At 1 January 2016	1,445,916	2,379,306	343,285	8,900	630,415	4,807,822
Additions	115,912	180,681	67,476	112,530	75,113	551,712
Disposals	(119,478)	(59,999)	(53,342)	-	(97,024)	(329,843)
Transfers	60,143	(753,581)	-	(102,901)	796,339	-
At 31 December 2016	**1,502,493**	**1,746,407**	**357,419**	**18,529**	**1,404,843**	**5,029,691**
Accumulated depreciation						
At 1 January 2015	(612,472)	(1,730,071)	(206,092)	-	(484,984)	(3,033,619)
Depreciation charge	(71,015)	(289,470)	(41,045)	-	(54,085)	(455,615)
Disposals	23,833	201,652	11,998	-	31,393	268,876
At 31 December 2015	**(659,654)**	**(1,817,889)**	**(235,139)**	**-**	**(507,676)**	**(3,220,358)**
At 1 January 2016	(659,654)	(1,817,889)	(235,139)	-	(507,676)	(3,220,358)
Depreciation charge	(69,817)	(214,092)	(43,862)	-	(110,683)	(438,454)
Disposals	30,231	58,739	51,505	-	91,662	232,137
Transfers	-	629,381	-	-	(629,381)	-
At 31 December 2016	**(699,240)**	**(1,343,861)**	**(227,496)**	**-**	**(1,156,078)**	**(3,426,675)**
Net Book Value						
At 1 january 2015	**786,262**	**561,417**	**108,146**	**8,900**	**122,739**	**1,587,464**
At 31 December 2016	**803,253**	**402,546**	**129,923**	**18,529**	**248,765**	**1,603,016**

There are no assets pledged as collateral as at 31 December 2016 (2015: none).

15. OTHER ASSETS

	31 December 2016	31 December 2015
Repossessed collateral, net	1,658,418	1,525,272
Inventories	120,337	145,298
VAT receivable	342,379	417,696
Sundry debtors, net	266,280	269,141
Prepaid expenses and accruals	288,178	196,256
Money gram	6,240	12,067
Total	**2,681,832**	**2,565,730**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Sundry debtors comprise the following:

	31 December 2016	31 December 2015
Sundry debtors	552,718	422,477
Provisions for losses from other debtors	(286,438)	(153,336)
Total Sundry debtors, net	**266,280**	**269,141**

Most of the sundry debtors balances are over 1 months but less than 3 months.

Movements in the provisions for sundry debtors are as follows:

	2016	2015
Balance at the beginning of the year	153,336	155,932
Allowance for Provisions for losses from other debtors	135,768	-
Foreign exchange effect	(2,666)	(2,596)
Balance at the end of the year	**286,438**	**153,336**

16. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
Current accounts		
Resident banks and financial institutions	649,979	516,745
Non-resident banks and financial institutions	36,456	38,358
Accrued interest	-	2
	686,435	**555,105**
Deposits		
Resident banks and financial institutions	3,638,946	1,677,832
Accrued interest	4,027	(8)
	3,642,973	1,677,824
Total	**4,329,408**	**2,232,929**

The annual interest rates for borrowed funds from financial institutions varied from -0.9% to 0.2% during the year ended 31 December 2016 (2015: -0.45 % to 0.01%).

17. DUE TO CUSTOMERS

	31 December 2016	31 December 2015
Current accounts	145,063,233	120,684,286
Deposits	77,767,742	120,563,865
Other accounts	6,348,154	5,536,654
Total	**229,179,129**	**246,784,805**

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2016 were as follows:

(in %)	LEK	USD	EUR
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.05-1.50	0.01-0.50	0.05-0.50
Time deposits – 3 month	0.01	0.01	0.01
Time deposits – 6 month	0.01	0.01	0.01
Time deposits – 9 month	0.01	0.01	0.01
Time deposits – 12 month	0.01	0.01	0.01
Time deposits – 24 month	0.01	0.01	0.01
Time deposits – 36 month	0.01	0.01	0.01
Time deposits – 60 month	0.01	0.01	0.01

17. DUE TO CUSTOMERS (CONTINUED)

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2015 were as follows:

(in %)	LEK	USD	EUR
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.05-1.50	0.01-0.50	0.05-0.50
Time deposits – 3 month	0.01-0.10	0.01-0.25	0.01-0.15
Time deposits – 6 month	0.01-0.15	0.01-0.25	0.01-0.15
Time deposits – 9 month	0.01-0.15	0.01-0.25	0.01-0.15
Time deposits – 12 month	0.01-0.15	0.01-0.30	0.01-0.15
Time deposits – 24 month	0.01-0.35	0.01-0.30	0.01-0.20
Time deposits – 36 month	0.01-0.35	0.01-0.30	0.01-0.20
Time deposits – 60 month	0.01-0.35	0.01-0.30	0.01-0.20

Balances due to customers by maturity and currency type are as follows:

	31 December 2016			31 December 2015		
	Lek	Foreign currency	Total	Lek	Foreign currency	Total
Current accounts	**66,276,296**	**78,786,937**	**145,063,233**	**53,817,584**	**66,866,702**	**120,684,286**
Deposits						
On demand	5,758,449	5,020,140	10,778,589	5,473,022	4,549,747	10,022,769
1 month - 3 months	-	49,917	49,917	2,763,541	950,316	3,713,857
3 months - 6 months	2,876,192	4,112,349	6,988,541	3,756,096	7,102,255	10,858,351
6 months - 12 months	3,789,957	3,823,274	7,613,231	5,883,717	7,453,240	13,336,957
12 months - 24 months	26,902,889	23,803,319	50,706,208	38,433,686	39,977,757	78,411,443
24 months - 36 months	622,228	346,546	968,774	783,745	1,202,637	1,986,382
36 months	117,106	45,145	162,251	197,801	100,820	298,621
60 months	109,921	352,921	462,842	211,560	1,459,279	1,670,839
Accrued interest on deposits	20,028	17,361	37,389	86,393	178,253	264,646
	40,196,770	**37,570,972**	**77,767,742**	**57,589,561**	**62,974,304**	**120,563,865**
Other accounts						
Guarantee deposits	2,147,141	2,760,516	4,907,657	2,508,468	2,102,111	4,610,579
Dormant customer accounts	10,280	109	10,389	10,450	116	10,566
Cheques customer accounts	700	14,885	15,585	700	9,754	10,454
Other	1,369,953	44,570	1,414,523	866,358	38,697	905,055
	3,528,074	**2,820,080**	**6,348,154**	**3,385,976**	**2,150,678**	**5,536,654**
Total	**110,001,141**	**119,177,989**	**229,179,129**	**114,793,121**	**131,991,684**	**246,784,805**

