Raiffeisen Bank Albania

Annual Report 2018

Contents

Report of the Board of Directors	144
Message from the Ceo	145
Mission	146
Perspectives and Plans for 2019	147
Report of the Management Board	148
Economic Developments	148
Financial Results	149
Risk Appetite / Tolerance Statement	153
Segment Reports	154
Corporate Segment	154
Small Enterprises segment (Small Enterprises)	154
Corporate and SE products Division	155
Retail Banking	157
Customer Segment Development	157
Product Management Division	158
Card Business and Electronic Banking Division	159
Distribution Channels	161
Treasury and Investment Banking	162
Fix income	162
Money Market	162
Foreign currency exchange	163
Treasury sales	163
Corporate Social Responsibility	164
Human Resources & Training	165
Independent Auditor's Report	170
Raiffeisen Leasing	264
About Raiffeisen Invest A.C	266
Raiffeisen Bank International at a Glance	268
Rbal Network	269
Rbi Address	270

Egon Lerchster
Board Member CIO/COO

Elona Mullahi (Koçi)
Board Member Corporate & SE

Alexander Zsolnai
Vice-chairman of the MB

Christian Canacaris
Chief Executive Officer

John McNaughton
Board Member Retail

MANAGEMENT BOARD

of Raiffeisen Bank Sh.a

Report of the Board of Directors

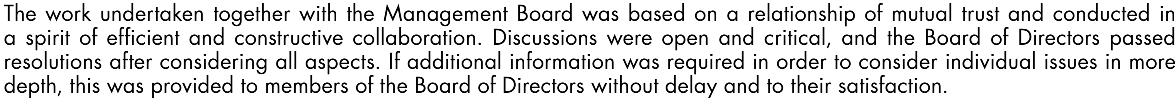
Ladies and Gentlemen,

2018 was another successful year for Raiffeisen Bank. It continued to demonstrate solid financial results and achieved a Net Profit After Tax of € 27.48 milion. The Bank also improved on a wide range of other Key Performance Indicators compared to 2017.

In the 2018 financial year, the members of the Board of Directors held four ordinary meetings. The overall attendance rate for Board of Directors meetings in the 2018 financial year was around seventy per cent. In the period between meetings, the Board of Directors adopted decisions per-rollam when necessary.

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

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



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

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

I would like to take this opportunity to thank all of employees of Raiffeisen Bank sh.a. for their hard work and unwavering efforts in 2018, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Board of Directors,

Peter Lennkh,
Chairman of the Board of Directors

Message from the CEO

The 2018 financial year was a very positive year for Raiffeisen Bank in Albania, with very good results in all performance indicators. In particular, the retail loans grew to a total of approximately € 280 million, increasing our presence in the retail loan market by reaching 19.6 per cent of market share.

We took our digital transformation to a new level during 2018. Raiffeisen ON, our new digital banking platform was a big milestone paving the way towards a full omni-channel experience for our customers and serving as one of the important bridges between the digital and physical banking world. Raiffeisen ON has been enriched with many new functionalities that have made real-time banking easier and more convenient for our customers. We also introduced online lending, becoming the first bank in the market that provides personalized lending offers for their customers.

In 2018, the number of customers that subscribed to Raiffeisen ON increased substantially, resulting in 21 per cent individual banking customers and 34 per cent micro businesses becoming regular users of our digital services. We continued to have the widest branches and ATM network in the country and have further extended our services with self service zones located in main branches to offer cash and non-cash transactions 24/7.

In addition, the wide range of products and tailored services offered to relationship customers and improving the response time continued to be an ongoing focus for all corporate segments. These efforts were reflected in an increase of 16 per cent of the lending base in 2018, as well as in the volume of new assets disbursed which represented a growth by 87 per cent compared to 2017.

We continued to focus on improving and expanding the range of services and products which we provide to our customers. Our branches have been modernized with high standard infrastructure , where the customers are served by our highly trained staff. By this we want to to fulfill our goal of always offering excellent service to our customers.

Furthermore, Raiffeisen Leasing Sh.a. continued to be the favorite choice for companies and individuals who wanted to finance machinery, equipment, productions lines, vehicles and cars. Raiffeisen Leasing Sh.a maintained its high ranking in 2018 and could further strengthen its position as number one in the Albanian leasing market.

Additionally, Raiffeisen INVEST Sh.a remained the leading asset management company on the Albanian financial market with a clear focus on investor care and implementation of best asset management practices. During 2018 Raiffeisen INVEST successfully launched the third investment fund "Raiffeisen Vizion" by offering another investment alternative in Albanian lek, mostly focused on long-term investments with a higher level of potential risk and return.

We expect 2019 to be another succesful year for the bank. We will celebrate the 15th anniversary of Raiffeisen Bank in Albania and will continue to contribute to the country's economy. Through our continuous digital transformation we aim at bringing the most innovative products and services to our customers in order to make banking more convenient for them.

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 2018. With the commitment of our well-trained employees, we will continue to offer an excellent service for our corporate, SE and Individual customers, so that Raiffeisen Bank Sh.a will be the bank of first choice in the domestic banking sector.

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 2019

Raiffeisen Bank plans to continue its development and further contibute in country's economy. We will continue to focus on all our customer segments: Retail, Micro, SE and Corporate by investing in products, services and new technology as well as offering the highest customer service standard.

In the framework of our continuous digital transormation, will continue to be the most advanced bank in the country, by investing in the digital platform and bringing new features, in order to offer the latest developments to our customers and make banking easier for them. In this context, we will introduce the Chatbot service that aims to simplify the exchange of information, with the possibility to ask any question regarding the products and services of the bank. In addition, we will introduce new digital payment solutions like KUIK and QR payments application and continue to be the leading bank in innovation.

In addition, the quality of customer service in all our segments will continue to be a priority. Retail Segment will continue to focus in offering the customers the best products and services in the market like consumer loans, digital banking services, etc.

Furthermore, 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 continue to be a priority also for these segments.

We will continue to focus on the training and development of our employees, in order to achieve the highest standards of customer service. At the same time, will continue to improve the branch network in line with our digital transformation in order to maintain modern and customer friendly branches.

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 2019 as well.

We remain fully committed to meet the banking requirements and providing high quality service at every touchpoint with our customers. We will do our best to remain their first choice as a banking partner.
Management Board
Raiffeisen Bank Sh.a

Management Board
Raiffeisen Bank Sh.a

Christian Canacaris	**Alexander Zsolnai**	**John McNaughton**	**Elona Mullahi (Koçi)**	**Egon Lerchster**
Chief Executive Officer	Vice-chairman of the MB	Board Member Retail	Board Member Corporate & SE	Board Member CIO/COO

Report of the Management Board

Economic Developments

The economy continued to grow in 2018, marking an acceleration of 4.35 per cent on average in the first three quarters, compared to 3.84 per cent in 2017. Strengthening of the economic growth in 2018 was mainly driven by the expansion of consumption and investments, and the growth of Albanian exports. Industry and Services have the major contribution in the expansion of economic output in 2018, and in particular electricity production that was favored by the appropriate climate conditions. The economy is expected to maintain high growth of 3.8 per cent in 2019, on the back of domestic demand encouraged by favorable financing conditions.