18. OTHER LIABILITIES

	31 December 2016	31 December 2015
Other creditors	488,189	265,904
Accrued expenses	223,783	209,995
Due to employees	370,862	263,563
Withholding tax payable	38,875	69,198
Provision for contingent liabilities	42,573	25,602
Deferred income	160,686	219,774
Due to social insurance	28,626	37,593
Provision for litigation	63,148	788,446
Negative FV derivative - Economic hedge	13,576	5,871
Suspense accounts	1,001,551	201,622
VAT payable	32,908	34,316
Total	**2,464,777**	**2,121,884**

- Included in "Other creditors" is the amount of LEK 34,017 thousand (2015: LEK 19,318 thousand) of unpaid invoices to suppliers.
- Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items. At 31 December 2016, there are many outgoing payments with different settlement date from the payment date.
- Provision for contingent liabilities represents impairment of irrevocable commitments and contingencies. The movements in the provisions for contingent liabilities are as follows:

	31 December 2016	31 December 2015
Balance at the beginning of the year	25,602	19,339
Provisions expense for the period	37,137	19,733
Reversal of provisions for the year	(20,166)	(13,470)
Balance at the end of the year	**42,573**	**25,602**

- The Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2016. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims.

The movements in the provisions for litigations are as follows:

	31 December 2016	31 December 2015
Balance at the beginning of the year	788,446	50,639
Provision expense for the year	14,399	793,648
Reversal of provision for the year	(101)	(55,841)
Usage	(739,596)	-
Balance at the end of the year	**63,148**	**788,446**

19. SUBORDINATED DEBT

During 2013, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 50,000 thousand. The debt carries an interest rate of 5.381% p.a. (2015: 5.59% p.a) and matures on 30 August 2018. The debt ranks after all other creditors in case of liquidation. During 2015, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 15,000 thousand. The debt carries an interest rate of 4.8% p.a. (2015: 4.962% p.a) and matures on 28 June 2020. The debt ranks after all other creditors in case of liquidation.

20. SHARE CAPITAL

The Bank's capital is equal to LEK 14,178,593 thousand comprised of 7,000 shares of nominal value 2,025,513 LEK each (2015: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each).

21. OTHER RESERVES

Other reserves comprise general reserve, created from the distribution of net profit after tax in accordance with the law No. 9901, dated 14 April 2008, "On Entrepreneurs and commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999.

22. NON-CONTROLLING INTEREST

Based on the decision of the Group's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen Leasing International Gesellschaft m.b.H, the Group has incorporated a leasing company in the Republic of Albania in the form of a joint stock company to provide leasing in accordance with the applicable Albanian legislation on Financial Leasing. Raiffeisen Leasing sh.a. principal activity is to offer finance lease to a wide range of customers.

As at 31 December 2016 the Group participates with a share of 100% (2015:75%). The place of business of Raiffeisen Leasing International Gesellschaft m.b.H is Austria. During 2016, the Bank acquired the rest of controlling rights, 25%, from Raiffeisen Leasing International Gesellschaft m.b.H. During 2016, the dividend paid to Raiffeisen Leasing International Gesellschaft m.b.H by Raiffeisen Leasing sh.a. was for an amount of Lek 15,309 thousand (2015: Lek 14,705 thousand).

The summarised financial information of Raifeisen Leasing sh.a. for the year ended 31 December 2016 and 2015 was as follows:

				2016 - Raiffeisen Leasing sh.a.				
	Current assets	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**Profit**	**Total comprehensive income**	**Cash flows**
				2016 - Raiffeisen Leasing sh.a.				
	1,493,277	2,242,921	42,388	3,290,948	275,074	56,223	56,223	1,426
Total	**1,493,277**	**2,242,921**	**42,388**	**3,290,948**	**275,074**	**56,223**	**56,223**	**1,426**
				2015 - Raiffeisen Leasing sh.a.				
	920,609	3,437,698	36,375	3,914,057	253,745	61,235	**61,235**	5,786
Total	**920,609**	**3,437,698**	**36,375**	**3,914,057**	**253,745**	**61,235**	**61,235**	**5,786**

The following table provide information in regard to present value of minimum lease payments of the finance lease receivables of Raiffeisen Leasing sh.a.

22. NON CONTROLLING INTEREST (CONTINUED)

	Minimum lease payments		Present value of minimum lease payments	
	31 Dec. 16	**31 Dec.15**	**31 Dec.16**	**31 Dec.15**
Not later than one year	1,807,955	2,189,393	1,589,830	1,926,813
Later than one year and not later than five years	1,956,566	2,244,844	1,791,805	2,018,437
Later than five years	8,583	32,028	8,431	30,428
Less unearned finance income	(383,038)	(490,587)	-	-
Present value of minimum lease payments receivable	3,773,104	4,466,265	3,390,066	3,975,678
Allowance for uncollectible lease payments	(344,686)	(345,791)	(344,686)	(345,791)
Total	**3,045,380**	**3,629,887**	**3,045,380**	**3,629,887**

23. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Loans and advances to customers	6,033,526	7,301,400
Investment securities	2,244,406	3,152,385
Bank deposits	(143,976)	25,599
Total	**8,133,956**	**10,479,384**

Interest income includes LEK 70,351 thousand (2015: LEK 34,855 thousand) interest income, recognised on impaired loans to customers.

24. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Banks	522,338	493,741
Customers	(74,766)	171,206
Repurchase agreement sold	339	-
Total	**447,911**	**664,947**

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Funds transfers	1,662,981	1,346,236
Lending activities	239,466	212,577
Other banking services	950,350	980,396
Total	**2,852,797**	**2,539,209**

26. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2016	Year ended 31 December 2015
Payments transfer business	430,223	393,575
Loan and guarantee business	46,448	10,624
Other banking services	60,924	45,198
Total	**537,595**	**449,397**

27. NET TRADING INCOME

	Year ended 31 December 2016	Year ended 31 December 2015
Income from trading securities	1,577,013	1,925,933
Foreign exchange gains	58,687	198,925
Total	**1,635,700**	**2,124,858**

28. OTHER OPERATING INCOME/ EXPENSE

Other revenues comprise income from write-offs of old dormant accounts amounting LEK 2,130 thousand (2015: LEK 9,493 thousand) and income from sale of Bank property for an amount of LEK 63,416 thousand (2015: LEK 15,689 thousand). “Other expenses” include withholding tax amounting LEK 986 thousand (2015: LEK 18,478 thousand) and provision expenses for debtors LEK 135,768 thousand (2015: LEK 0 thousand).

29. DEPOSIT INSURANCE PREMIUM

Based on Law no. 8873 “On deposit’s insurance” dated 29 March 2002, the Banks are obliged to pay a deposit insurance premium to the Deposit Insurance Agency. The premium is calculated as a percentage of the daily average deposit balances up to LEK 2,500,000 (2015: LEK 2,500,000) for individuals, for the period from October to December of the predecessor calendar year. The percentage rate applied is 0.5% per annum and payable quarterly.

30. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries	2,280,234	2,168,132
Social insurance	230,949	247,998
Other voluntary social expenses	60,234	82,858
Total	**2,571,417**	**2,498,988**

31. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended 31 December 2016 and 2015 comprise the following expenses:

	Year ended 31 December 2016	Year ended 31 December 2015
IT cost	649,102	663,525
Rent expenses	647,129	626,501
Advertising, public relations and promotional expenses	381,116	349,331
Legal, advisory and consulting expenses	373,644	363,799
Sundry administrative expenses	438,646	420,926
Car expenses	61,457	61,902
Office supplies	49,564	64,362
Communication expenses	35,512	30,509
Travelling expenses	41,474	33,362
Personnel training	36,290	-
Security expenses	11,787	7,272
Total	**2,725,721**	**2,621,489**

Consultancy and legal fees include charges for management fees totalling LEK 177,464 thousand in 2016 (2015: LEK 224,571 thousand).

32. INCOME TAX

Income tax in Albania is assessed at the rate of 15% (2015: 15%) of taxable income:

	Year ended 31 December 2016	Year ended 31 December 2015
Current tax	142,456	430,463
Deferred tax	5,232	11,359
Income tax expense for the year	**147,688**	**441,822**

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	Year ended 31 December			
	Effective tax rate	2016	Effective tax rate	2015
Profit before taxes		(4,056,059)		2,488,637
Prima facie tax calculated at 15%	15.00%	(608,409)	15.00%	373,296
Non tax deductible expenses at	0.12%	(4,930)	5.95%	148,086
Tax savings by tax-exempted income	1.02%	(41,242)	(3.2%)	(79,560)
Income tax expense	**16.14%**	**(654,581)**	**17.75%**	**441,822**

Tax expense/income for former periods in 2016 includes reversal of deferred tax expense calculated on loan loss provisions following the changes in legislation.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional

32. INCOME TAX (CONTINUED)

taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

33. FINANCIAL RISK MANAGEMENT

a) Overview

The risk management function within the Group is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and Credit Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

For risk management reporting purposes, the Group considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A consolidated Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)
b) Credit risk (continued)

- Reviewing and assessing credit risk Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to comply with Group credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Division processes are undertaken by Internal Audit.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 36. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, the Board of Directors and Bank's Credit Committee. The Group does use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.
The Group's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8,9,10.

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

c) Market risks

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity 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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

33. FINANCIAL RISK MANAGEMENT (CONTINUED)
c) Market risks (continued)

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Bank Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Exposure to foreign exchange risk
The Group is exposed to currency risk through transactions in foreign currencies. As the currency in which the Group presents it consolidated financial statements is the Albanian LEK, the Group's consolidated financial statements are affected by movements in the exchange rates between the Albanian LEK and other currencies. The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by Treasury and the Middle-office.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2016			At 31 December 2015		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Albanian LEK	119,537,347	113,211,407	6,325,940	134,733,783	115,333,623	19,400,160
US Dollars	20,368,136	15,431,666	4,936,470	20,803,426	15,180,281	5,623,145
Euros	116,358,145	106,314,125	10,044,020	122,129,907	121,285,372	844,535
Other	7,610,378	7,522,966	87,412	6,367,317	6,368,983	(1,666)
Total	**263,874,006**	**242,480,164**	**21,393,842**	**284,034,433**	**258,168,259**	**25,866,174**

The Group also prepares regularly stress tests to measure impact of exposure to foreign currency exchange rate risk. The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the presentation currency, with all other variables held constant:

	At 31 December 2016		At 31 December 2015	
In thousands of LEK	Impact on profit or loss	Monetary financial liabilities	Monetary financial assets	Monetary financial liabilities
US Dollar strengthening by 10% (2015: strengthening by 10%)	(2,531)	(2,531)	411	411
US Dollar weakening by 10% (2015: weakening by 10%)	2,531	2,531	(411)	(411)
Euro strengthening by 10% (2015: strengthening by 10%)	1,358,478	1,358,478	640,759	640,759
Euro weakening by 10% (2015: weakening by 10%)	(1,358,478)	(1,358,478)	(637,180)	(637,180)
Other strengthening by 10% (2015: strengthening by 10%)	6,415	6,415	(374)	(374)
Other weakening by 10% (2015: weakening by 10 %)	(6,415)	(6,415)	374	374

33. FINANCIAL RISK MANAGEMENT (CONTINUED)
c) Market risks (continued)

Exposure to interest rate risk

The Group 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. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

If interest rates had been 100 basis points lower (2015: [100] basis points lower, with all other variables held constant, profit would have been LEK 1,753,661 thousand (2015: LEK 751,881 thousand) higher. If interest rates had been 100 basis points higher (2015: [100] basis points higher), with all other variables held constant, profit would have been LEK 2,223,248 thousand (2015: LEK 414,300 thousand) lower.

2016	**up to 1 Year scenarios**	
	100 bp	100 bp
	Decrease	Increase
Estimated Profit (loss) effect	1,753,661	(2,223,248)

2015	**up to 1 Year scenarios**	
	100 bp	100 bp
	Decrease	Increase
Estimated Profit (loss) effect	751,881	(414,300)

Overall interest rate risk positions are managed by Treasury, which uses investment securities, advances to Groups and deposits from Groups to manage the overall position arising from the Group's trading and non-trading activities.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)
c) Market risks (continued)

At 31 December 2016

	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	57,046,334	-	-	-	-	-	57,046,334
Restricted balances	21,628,345	-	-	-	-	-	21,628,345
Investments held for trading	30	1,729,254	1,641,805	746,283	10,081,603	-	14,198,975
Held-to-maturity investment securities	16,152,996	4,574,205	11,376,216	17,260,653	28,469,412	-	77,833,482
Other securities designated at fair value through profit or loss	-	-	-	-	2,528,780	-	2,528,780
Loans and advances to customers	17,059,529	16,602,25	19,429,815	39,028,182	5,740,753	(7,268,592)	90,591,932
Total	**111,887,234**	**22,905,704**	**32,447,836**	**57,035,118**	**46,820,548**	**(7,268,592)**	**263,827,848**
Liabilities							
Due to banks and financial institutions	4,329,408	-	-	-	-	-	4,329,408
Due to customers	170,154,752	12,200,230	8,942,118	37,002,521	927,154	-	229,226,775
Other liabilities	2,335,040	10,232	38,208	-	-	-	2,383,480
Subordinated capital	-	-	-	-	8,965,577	-	8,965,577
Total	**176,819,200**	**12,210,462**	**8,980,326**	**37,002,521**	**9,892,731**	-	**244,905,240**
Gap at 31 December 2016	**(64,931,966)**	**10,695,242**	**23,467,510**	**20,032,597**	**36,927,817**	**(7,268,592)**	**18,922,608**

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2015

	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	77,936,475	120,000	-	-	-	-	78,056,475
Restricted balances	28,632,318	-	-	-	-	-	28,632,318
Investments held for trading	160	557,108	1,217,541	3,859,968	15,363,266	-	20,998,043
Held-to-maturity investment securities	3,981,088	6,920,289	5,844,383	15,569,095	19,640,303	-	51,955,158
Other securities designated at fair value through profit or loss	-	-	-	450,310	2,973,548	-	3,423,858
Loans and advances to customers	11,883,652	15,492,645	15,628,060	56,446,880	2,389,827	(944,367)	100,896,697
Total	**122,433,693**	**23,090,042**	**22,689,984**	**76,326,253**	**40,366,944**	**(944,367)**	**283,962,549**
Liabilities							
Due to banks and financial institutions	2,232,929	-	-	-	-	-	2,232,929
Due to customers	151,013,799	21,012,189	16,423,649	56,218,299	2,116,869	-	246,784,805
Other liabilities	1,941,971	9,303	-	-	-	23,809	1,975,083
Subordinated capital	-	-	-	-	9,107,088	-	9,107,088
Total	**155,188,699**	**21,021,492**	**16,423,649**	**56,218,299**	**11,223,957**	**23,809**	**260,099,904**
Gap at 31 December 2015	**(32,755,006)**	**2,068,550**	**6,266,335**	**20,107,954**	**29,142,987**	**(968,176)**	**23,862,644**

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and severe market or internal conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Groups and other inter-Group facilities, to ensure that sufficient liquidity is maintained within the Group. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

The following table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity, while financial assets are shown at their carrying amount. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)
(d) Liquidity risk (continued)

							At 31 December 2016
	Up to 1 month	**1 to 3 Months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	57,046,334	-	-	-	-	-	57,046,334
Restricted balances	21,628,345	-	-	-	-	-	21,628,345
Investments held for trading	30	1,729,254	1,641,805	746,283	10,081,603	-	14,198,975
Held-to-maturity investment securities	16,152,996	4,574,205	11,376,216	17,260,653	28,469,412	-	77,833,482
Other securities designated at fair value through profit or loss	-	-	-	-	2,528,780	-	2,528,780
Loans and advances to customers	18,239,464	13,362,057	11,592,586	22,109,513	45,079,096	(19,790,784)	90,591,932
Total	**113,067,169**	**19,665,516**	**24,610,607**	**40,116,449**	**86,158,891**	**(19,790,784)**	**263,827,848**
Liabilities							
Due to banks and financial institutions	4,329,408	-	-	-	-	-	4,329,408
Due to customers	170,154,752	12,200,230	8,942,118	37,002,521	927,154	-	229,226,775
Other liabilities	2,335,040	10,232	38,208	-	-	-	2,383,480
Subordinated capital	-	-	-	461,202	9,287,323	-	9,748,525
Total	**176,819,200**	**12,210,462**	**8,980,326**	**37,463,723**	**10,214,477**	**-**	**245,688,188**
Guarantees and commitments	2,020,040	3,705,018	2,599,321	5,456,213	8,728,289	-	22,508,881
Liquidity risk at 31 December 2016	**(65,772,071)**	**3,750,036**	**13,030,960**	**(2,803,487)**	**67,216,125**	**(19,790,784)**	**(4,369,221)**
Cumulative	**(65,772,071)**	**(62,022,035)**	**(48,991,075)**	**(51,794,562)**	**15,421,563**	**(4,369,221)**	**-**