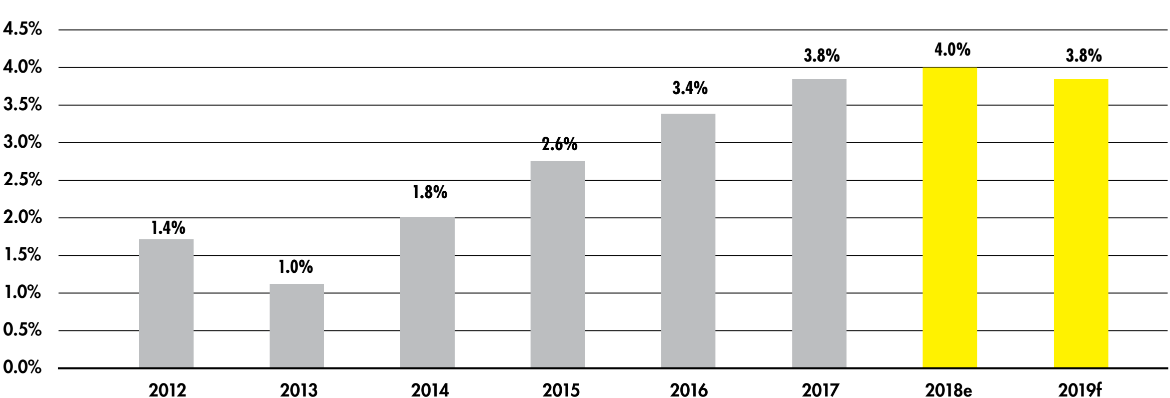
The average inflation resulted at 2.0 per cent in 2018, remaining at the same level as in 2017 but far from the Bank of Albania target for inflation of 3.0 per cent. The appreciation of the exchange rate throughout 2018 brought downward inflationary pressures. For this reason, in June 2018, the Bank of Albania lowered the key interest rate to 1.0 per cent from 1.25 per cent it was, and decided to temporarily intervene in the foreign exchange market to buy foreign currency surplus. Average inflation is expected to remain under target even during 2019, not exceeding the 2.0 per cent, thus monetary policy is not expected to lower the monetary stimulus intensity by at least the end of the second quarter of 2019.

The labor market dynamics have continued to improve during the course of 2018. The unemployment rate declined by 1.1 per centage points, marking 12.3 per cent at the end of 2018. Employment increased by 3.0 per cent during 2018 in annual average terms and sectors that increased more employment were services and industry while agriculture marked lower growth rates.

Fiscal consolidation continued in 2018, where the budget deficit amounted to € 214 million, remaining under the budget plan due to non-realization of both revenues and budget expenditures. Revenues and budget expenditures increased respectively by 4.4 per cent and 3.1 per cent year-on-year in 2018. The trend of the debt-to-GDP ratio over GDP continued to be in downward tendency even in 2018. By the end of 2018, public debt to GDP dropped to 67.2 per cent from 70.0 per cent of GDP in 2017. The fiscal consolidation policy is expected to continue in 2019 and the public debt ratio to decline further.

The external position of the country improved in the first nine-month period of 2018, as the current account deficit reached € 493 million, narrowing by 11.3 per cent compared to the same period previous year. Exports of goods and services grew by 11.6 per cent year-on-year in January-September 2018, where service exports grew by 7.9 per cent, mainly due to good tourism performance, and exports of goods grew significantly by 25.7 per cent in this period. At the end of September 2018, FDI (foreign direct investment) inflows reached € 757.8 million with annual growth of 11.6 per cent, thus fully financing the current account deficit. Remittances amounted to € 500.4 million by September 2018, indicating an increase of 8.0 per cent compared to the previous year.

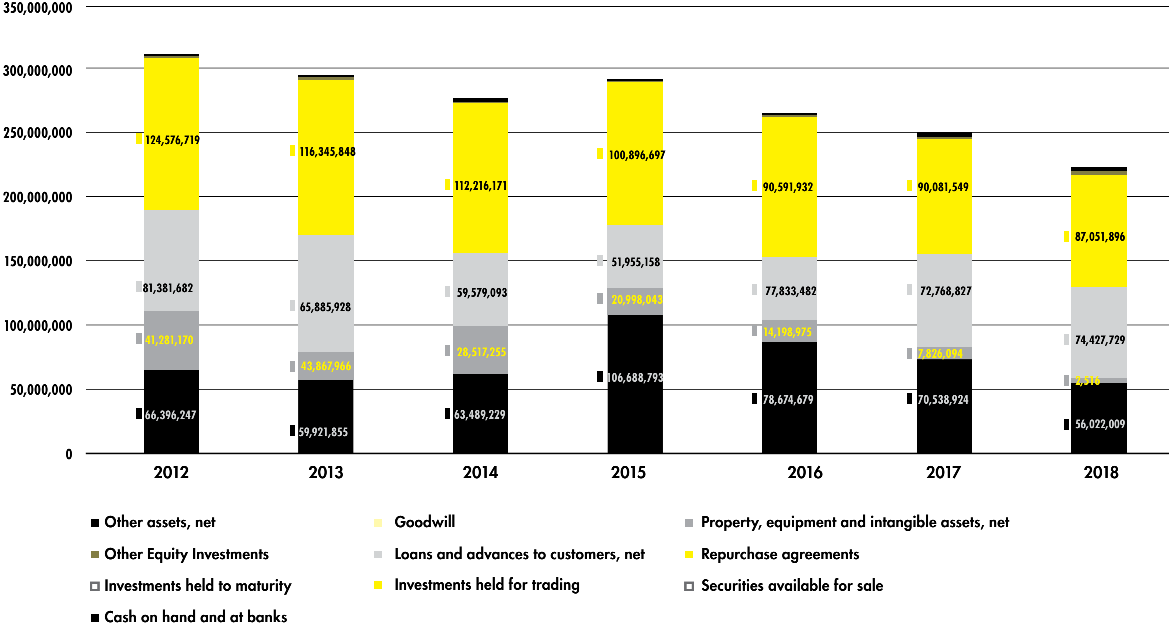
The overall activity of the banking sector marked a slight annual growth of assets by only 0.5 per cent in 2018 (2.7 per cent in 2017). Loan stock marked a negative annual growth of 3.4 per cent at the end of 2018, driven by exchange rate appreciation and the write-off process. Looking ahead to 2019, the lending prospect is positive based on the expected economic growth at 3.8 per cent and improved non-performing loans level. By the end of 2018, the level of non-performing loans fell to 11.1 per cent of total loans from 13.2 per cent in 2017. The implementation of measures taken to reduce non-performing loans, including improvements in restructuring and cleaning balances of banks from lost loans have positively impacted to reduce the level of bad loans. The banking system closed the year 2018 in good financial performance, reaching a net profit of € 149 million. The banking system remained liquid and well capitalized in 2018, with a capital adequacy ratio above the required minimum of 12.0 per cent.



Financial Results

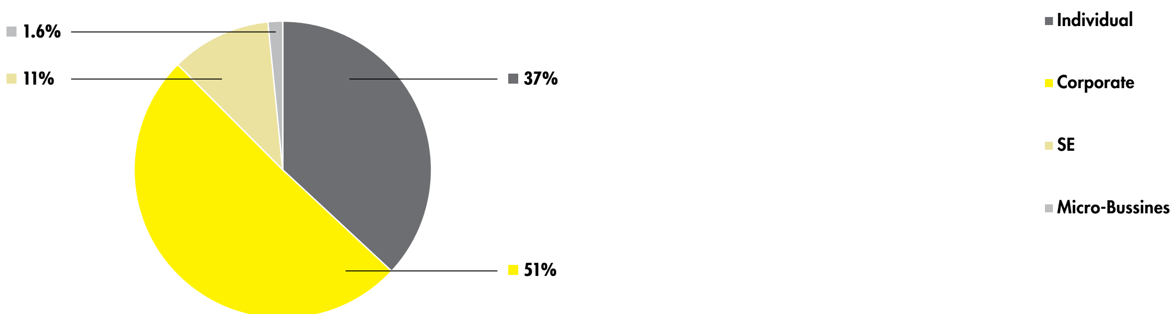
Total assets at the end of 2018 were ALL 223,180 million (2017: ALL 250,455 million). The loan book at the end of 2018 represented 39 per cent (2017: 36 per cent) of the Bank's total assets. The investments in securities represented nearly 33 per cent of it in 2018 (2017: 33 per cent).