33. FINANCIAL RISK MANAGEMENT (CONTINUED)
(d) Liquidity risk (continued)

At 31 December 2015

	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	77,936,475	120,000	-	-	-	-	78,056,475
Restricted balances	28,632,318	-	-	-	-	-	28,632,318
Investments held for trading	160	557,108	1,217,541	3,859,968	15,363,266	-	20,998,043
Held-to-maturity investment securities	3,981,088	6,920,289	5,844,383	15,569,095	19,640,303	-	51,955,158
Other securities designated at fair value through profit or loss	-	-	-	450,310	2,973,548	-	3,423,858
Loans and advances to customers	14,316,695	12,698,772	7,832,025	33,490,404	46,272,856	(13,714,055)	100,896,697
Total	**124,866,736**	**20,296,169**	**14,893,949**	**53,369,777**	**84,249,973**	**(13,714,055)**	**283,962,549**
Liabilities							
Due to banks and financial institutions	2,232,929	-	-	-	-	-	2,232,929
Due to customers	151,013,799	21,012,189	16,423,649	56,218,299	2,116,869	-	246,784,805
Other liabilities	1,941,971	9,302	-	-	-	170,611	2,121,884
Subordinated capital	-	-	-	-	9,107,088	-	9,107,088
Total	**155,188,699**	**21,021,491**	**16,423,649**	**56,218,299**	**11,223,957**	**170,611**	**260,246,706**
Guarantees and commitments	**1,175,595**	**1,623,309**	**1,798,917**	**8,868,863**	**12,164,492**	**-**	**25,631,176**
Liquidity risk at 31 December 2015	**(31,497,558)**	**(2,348,631)**	**(3,328,617)**	**(11,717,385)**	**60,861,524**	**(13,884,666)**	**(1,915,333)**
Cumulative	**(31,497,558)**	**(33,846,189)**	**(37,174,806)**	**(48,892,191)**	**11,969,333**	**(1,915,333)**	**-**

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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 Group 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 Group 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 Group.

34. CAPITAL MANAGEMENT

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of Albania and (ii) to safeguard the Group's ability to continue as a going concern.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23 December.1997 "On the Bank of Albania", and "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and off balance-sheet items, expressed as a percentage. The minimum required Capital Adequacy Ratio is 12%.

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and off balance-sheet items, expressed as a percentage. The minimum modified capital adequacy ratio is 6%.

34. CAPITAL MANAGEMENT (CONTINUED)

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 100%, 150%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Premises and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

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

	31 December 2016	**31 December 2015**
Total risk weighted assets	132,853,009	142,371,584
Regulatory capital	22,570,748	25,295,831
Capital adequacy ratio	**16.99 %**	**17.77%**

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the 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.

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

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

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Management Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capital, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased beyond a limit of Lek 1,250,000 thousand. As at 31 December 2016 and 2015, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2016 and 2015, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

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

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

35. UNCONSOLIDATED STRUCTURED ENTITIES

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension fund and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2016 consolidated financial statements. Information about unconsolidated structured entities is as follows:

	Year ended 31 December 2016	At 31 December 2016		
	Income from the structured entity for the year	**Carrying amount of assets of the structured entity**	**Carrying amount of liabilities of structured entity**	**Net assets of the structured entity**
In thousands of LEK				
Prestige Fund	705,393	51,823,002	155,692	51,667,310
Pension Fund	5,545	416,490	4,283	412,208
Euro Fund	197,145	13,634,995	28,560	13,606,434
Total	**908,083**	**65,874,487**	**188,535**	**65,685,952**

36. CONTINGENCIES AND COMMITMENTS

			31 December 2016	31 December 2015
	LEK	**Foreign currency**	**Total**	**Total**
Contingent liabilities				
Bank Guarantees issued	1,261,112	6,782,191	8,043,303	9,907,078
Letters of Credit	-	1,906,145	1,906,145	2,763,180
Unused credit lines	3,867,341	7,205,139	11,072,480	11,936,975
Total	**5,128,453**	**15,893,475**	**21,021,928**	**24,607,233**

Most of the above bank guarantees and letters of credit are for periods of less than one year and are collateralized by customer escrow deposits.

Operating lease commitments

The Bank has entered into non-cancellable operating lease commitments for the Head Office and the branches. Such commitments as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Not later than 1 year	336,286	360,779
Later than 1 year and not later than 5 years	769,681	915,602
Total	**1,105,967**	**1,276,381**

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Level 3 inputs includes information derived through extrapolation or interpolation that cannot be directly corroborated by observable market data. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2016 are as follows:

		2016		
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Loans to banks	-	15,298,756	18,195,896	**33,494,652**
Loans to customers	-	-	110,038,031	**110,038,031**
Trading Assets	-	14,198,975	-	**14,198,975**
Financial Investments	-	78,111,054	-	**78,111,054**
Other securities designated at fair value through profit or loss	-	6,841,526	-	**6,841,526**
Due to banks and financial institutions	-	22,616	4,306,792	**4,329,408**
Due to customers	-	-	229,165,584	**229,165,584**
Subordinated Debt	-	8,965,577	-	**8,965,577**
Guarantees and commitments	-	131,825	22,312,147	**22,443,972**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2015 are as follows:

		2015		
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Loans to banks	-	30,064,621	29,376,864	**59,441,485**
Loans to customers	-	-	100,896,697	**100,896,697**
Trading Assets	-	20,998,043	-	**20,998,043**
Financial Investments	-	52,522,296	-	**52,522,296**
Other securities designated at fair value through profit or loss	-	6,841,526	-	**6,841,526**
Due to banks and financial institutions	-	4,811	2,228,118	**2,232,929**
Due to customers	-	-	246,794,215	**246,794,215**
Subordinated Debt	-	9,107,088	-	**9,107,088**
Guarantees and commitments	-	1,639,967	22,967,266	**24,607,233**

37 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Cash and cash equivalents
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.

Investment securities
Investment securities include treasury bills and government bonds. The fair value for these investment securities has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. Held to maturity financial assets are classified as level 2 instruments because the market for these bonds is currently less active.

Loans and advances to customers
The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to either their short term nature or underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Loans and advances banks and financial institutions/ Due to banks and financial institutions
The estimated fair value of loans and advances and due to banks and financial institutions have an estimated fair value which approximates their carrying amount because of either their short-term nature and underlying interest rates, which approximate market rates.

Due to customers
The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand.

Subordinated debt
The estimated fair value of subordinated debt has an estimated fair value which approximates its carrying amount because of its underlying interest rate, which approximate market rates.

Guarantees and commitments
The estimated fair value of guarantees and commitments, mostly comprise the unamortised premiums received for issuing the guarantees.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016 was as follows:

In thousands of LEK	**Fair value**	**Valuation technique**	**Inputs used**
FINANCIAL Assets at Fair Value			
Trading securities			
Albanian treasury bills	89,718	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")
Albanian government bonds	14,106,796	DCF	Government bonds yield curve("TBonds")
Other securities designated at fair value through profit or loss			
Albanian government bonds	2,528,780	DCF	Tbonds

37 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015 was as follows:

In thousands of LEK	**Fair value**	**Valuation technique**	**Inputs used**
FINANCIAL Assets at Fair Value			
Trading securities			
Albanian treasury bills	1,932	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")
Albanian government bonds	20,996,111	DCF	Government bonds yield curve("TBonds")
Other securities designated at fair value through profit or loss			
Albanian government bonds	3,423,858	DCF	Tbonds

38. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2016:

	Loans and receivables	**Other securities designated at fair value**	**Trading assets**	**Held to maturity**	**Total**
Assets					
Cash and cash equivalents	57,046,334	-	-	-	57,046,334
Restricted balances	21,628,345	-	-	-	21,628,345
Investments held for trading	-	-	14,198,975	-	14,198,975
Other securities designated at fair value through profit or loss	-	2,528,780	-	-	2,528,780
Held-to-maturity investment securities	-	-	-	77,833,482	77,833,482
Loans and advances to customers	90,591,932	-	-	-	90,591,932
Finance lease receivables	3,045,381	-	-	-	3,045,381
Total financial assets	**172,311,992**	**2,528,780**	**14,198,975**	**77,833,482**	**266,873,229**

38. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2015:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	78,056,475	-	-	-	78,056,475
Restricted balances	28,632,318	-	-	-	28,632,318
Investments held for trading	-	-	20,998,043	-	20,998,043
Other securities designated at fair value through profit or loss	-	3,423,858	-	-	3,423,858
Held-to-maturity investment securities	-	-	-	51,955,158	51,955,158
Loans and advances to customers	97,266,811	-	-	-	97,266,811
Finance lease receivables	**3,629,886**	**-**	**-**	**-**	**3,629,886**
Total financial assets	**207,585,490**	**3,423,858**	**20,998,043**	**51,955,158**	**283,962,549**

As of 31 December 2016 and 31 December 2015, all of the Group's financial liabilities except for derivatives were carried at amortised cost.

39. RELATED PARTIES

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank has a related party relationship with Raiffeisen International AG, Raiffeisen Zentralbank Osterreich Aktiengesellshafft, with fellow subsidiaries and its subsidiaries Raiffeisen Leasing sh.a. and Raiffesien Invest sh.a., and with its directors and executive officers.

The Group lends to and received deposits from other related entities. Such loans and deposits are individually insignificant and are generally entered into on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	31 December 2015	31 December 2014
Amounts due from:		
Immediate parent company	6,756,474	19,575,831
Other related parties	13,698,919	84,904
Assets total	**20,455,393**	**19,660,735**
Amounts due to:		
Immediate parent company	(9,059,028)	(9,169,088)
Other related parties	-	(12,320)
Liabilities total	**(9,059,028)**	**(9,181,408)**

	Year ended 31 December 2016	Year ended 31 December 2015
Net interest expense		
Immediate parent company	(531,564)	(494,862)
Other related parties	10,930	27,351
Total net interest expenses	**(520,634)**	**(467,511)**
Net fee and commission expense		
Immediate parent company	(52,718)	(36,461)
Other related parties	(128,520)	(157,103)
Total net fee and commission expense	**(181,238)**	**(193,564)**
Operating expenses		
Immediate parent company	(469,300)	(448,215)
Other related parties	(3,349)	(3,086)
Total operating expenses	**(472,649)**	**(451,301)**
Grand Total	**(1,174,521)**	**(1,112,376)**

Included in amounts due to Immediate parent is the Subordinated debt, which is detailed in note 19.

Key management personel

The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

	2016	2015
Statement of financial position		
Amounts due from	158,415	214,363
Amounts due to	(112,043)	(122,513)
Net balances due (to)/from	**46,372**	**91,850**

Statement of comprehensive income		
Wages, salaries and bonuses	(262,512)	(293,899)
Total	**(262,512)**	**(293,899)**

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events after the reporting date that may require either adjustment or disclosure in the consolidated financial statements.