Structure of Balance Sheet Assets
(in '000 LEK)



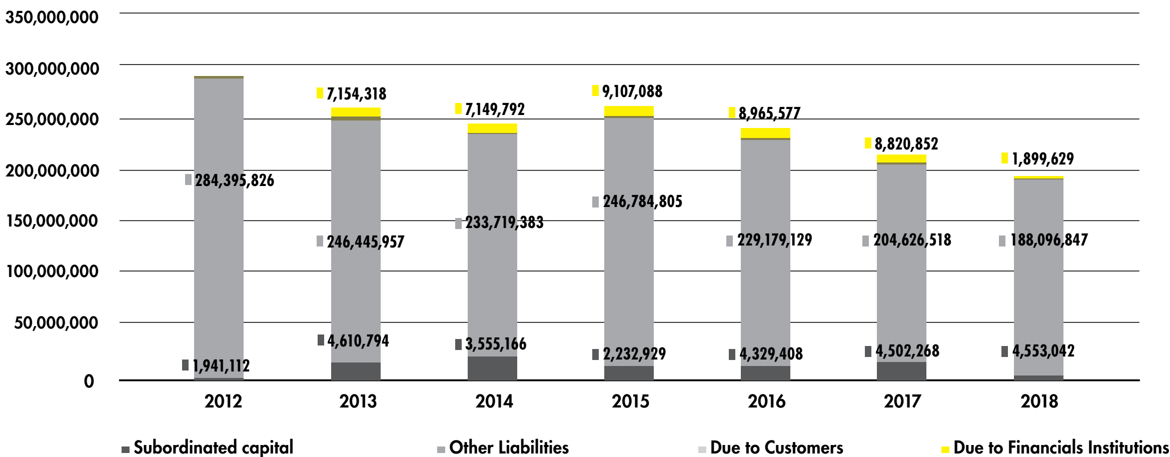
Total gross loans and advances to customers at year end 2018 totaled ALL 98,829 million (2017: ALL 103,048 million) representing a 4 per cent decrease in lending over the year. Corporate Sector in percentage terms is 51 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 50,105 million (2017: ALL 58,763 million). The SE recorded a 11 per cent increase and Micro Business recorded a 2 per cent increase in its outstanding loan book amounting to ALL 1,527 million (2017: ALL 1,205 million).

Structure of Loans to Customers

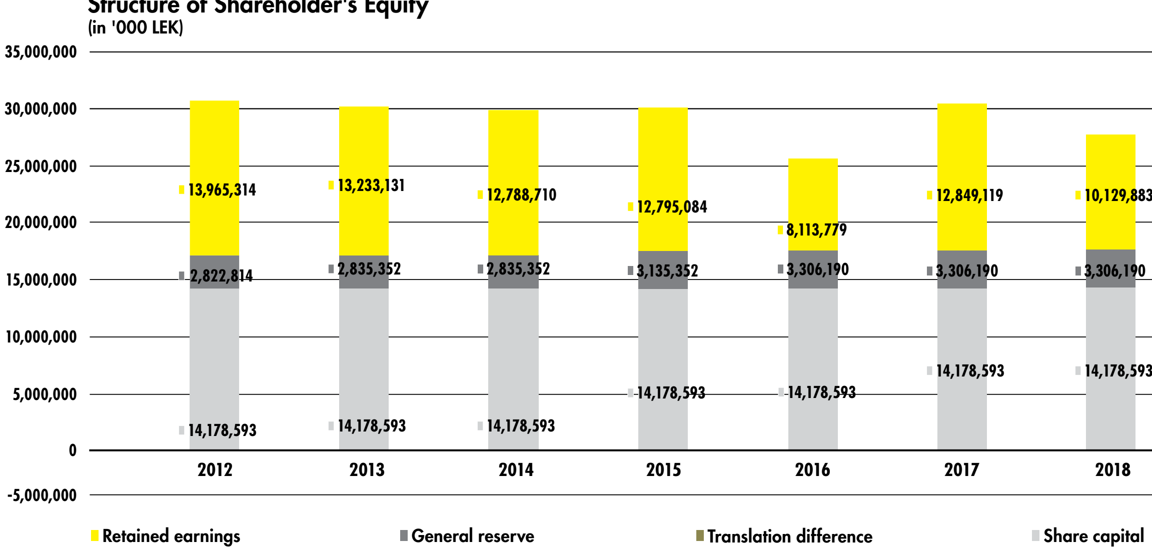


The total liabilities at the end of 2018 were ALL 195,565 million (2017: ALL 220,121 million). In 2018, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 96 per cent (2017: 93 per cent) of the Bank's total liabilities.

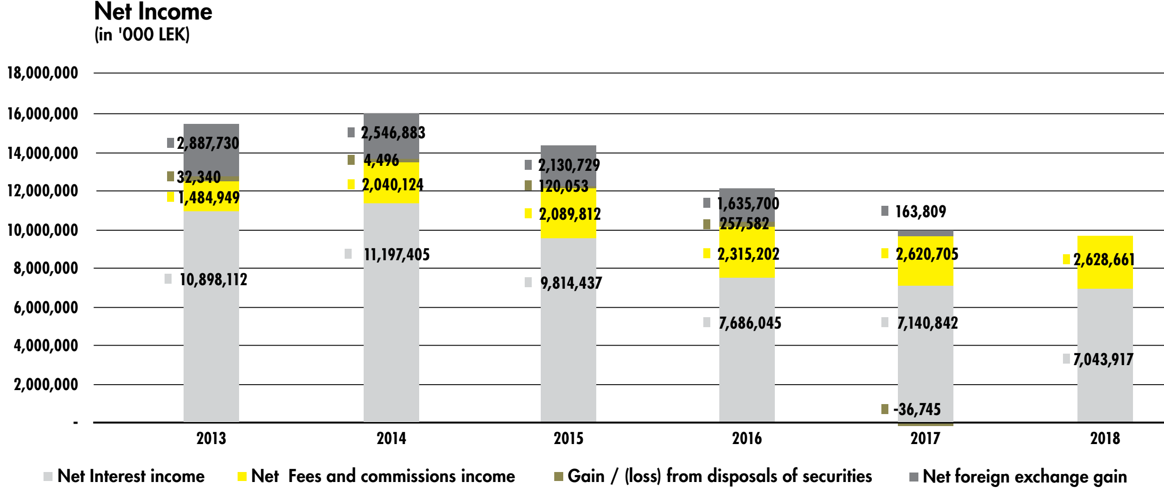
Structure of Balance-Sheet Liabilities
(in '000 LEK)



2018 showed a 30 per cent decrease in net profit after tax over 2017 to ALL 3,298 million (2017: ALL 4,735 million) changing the Bank's return on equity ratio from 17.71 per cent in 2017 to 13.34 per cent in 2018. Dividend declared and paid in 2018 is 4.093.684.206 (2017: ALL 0 million).