THE 24 HOUR
DAY CYCLE
HAS DAY
AND NIGHT
AS PROCESSES
THAT CONFINE
YET REGENERATE
EACH-OTHER

7

Raiffeisen Leasing in Albania

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

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

Raiffeisen Leasing Sh.a. has been established for the purpose of enhancing and promoting leasing activities in Albania, and at the same time extending the range of services of Raiffeisen Banking Group in this market. The share capital is registered in Albanian Lek. From October 10, 2016, Raiffeisen Bank Sh.a. is the unique shareholder of Raiffeisen Leasing Sh.a.

During year 2016, Raiffeisen Leasing Albania, maintained its high ranking and further strengthen its position as number one leader in the Albanian leasing market.

The value of new business in 2016 amounted to € 9.7million, of which € 8,7 million were used for vehicle financing, and € 1 million for equipment.

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

Main new business is done with corporate customers 50 per cent, with SE customers 19 per cent, and with Micro customers is done 14 per cent of the business, and the rest 17 per cent is done with Individual customers.

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

2016 was another year of challenges for the Albanian automotive market, where the number of new vehicles sold slightly surpassed 2,000 units. The economic crisis in the neighboring countries and the Albanian legislation, favors the importing of second hand cars, which reflects in the performance of new vehicle market.

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

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

At the end of 2016, Raiffeisen Leasing had 19 employees, providing their clients with prompt and highly qualified services.

Raiffeisen Leasing publishes a wide range of printed and electronic materials on its website: www.raiffeisen-leasing.al. During 2016, Raiffeisen Leasing has launched marketing campaigns, mainly basing on policies and marketing activities of local concessionaires as our key business partners.

We would like to use this opportunity to thank our clients and business partners for the excellent cooperation in 2016 and especially for the trust they laid in us. We are also especially grateful to our employees for their commitment and efforts expressing our deep conviction that Raiffeisen Leasing team will be able to keep its strong market position in 2017 as well.

Prospect 2017

Thanks to our high professional standards and expertise of the Group which proved to be very strong even in difficult times, Raiffeisen Leasing Sh.a will be in position to actively support the business and investment plans of its clients in 2017 as well, by offering financing of vehicles and equipment. We will stay fully committed to further development of long-lasting cooperation with our clients and dealers and will continue to proactively respond to their needs by developing our range of products and services.

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

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

THE BEST
NEW
METHODS
HAVE FLAWS
BECAUSE
IF NOT
THEY
WOULD BE
ALREADY
OLD

8

Raiffeisen INVEST Sh.a

About Raiffeisen INVEST Sh.a

During 2016, Raiffeisen INVEST Sh.a remained the leading asset management company in the Albanian financial market with a clear focus on investor care and implementation of best asset management practices. The strategic objective of Raiffeisen INVEST is the promotion of the funds for the broad mass of investors, oriented toward sustainable growth and the development of the investment funds and voluntary pension funds market in general. Raiffeisen INVEST aims to offer the highest level of transparency to its investors and public education on capital markets in Albania.

At the beginning of 2016, the Financial Supervisory Authority licensed a second asset management company for pension and investment funds in Albania and this fact marked a positive development in the further consolidation of the investment funds market.

The assets under management of Raiffeisen INVEST recognized a slight decrease compared to the previous year but nevertheless exceeded the value of € 485 million, while the number of those who trusted our company to manage their assets was 29,200 investors for investment funds and 2,653 investors for the Voluntary Pension Fund. The highest increase in assets of 33 per cent was recorded for the Fund in Euro, while Prestigj Fund recorded a decrease in assets, however generating excellent performance throughout the year 2016. In a financial environment with very low interest rates, domestic investors continued to show interest in investment funds, which offer to the public the opportunity to invest their savings in Lek and Euro in a profitable way, and at the same time opportunities for diversifying the financial portfolio out of the spectrum of banking products. Investment funds are also an investment option that is carried out through a simple and comfortable process for anyone and provide liquidity at all times, as well as professional financial management.

Voluntary Pension Fund assets increased by 27 per cent and the company added efforts to promote the Pension Fund in the form of individual and professional pension plans. In the framework of the World Bank project for the expansion of the private pension system in Albania, information sessions with various local companies, independent employment advisors and the media were held with the aim to increase participation in a private pension fund, which serves as an efficient mechanism for increased retirement income through increased savings during the years of contribution.

Fund Performance

More specifically, during 2016 our funds generated the following net performance (after management fee is deducted):

- Raiffeisen Voluntary Pension Fund: 6.97 %
- Raiffeisen Prestige Fund: 7.13 %
- Raiffeisen Invest Euro Fund: 3.90 %

Despite a low interest rates environment in 2016, in both domestic and international markets, Raiffeisen INVEST managed to provide strong performance for all funds under management.

For both investment funds and the voluntary pension fund, a prudent investment policy has been implemented, combining an effective risk management with the effective asset allocation, aiming for a satisfactory return for fund investors. Investment portfolios are adjusted in accordance with this objective and in line with market developments, based on a careful selection of financial instruments. Depending on the fund, assets are invested in various financial instruments in Lek and Euro, in the Albanian market and / or in international markets.