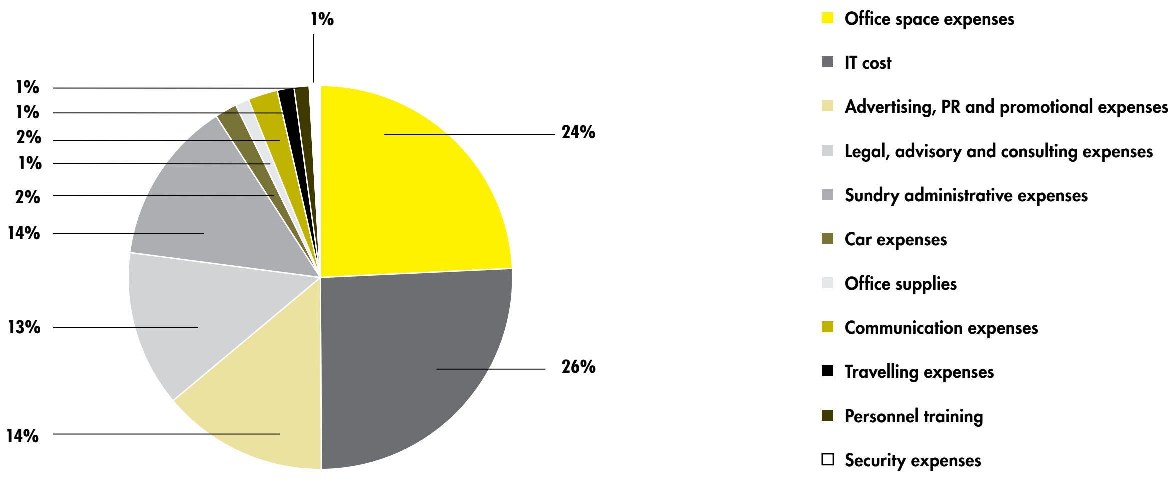


The Bank's Net interest income decreased by 1 per cent, or ALL 7,141 million in 2017 to ALL 7,044 million in 2018. This decrease together with the decrease in the Bank's total balance sheet, which came to 11 per cent, result in increase in the net interest margin (calculated in relation to average balance sheet – total) which is 2.97 per cent in 2018 from 2.74% in 2017.

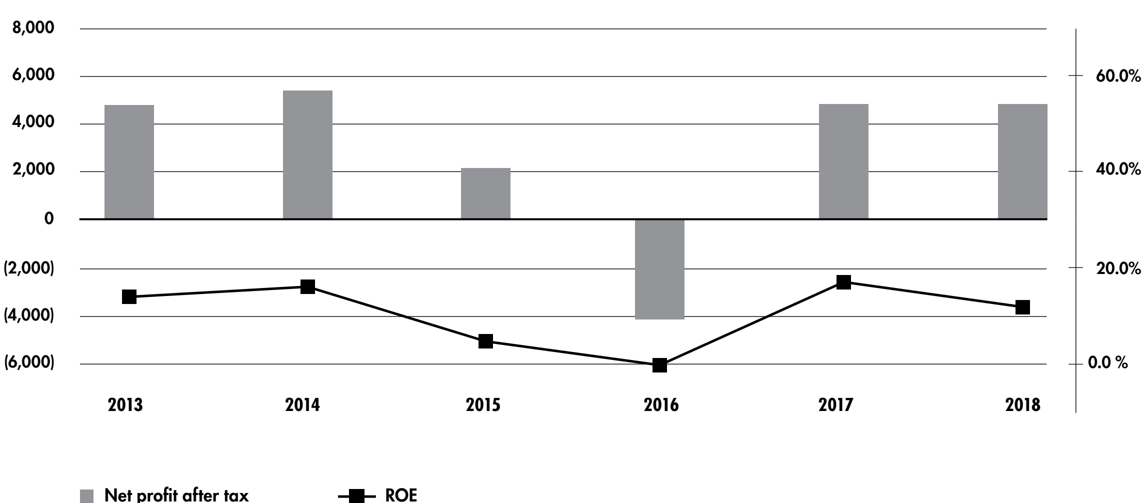


Total general administrative expenses during 2018 were ALL 2,202 million (2017: ALL 2,357 million). The Bank's operating efficiency – the cost/income ratio changed – from 58.65 per cent to 61.95 per cent. The staff expenses increased by 4 per cent or ALL 2,451 million in 2018 to ALL 2,355 million in 2017.

General Administrative Expenses 2018



Profit & ROE
(in '000,000 ALL)



Risk Appetite / Tolerance Statement

The Risk Appetite Framework (RAF) aims to provide the management, together with the formulation and approval of a top-down Risk Appetite statement, a tool to set and constrain the level of overall risk the Bank is willing and able to take on, to achieve its strategic and business goals. There is a close interconnection to the Internal Capital Adequacy Assessment Process (ICAAP) as the main objective of the RAF is to align strategic and business targets with the necessity to fulfil mini mum regulatory capital requirements in adverse scenarios as well as in the case of large singular risk events, and to ensure that senior creditors do not bear losses in an extreme risk scenario.

Bank of Albania requires bank to hold a minimum amount of capital for all their material risks. For so called Pillar 1 risks (i.e. credit, market and operational risk) explicit quantification and assessment procedures are given; adding up those numbers yields the regulatory capital requirement. Likewise, a legal definition of eligible capital for backing these risks exists - Common Equity Tier-1, Additional Tier 1 capital, and Tier-2 capital is accepted as risk buffer. Risk management in RBAL must ensure that regulatory capital requirements are met. RBAL hold capital in excess of the regulatory minimum as an extra buffer to avoid regulatory intervention and subsequent reputational losses which is called risk taking capacity (“RTC”). Additionally, excess capital is held as a buffer for increasing business activities and future growth.

As stated before, the Risk Appetite is the planned and budgeted overall level of risk aligned with the business objectives. Given the volatility in financial markets and the economic environment, and the unpredictability of large singular risk events, the Risk Appetite has to be set below the level of Risk Tolerance with a large enough cushion in order to avoid a frequent breaching of this warning level. Risk Appetite is defined as the limit of 85% of Targeted Regulatory Capital. Risk Tolerance is defined by the limit of 95% of Targeted Regulatory Capital.

Targets are set in line with the Budget and Mid-Term Planning Process and includes managerial buffer adequate to cover ordinary volatility of market conditions.

Regulatory RWA (in EUR ths)	2019	2020	2021
Credit Risk	741,688.3	799,954.1	818,577.3
Market Risks	8,462.3	8,458.1	8,454.5
Operational Risk	152,447.7	149,817.4	136,734.7

	December 18
Regulatory Total Capital Adequacy Ratio	20.67%
Capital Adequacy Ratio in line with local ICAAP methodology	18.50%

Segment Reports

Corporate Segment

The corporate segment focus as the previous year was to serve to the new and existing relationship customers and to be a long term, sustainable business partner for its customers.

The vast range of products, personalized services offered to the relationship customers to fit to the business needs to the best, but also improving the response time continued to be an ongoing focus for all corporate segment. Such efforts are reflected in the increase of the lending base which during 2018 marked 16 per cent increase from previous year, as well as in the volume of new assets disbursed that represented the largest amount of last 6 years;

Lending in targeted and strategic industries and portfolio quality through diversified risk profile of the portfolio, led to excellent results in terms of profitability and optimization of the risk costs for the segment.

Following the previous years' positive experience, during Y 2018 special focus has been given to specialized financing products, like Trade Finance products and Project Finance.

RBAL continued to maintain market share in Trade Finance Products during 2018, achieving this through a dedicated team that closely supports and advise our customers in better understanding and structuring their needs for such products in order to mitigate their risk in international trade.

After the launch of Raiffeisen On platform in 2017, Raiffeisen Bank Albania continued to invest in the technology in order to create the most competitive and secure solution for business customers. During 2018 the platform was upgraded and enriched with new features and improvements of existing process. With an outstanding penetration level starting from the year the platform was launched, 2018 still showed a further increase of new customers of 30% compared year on year. Through the dedicated and continuous efforts of our Relationship and Product managers, the e-payments increased 12 % year on year.