Social Responsibility

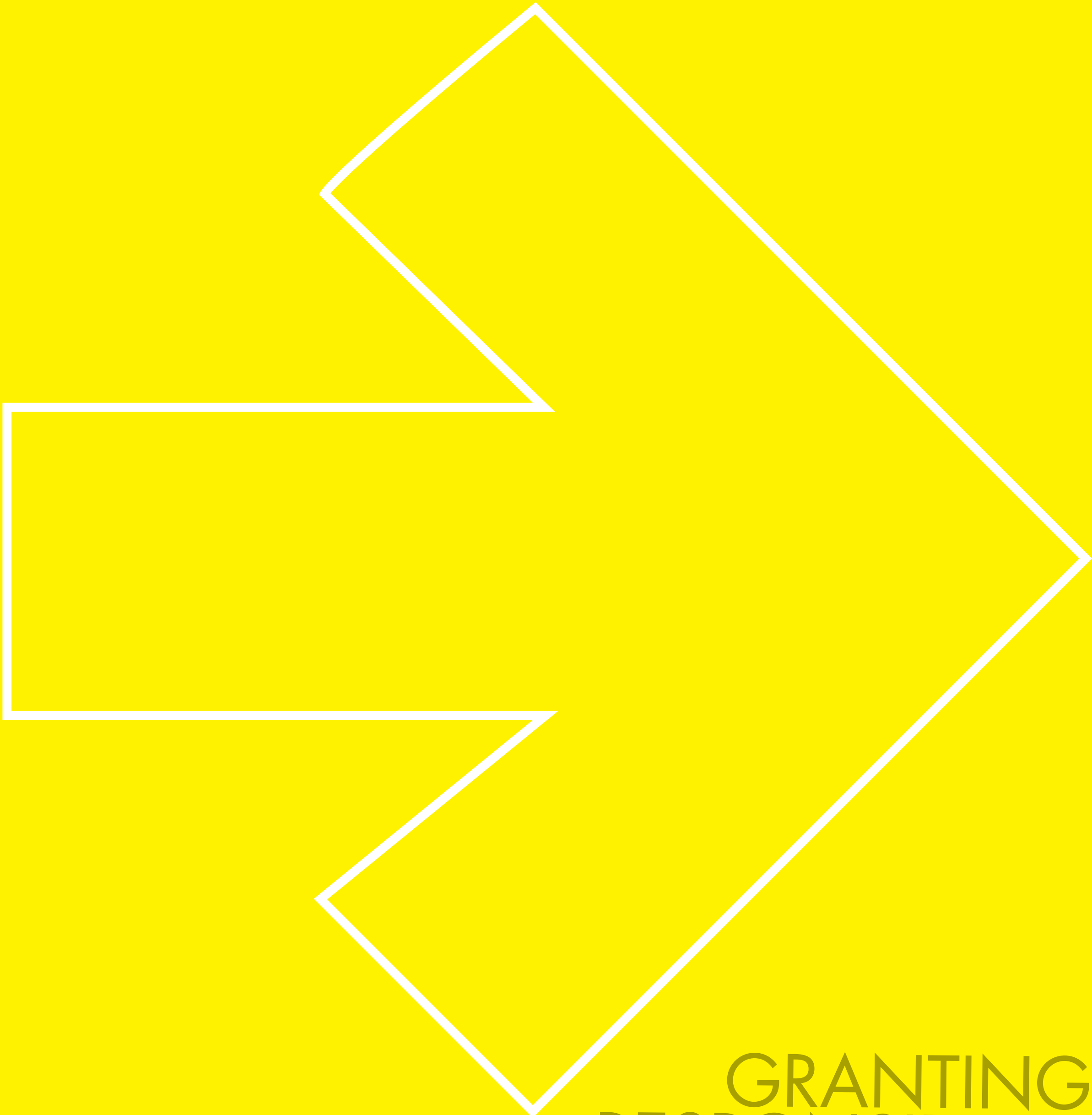
In addition to the strong growth of assets under management and number customers, Raiffeisen INVEST made an important contribution to the Albanian society and economy, through its sponsorship program which was executed in close cooperation with Raiffeisen Bank Albania. This program consisted in substantial donations to charitable organizations, not-for-profit institutions and various public projects which were aimed at improving the social and economic lives of the Albanian citizens.

2017 Outlook

2017 will be another challenging year for the Albanian economy and the financial market as a whole. Low interest rates and high level of liquidity in the domestic financial market may be an indicator for the increase of crediting and consequently of the economic activity in general, although it may be conditioned by political developments in the country.

The euro area economy is also expected to continue its positive performance and ultimately emerge from the deflationary environment of recent years. However, the economy will continue to be affected by the implications of Brexit, and political elections in many important EU countries.

Raiffeisen INVEST will continue to focus on the growth of its assets under management with the ultimate objective of improving the financial performance of the company and its investors. The high quality of service for our funds investors, the continuing public education on financial markets, and generating a satisfactory performance of current funds will be the top priorities of our business. Raiffeisen INVEST will continue to increase its efforts and initiatives to contribute to the development of the capital market in Albania as well as to the expansion of the private pension market, already supported by the appropriate fiscal incentives.



GRANTING
RESPONSIBILITY
IS A SIGN
OF TRUST
AND TRUST
MEANS
CLOSENESS

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Raiffeisen Bank International at a glance

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in CEE, where today it maintains a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. In CEE, at the end of 2016, around 46,000 RBI employees served some 14.1 million customers in around 2,500 business outlets. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and large multinational corporate customers operating in CEE. All in all, RBI employs about 49,000 people and has total assets of approximately € 112 billion.

Raiffeisen Zentralbank Österreich (RZB AG) was established in 1927 as “Girozentrale der österreichischen Genossenschaften” and at that time served as the liquidity balancing center for Austria’s agricultural cooperatives, as envisioned by social reformer Friedrich Wilhelm Raiffeisen.

RZB AG had one of the largest banking networks in CEE through its subsidiary, Raiffeisen Bank International (RBI AG), which has been listed on the stock exchange since 2005. At the end of 2016, RZB AG held approximately 60.7 per cent of RBI’s stock, with the remaining shares in free float. RZB AG was primarily owned by the eight Raiffeisen regional banks and served as their central institution pursuant to the Austrian Banking Act (BWG). Following the merger between RZB AG and RBI AG, effective retroactively as of 30 June 2016, RBI AG will assume the role of RBG’s central institution by way of universal succession.

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