- Corporate Division serves to the following customer categories:
- Domestic Corporate Clients
- International Corporate Clients
- Public Institutions, Central & Local Government Entities and Non-profit organizations

As part of long term strategy, Raiffeisen is focused on the positive impact in the overall Albanian Economy through raising banking standards in the market. On this regard has continuously invested into maintaining and growing of a consolidated long term partnership with all Public Institutions, Central and Local Government, by playing an essential role in supporting of important infrastructural projects through introduction innovative IT solutions and banking services. The completion of these projects contributed positively in the data and information exchange between various public institutions and banks by improving the offered service for the overall public. This synergy has placed Raiffeisen as main partner bank for Albanian Government.

Small Enterprises Segment (SE)

Raiffeisen Bank Sh.a has continued to strengthen its presence in the SE segment during year 2018. Assets portfolio, has recorded an increase of 9 per cent compared with year 2017. As a result of the increase of lending volumes, but also of the increase due to the increase of transactions' volume by 11 per cent, the Gross Income margins marked a considerable increase of 18.8 per cent.

A main contributor in increasing assets and profitability, has been the focus on efficiency improvement which directly affects customers' satisfaction. Several initiatives have been taken during 2018, to improve our lending customers

experience. The bank has reviewed the internal processes with the aim of improving the quality and delivery time for the customers. Raiffeisen Bank aims to continue sustaining the SE Business growth by providing to these businesses a customized approach, based on their size, industry in which they operate, type of transactions and financial needs.

The Digital Platform continues to be the main competitive advantage and is among the main drivers giving a positive impact in customer experience. The platform has helped the bank, in increasing the volume of transactions and in acquiring new customers.

The quality of the portfolio continues to be on good track and NPL ratios are continuously improving. This is achieved through a cautious and proactive approach in managing customers' portfolio, via joint efforts of all department of the bank.

Raiffeisen Bank aim for the future is to considerably increase the number of new customers, further expanding lending portfolio, by seizing all market opportunities, and continue to improve the quality of service and products offered to SE customer base.

Corporate and SE products Division

Trade Finance and Short Term Financing products

During 2018, Trade Finance and Short Term Financing Unit, has continued to support its Corporate and SE customer in all matters related to Trade Finance and to utilization of Short Term Financing Products.

Through a specialized staff this Unit offers to its customers advising services to enhance their knowledge and proper use of the Trade Finance transactions such as Bank Guarantees, Letters of Credit and Documentary Collections. The bank has the proper technical expertise and plays a significant role in educating customers regarding the advantages of using the Trade Finance Products and has continued to highly contribute in the increase of awareness and usage levels of such products from customers in the Corporate and SE segment. Trade Finance and Short Term Financing Unit's work has helped customers to reduce the risk of trading relations with their international and domestic partners and to conclude within respective timelines and with high quality, transactions involving Letters of Credit (import and export), Bank Guarantees (direct and indirect), Standby Letters of Credit and Documentary Collections (import and export).

In cooperation with Sales staff, during the year 2018 this Unit has contributed in maintaining high levels in term of business volumes realized in the Trade Finance area and has continued to sustain a high level of expertise, which is continuously improving through constant training of the specialists, valuable support from Raiffeisen Bank International AG, Vienna, cooperation with other Network Banks and by making use of its well - balanced structures and wide distribution channels. Furthermore, Raiffeisen Bank continues to collaborate with a worldwide range of correspondent banks, which act as partners and support in achieving a successful performance in concluding any Trade Finance transaction.

During 2018, Trade Finance and Short Term Financing Unit, in collaboration with the Sales staff, has intensified communication with Corporate segment customers, aiming to increase their awareness and knowledge level of the Factoring Product and advantages associated with usage of this product and in order to further encourage this segment in considering the product of Factoring as an alternative method to finance and effectively manage their short term liquidity needs.

Project Finance

The Project Finance unit is committed to assess the financing needs and helps to facilitate financial services for long-term Industrial and Real Estate Projects as well as structured long term transactions like mergers and acquisitions.

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.

Our aim is to participate in financially sound and sustainable environmentally projects. We remain focused in financing Hydropower Plant Projects by making thorough analysis and detailed risk assessment of these transactions to ensure the quality of our portfolio.
In a dynamic market environment, the main qualities distinguishing us are: creativity, competence and market awareness.

Cash Management Products

During 2018, the Cash Management Team continued to be focus on in the digitalization of Cash Management products and service and also in fulfilling of AML-4th EU Directive.

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

Digital Platform - Raiffeisen ON

After the launch of Raiffeisen On platform in 2017, Raiffeisen Bank Albania continued to invest in the technology in order to create the most competitive and secure solution for business customers.

During 2018 the platform was upgraded and enriched with new features and improvements of existing process. With an outstanding penetration level starting from the year the platform was launched, 2018 still showed a further increase of new customers of 30% compared year on year. Through the dedicated and continuous efforts of our Relationship and Product managers, the e-payments increased 12 % year on year for Corporate Customers.

For Small Enterprise our Digital Platform has been another contributor in customer service improvement. The very positive impact experienced from our customers in this regard, have helped us, in increasing the volume of transactions and in acquiring new customers.

AML-4th EU Directive - Project

During 2018 the Cash Management team was part of the bank project The AML-4th EU Directive. As per the Directive requirements the project focus was establishing safeguards tackling the regulation of beneficial ownership information for corporate and legal entities.

Another focus of the project was the updating all information of existing customers to fulfill the legal local obligations and the group standards.

Corporate and Small Business Development

The main objective of the Corporate and Small Business Development Unit during this year, has been coordination and closure of business customers update as per AML-4th EU Directive. Being part of the Task Force the total portfolio of Corporate and Small Businesses have been screened and updated accordingly within deadline. Parallel to this, the new process has been built and developed in respective systems, in order to implement such directive at the beginning of 2019.

Improvement of service quality and process efficiency for all Corporate and Small business clients, has been guaranteed through process digitalization and dedicated business staff allocated in RBAL main branches. In addition, we have leaned 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.

Retail Banking

Customer Segment Development

Mass Private Individuals Customers

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

Raiffeisen Bank has managed to increase the salary customers' base mainly due to further formalization of private sector economy, showing that the bank is well regarded in the market. As such, it was increased on this sector by 8 per cent, in a challenging and competitive environment. Also there have been an increase of 4 per cent in the salary customers' base of the Public sector during 2018.

These first quality customers boosted the lending activity by expanding the base of customers to lend. 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 unsecured loan disbursements grew by 10 per cent year-on-year. The bank had a very good year during 2018 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 the customers to have tailored products and exploit new customer segments. During 2018 continued the Tirana Municipality Mortgage program. The program had a very good performance since in the first quarter 2018, resulting in € 11 million disbursements during 2018 and representing 57 per cent of new mortgage disbursements during the year.

The PI Mass 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 32 per cent from 26 per cent in the previous year.

During 2018 has followed the integration of biometric technology in 12 branches. Biometric identification was first presented in January 2016 as pilot project in "Abdyl Frasheri" branch in Tirana and then expanded in some other 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 customers compared to other methods. Biometric identification ensures correct customer identification and prevents illegal actions and ID fraud in banking transactions and duplications in banking systems.
On October 31st, 2016 meeting, the Board of Albanian Financial Supervisory Authority licensed Raiffeisen Bank as a Broker in insurance products for both life and non-life classes. Brokerage activity for Raiffeisen Bank is conducted through internal staff also licensed as private brokers. Further utilizing the existing branch network and sales staff, the brokerage activity conducted through this license contributed significantly in lowering risks for secured and unsecured loan portfolio and in increasing Retail fee income business by 10 per cent during 2018.

Customer Relationship Management (CRM) is a cornerstone activity in Retail where the bank aims to develop customers into more productive and beneficial relationships. One of the major achievements was the launch of a CRM program (Online Lending) through Raiffeisen ON and sell pre-approved loans through the digital platform.

Raiffeisen Bank is increasingly investing in upskilling in advanced analytics and to adopt new technologies. This investment will bear its fruits when coupled with new coming Multichannel CRM. The CRM activity will be personalized and on time increasing bank's customer experience.

Premium Segment

Raiffeisen Bank has led the market in servicing affluent customers since launch of Premium Banking in early 2010.

Currently there are around 15,000 customers in the Premium Banking segment, with varying banking needs from basic accounts to complex, whom require full service banking.

There are two levels of customers in Premium Banking:
- Premium Classic, which clients receive special service from senior branch positions and
- Premium 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, which 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 11 per cent.

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

Micro Segment

Raiffeisen Bank Albania has now an eight years' experience in Micro businesses, delivering a full line of professional services for this segment. The bank is focused on customer acquisition through special programs and offering Micro customers a line of three value added packages to choose from.

The 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. Raiffeisen Bank continue to invest in the development of dedicated sales force in offering banking services to this customers' segment in main branches within bigger cities across Albania.

The year 2018 resulted with approximately 5,000 new customers which helped to increase Micro customer base up to 27,600. Micro Assets portfolio by end of 2018 was € 9 million, while the liability portfolio reached € 80 million.

In 2019, 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 2018 retail deposits remained the largest funder of the bank balance sheet.

Market Interest Rates continued record low levels during 2018 due to excess liquidity in the banking system. Consequently, Term Deposits Rates continued to be on the lowest possible levels. Raiffeisen Bank was able to offer clients alternative wealth management options through the subsidiary asset management company, Raiffeisen Invest – the biggest company in market to offer investment funds to the public. The vast majority of clients continued to place their trust in the bank by keeping their deposits with Raiffeisen Bank despite low interest rates. But a significant portion of bank customer base opted for Raiffeisen Invest Funds, where good annualized returns, well above the Term Deposits market rates, were achieved.

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

Individual Loans

During 2018 Raiffeisen Bank has continued to give a special focus to Individual Loans by increasing the loan portfolio, exploiting new target groups and promoting individual loans competitive advantages while operating in a low interest rates market. The loan portfolio grew to € 249 million, the highest score achieved in 12 years of lending. This way Raiffeisen Bank presence has increased by reaching 19 per cent of the loan market for individuals.

Consumer Loans were the main driver of growth in the PI loan portfolio in 2018, as the demand for such loans in Albania remained quite high. Such demand, sustained by several marketing and promotional campaigns promoting wide variety of fixed interest rates increased sales by 10 per cent during 2018 by reaching a portfolio of € 134 million.

Raiffeisen Bank has continued to give a special priority to Mortgage by offering several well priced promotional campaigns during the year and widening mortgage target group by continuing the collaboration with Tirana Municipality started in 2017. Since the first quarter of 2018 the program had a very good performance resulting in € 11 million new disbursements, representing 57 per cent of new mortgage disbursements during 2018 and increasing the presence in the PI Mortgage market to 11 per cent.

2019 is expected to be another important and successful year. Raiffeisen Bank is looking forward to a very successful year during 2019. The focus will remain on the loan portfolio growth, mortgage programs like Tirana Municipality and different valuable campaigns. As an important part of the growth strategy Raiffeisen Bank will also explore the opportunities to increase significantly the presence of our customers and their digital experience through lending.

Cards Business and E-Banking Division

Cards

2018 results of Card business reaffirm the positive trend of the last two years by showing a steady growth. The number of new credit card customers grew by over 17 per cent from the previews year. At the same time the credit card holders performed more transactions for payments through POSs (+25 per cent) reflecting a trend of growing electronic payments and decreasing cash transactions. This steady trend is mainly the result of the bank's focus on customer education and awareness about the card usage benefits and increasing efforts in different programs such as the cash-back campaigns performed during 2018.

Strong results are noticeable in the Debit Card portfolio as well. The number of transactions performed with debit cards in ATMs and POS terminals increased by 13 per cent with a significant increase on sales transactions by 48 per cent versus 2017. The new Contactless debit card launched in mid-2018 recorded POS transaction volumes equal to 23 per cent of its total transactions confirming once again the strong preference of the market for innovative technology and digital payment

POS Network

As one of the main POS Acquirers in Albania, Raiffeisen Bank has optimized its acquiring business providing quality service and brand leadership in the market. Its strong presence in the market is especially noticeable in the large merchant category such as shopping malls, hypermarkets, hotels, restaurant etc.

In 2018 Raiffeisen Bank continued its measures to improve the profitability of its POS network and this is easily confirmed through the increase by 27 per cent on the number of transactions performed through banks' POS network.

E-Commerce

By offering the most advanced standard of payment security for the internet selling process through 3-D Secure Technology, Raiffeisen Bank remained the market leader for E-Commerce service in the Albanian market in 2018. This was reflected by the grew of transactions by 73 per cent during 2018 and by decrease of complains for transactions performed through E-Commerce by 70 per cent.

ATM Network

Raiffeisen Bank remains the market leader with the largest ATM network. The ATM network is continuously optimized to better serve the customer needs, taking in to account customer demand especially in higher traffic locations. Furthermore, particular importance was placed in the introduction of new and improved ATMs replacing the older ATM fleet with the latest technology offered by the vendors. ATM service is offered for all the cards issued globally under VISA, VISA Electron, PLUS, MasterCard, Maestro and Cirrus brands.

A big success story in 2018 was the Cash-In functionality that registered strong growth with more than 38,000 transactions. There are now 39 ATMs throughout the country that enable the customers to deposit 24/7 in their accounts without needing to visit a branch. This is on the latest examples of Raiffeisen's overall strategy of increasing the availability and use of digital banking channels resulting in 24/7 accessibility and convenience in banks' Self-Service Centers.

Electronic Banking

Raiffeisen Bank maintained its position as a market leader in innovation and technology by undertaking throughout 2018, important steps in increasing the number of products and improving the services provided on its digital banking channels.

In line with its digitalization strategy and improved experience and engagement of our customers with the newest Raiffeisen ON platform, during 2018, a wide variety of functionalities were offered on this platform, starting with the opportunity given to Micro business customers to perform their employees' salaries, the ability to perform Top Up for all Customers, utilities subscription, messages with the Bank, block the card and unblock it and swift copy.
In 2018, the digital banking platform added a new channel - the Self Service Terminal - KIOSK, which offers the possibility of performing financial transactions (non-cash) to all individual customers, 24/7 in the Raiffeisen Branch's self-service areas. The Kiosk Terminal offers the same functionalities as offered by the digital platform, Raiffeisen ON Web and Mobile.

During 2018 the number of customers that subscribed to Raiffeisen ON increased by 21 per cent penetration of active individual banking customers and 34 per cent of active micro businesses.

Payments

The new digital banking platform Raiffeisen On increased by 15 per cent the number of Payments and Transfers made by Individual, Affluent and Micro customers during 2018. Payments initiated via electronic channels reached 64 per cent of total retail payments, respectively Individuals 85 per cent and Micro 35 per cent. Payments of commission income increased 17 per cent. Further improvements were also made in payments processing in branch and head office

Cards Business and E-Banking Division

Raiffeisen Bank Sh.a has made Customer Experience a focus area and is continually working on its progress. The empowering Customer Experience culture within the organization is one of the most important undertakings, as well as creating a shared sense of its activities and improvements that are already visible. The 2018 was a year filled with a variety of initiatives involving internal and external customers. In this matter, the most noteworthy ones to be mentioned are the continuity of Customer Centricity trainings, collect internal customers voice through Branch Experience Day. Raiffeisen Bank continued to use the Customer Journeys as a tool to tailor products and services according to customers' experience, as well as the Competitive Intelligence Teams are active throughout the year. The bank strongly believes that Customer Services is built through continued positive Customer Experience. The goal is to make banking for customers a more enjoyable experience in terms of products and services.

Customer Relationship Management (CRM) is one of the most important activities in Retail. Raiffeisen Bank has a customer – centric approach in all its interactions with clients. The bank aim to have a personalized and meaningful advisory to them. CRM works intensively to reach the high level quality that customers want.
The bank recognizes the importance of information and invests in modern infrastructure and trainings in latest advanced analytics methodologies. This is the only way to treat the big amount of customers' data that the bank has at its best. This will bring happier customers and long – lasting beneficial relationships.

Distribution Channels

Sales & Distribution Channels Division, has continued to transform its branch network in line with digitalization of the Retail model, expanding the number of Self Service Centers (SSC), reaching a total count of 16 units, by end of 2018. Nine new SSC have been built in key branches, providing the customers with a faster, more convenient option to make deposits / withdraw cash 24/7, without having to wait in queue inside the branch. These centers were equipped since beginning of the year with 10 Self-Serve Digital Kiosks, allowing access to personal accounts through a debit card, performing payments and transfers anytime / any day.

Expansion of the SSC network will continue even during 2019, reducing the traffic in branches for the standard transactions which can be made by the clients themselves.

The pilot quick service daily banking center, called Zona Express was introduced in February, introducing a new concept of serving customers for quick day-to-day banking transactions. This pilot outlet has been monitored continuously in order to improve and revise the variety of services offered in it.

Significant investments to maintain modern, customer friendly branches continued during 2018. The largest project was a major modernization of our Berat location, one of the best performing branches. The whole space has been re-reorganized improving the flow of customers. Considerable investments are done in Bulqiza, Saranda and Tropoja, enhancing customer experience in banking with us. By year end, another relocation was done in Tirana, relocating our branch near Stadiumi Dinamo into a new building at KKIKA2, where part of our head office moved in December.
These development projects were part of the Retail strategy to digitalize our Retail banking model while still investing in key big branches to provide superior face-to-face service where customers can obtain expert advice or discuss more complex banking needs.

During 2018 our Sales Force Effectiveness (SFE) Team in collaboration with Human Resources, created an advanced Sales Academy Training Module for Sales Staff, based on our existing comprehensive Branch Academy staff training program which has been used for the past two years to ensure we have highly trained and motivated branch staff. District Managers and Senior Branch Managers were trained and achieved the advanced "Senior Level" of Branch Academy. This level develops enriched leadership skills for managers who lead leaders in changing and challenging environments

The Multiskilling initiative was one of the most important programs in 2018, upgrading the Teller job profile by adding new sales and service tasks in order to serve customers faster and more conveniently (one-stop banking) while freeing up more senior staff to handle more complex customer needs, allowing our clients more time to discuss and select important bank and financial services with confidence.

2018 was another good year in terms of development of sales activities outside the branches. Yearly contributions of Direct Sales and Retail Sales Finance are growing steadily.

In the Micro Business, the bank is continuing to increase the active customer base by actively approaching new and existing customers. Our main goal was and will continue to be the shifting of basic banking transactions to digital channels, freeing up capacities of our dedicated Relationship Managers to focus on customer quality relationship and to ultimately serve our customers even better while being more cost effective.

Premium Banking, a unique high quality service channel for our affluent customers has continued to deliver high value-added customer relationships to Retail Business.

Treasury and Investment Banking

Fixed Income

Last year was a challenging one impacted even from the new IFRS9 rules that were applied over our securities portfolio. Our investments in government securities were also based on overall group level strategy continued to be conform the regulatory framework of the European Union and its regulative institutions. The treatment of the risk weighted assets have been on focus by impacting our investment's objectives. Our main purpose has been to keep stable the investment level by being always in line with every local and European regulator.

The portfolio structure has slightly changed, shifting or maturing some one year investments and focusing on midterm investments such as the two-year bond or even longer as the five-year bond, but these being part of the primary market dealers project have shown a continuous decrease of the trading rates.

During the whole third quarter of 2018 we kept stable our investments in bonds issued in EUR from international financial intuitions with low risk profile and excellent investment grade. These investments have generated higher interest income especially versus Money Market investments that for EUR are still in low levels.

In year 2018 the primary market yields showed a continuous downward trend for all the tenors and the average decrease of al them together throughout the whole year was approximately 155 basis point. This decrease has been reflected in the new investments done this year impacting the interest income that's why even the abovementioned shift from short to longer tenors that imply higher interest rates.

Throughout the whole year we continued to be very active in the secondary and retail market, especially in outright auctions, with local and international banks and financial institutions by generating high profit from trading in that market. Raiffeisen Bank continued during this year to offer the custody activity for its clients.

Money Market

Money Market unit as an active unit has given its contribution to achieve its main objective, earning income from its reserves and to maintain its liquidity to the optimal levels in way to meet the uncertain cash demand of the depositors. Raiffeisen Bank Money Market unit has given its contribution in developing the local interbank activity and has been in line with the central bank's monetary policy.

The liquidity of the Bank has been at considerable levels for 2018, and it has been a successful year as far as the management of this excess within all required limits in line was concerned. Building on the increased trust in the financial system, especially the brand of Raiffeisen Bank, the banks liquidity situation remained at stable levels.

The money market portfolio throughout the whole year 2018 has been well managed and the maturities have varied in different tenors, to fulfill the requirements of the Central Bank regulation regarding the bank exposure toward large banks. Money Market Unit has respected all the limits constrains by assuring and fulfilling in any moment bank's liquidity needs for each currency.

Despite the market developments and challenges during 2018, the Money Market Unit has performed at maximum efforts to successfully manage the short term liquidity by generating a good performance in a challenging financial environment, especially referring to negative rates for the European currency.

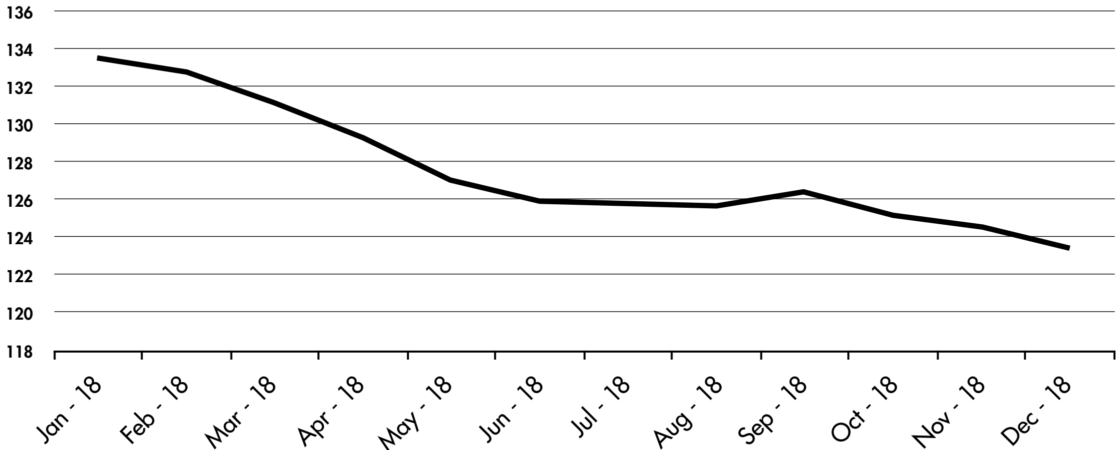
For many years now, as an active and necessary part of a still developing local market, the Money Market unit contributes daily for the TRIBID/TRIBOR publications. These quotations are a very important aspect of the local market development, reflecting its activity and TRIBID/TRIBOR are also a relevant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

Foreign Exchange

Year 2018 was dominated by a strong European currency in the first half of the year, and in the second half European currency left its position to US dollar. All EUR/USD movements were influenced by the different Monetary Policies followed by the Fed and the ECB, the big interest rate changes as well as other political and economic factors that dominated the financial markets.

Big fluctuations have also been observed in the domestic market especially in the first half of the year were European currency lost around 10 big figures versus Local currency.

EUR/LEK depreciation has been affected by a Euro excess liquidity in Albanian Market from FDI and supply-demand effects.



Bank of Albania intervened in the local market by buying euro from second tier banks in way to stabilize exchange rates and minimize the risk related to inflation. Bank of Albania has organized also in frequently period FX purchase auction in order to increase Foreign Reserve and Raiffeisen Bank has participated in all of them.

Despite all fluctuations in local market, Forex Exchange Unit has been managed very carefully the bank FX Open Position and all the risks associated with it. This has been achieved based on a very professional analysis on financial markets and closed the year with the outstanding result.

US dollar followed the same trend as in international market but has been affected more by the excess of liquidity in local market. 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 significant especially EUR/USD transactions, by running at € 200 million per month.

Treasury Sales

During 2018, the Treasury sales unit accomplished successfully its commercial activity by offering its customers Treasury products with very competitive rates and closing the year with a high score.

In their focus, it is always the fulfillment of the needs of the clients in accordance with the policies and strategies of the bank. For this reason, in recent years, our customers can use the treasury products 24/7 through on-line platforms and the results are very enjoyable.

A key role in achieving this performance has been its dedicated, professional and cooperative staff with all the business channels of Raiffeisen Bank.

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

Social Responsibility 2018

Raiffeisen Bank in Albania considers the corporate social responsibility to be very important and as such remains committed to providing its contribution to the sustainability and improvement of the community conditions in Albania.
In this context, our engagement is focused on projects of social, health, educational, environmental and cultural character, to improve the life of the community we are part of. We believe we give our best at combining our business strength with the desire to do good things for the community.

During 2018, Raiffeisen Bank has continued its contribution to projects with social impact. Our support for the "Down Syndrome Albania" Foundation, as well as the support for the Children's Home: "Zyber Hallulli Tiranë', in purchasing textbooks, has become a tradition. Also, in cooperation with the Foundation "Different Weekend - Fundjavë Ndryshe", we have made possible the purchase of 81 wood stoves, for the families in extreme need in some areas of Albania, during the winter period. Gender Equality is another sensitive subject in our society and with the aim of raising awareness on the young generation, about the importance of women's image and gender equality, we support the activity organized by the Association "Counseling Line for Women and Girls". Also, Raiffeisen Bank was the main partner of the Vienna Ball Event, its focus was an awareness campaign for breast cancer. Another important project has been the cooperation with the Municipality of Vlora, for the construction of a playground for the children of this city. Also, two activities worth mentioning this year, which support local tourism and awareness, were: 1. The South Outdoor Festival, which was very successful in its second edition and 2. The Multicultural Festival in Berat, which promotes the beautiful city of Berat and the traditions of the surrounding areas.

An important focus has been given to the health sector, by enabling an improvement on the conditions and services provided to the community. In this context, we have implemented partial reconstructions of hospitals in Lezha, Debar, Fier, Saranda, Bilisht, Durrës, etc. We also assisted with medical equipment and reconstructions of health centers in Mat, Mallakastra, Fier, Përmet and Saranda, as well as the Public Health Directorates in Tepelena, Devoll and Gramsh. Meanwhile, the second phase of the reconstruction project of the Cardiology Reanimation at the University Hospital Center in Tirana, was successfully closed.

The contribution of Raiffeisen Bank in the field of education, has been considerable and consistent during 2018. Therefore, in cooperation with the Education Directorates of Kruja, Berat, Elbasan, Fier, Mirdita, etc., we have made it possible to equip schools in these areas with computers and books, which have assisted students and teachers in a quality teaching process. Also, we have supported the Educational Departments of Shkodra, Gramsh, Kuçova and Kurbin, in organizing the activities during March 7, on the occasion of the Teachers' Day. Raiffeisen Bank's contribution continued in this sector, by supporting the construction of two IT laboratories for Himara's public school and for "Rilindja" School in Kavajë, which will help in developing a more qualitative and contemporary teaching process. Furthermore, we have supported various activities which aim financial education of students.

For years, Raiffeisen Bank has contributed to projects in protection to environmental and in enriching the greening area. This contribution continued during 2018 with the support given to Tirana Municipality initiative in planting trees, where we contributed with the planting of over 1300 trees in some of Tirana's areas. We have also supported the Durrës Prefecture in their tree planting initiative in some areas of the city and we have made possible the rehabilitation of the park in Kuçova. We have continued as every year to support the actions for the cleaning coast in cooperation with the Volunteer Corps. The bank staff voluntarily joined these actions for cleaning the beaches of Zvërnec, Seman, Spille, Tales and Llogara. Through the support of these projects, Raiffeisen Bank has once again showed its commitment in increasing the quality of life and improving the environment in which we live.
The environmental projects have also found the support of Raiffeisen Bank. Worth mentioning projects on the enrichment of green areas in the city of Vlore thanks to the cooperation with the municipality of this town and the addition of children's playgrounds and parks throughout the city of Tirana with the cooperation of the municipality of Tirana. Thanks to the continuous collaboration with Tirana Municipality we supported the project of adding the new benches in Skanderbeg square and Tirana Marathon, two projects that highly impact the capital.
Raiffeisen Bank has given also an important support in the field of culture and art by supporting projects that have revitalized the artistic and cultural life in the community. In this context, Raiffeisen Bank has continued its annual collaboration with the National Theater of Opera and Ballet and the National Theater with their shows throughout the year and numerous other projects with a meaningful impact on the cultural life not only in the capital but all over Albania.
Further, its turned into a good tradition the support of cultural projects like Pianodrom, International Brass Festival, Anifest Rozafa, Different Trains Festival, Balkan Jazz Showcase, Three Tenors, Albanian Gymnastrada, Tirana Talent etc. These activities aim not only to support the arts, but also to promote youth work and cultural and artistic education of children, and not only.

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 1’273 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 2018, 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, with a total of 87 new hires.

In order to evaluate and select the best and the most qualified candidates in the market, a structured recruitment process is applied, which consists of several stages: logical tests, technical tests and/or psychometric tests and personality tests. The selected candidates are interviewed by an interview panel, composed of the respective supervisors in Departments/ Districts and representatives from Human Resources Division.

The promotion and development of its staff remains the primary focus for Raiffeisen Bank. The internal candidates, based on their performance, are considered as the main potential for the vacant positions announced in the Bank. During 2018, 14 per cent of the candidates selected as winners for the vacant positions were internal staff, whereas 19 per cent were external candidates. This gives them the opportunity to build a successful career within the Bank and increases staff motivation.

In order to meet the needs for staff in entry level positions, in Head Office and the Branch Network, priority was given to the outsourced staff, 49 per cent of whom were selected for the internal vacancies. In addition, the students part of the Internship Program and those part of Direct Sales Agents (DSA) program, were the primary source for 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, willingness 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

IIn 2018, DSA Student Program consolidated the cooperation with many universities in the country, with a number of 180 students who joined this program. The focus of this program, launched by Direct & Relationship Sales Department is to increase business sales of various products in the branches. The selected students, who serve as Direct Sales Agents, are offered training and coaching by experienced sales teams through this one-year program. At the end of the program, they acquire knowledge of Bank products and processes and are qualified for vacant positions in the Bank. In addition to growing the business in the Branches, this program provides a very good source of staff recruitment.

Employees with leased contract

Even during 2018, continued its cooperation with an outsourced company, hiring 150 contract employees, according to the needs for staff in Head Office and Network Branches.

The leased staff 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 apply for the vacancies that arise 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, to share experience with them, and help them to understand company values. 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.

For some groups of new hires (IT staff), was developed a tailored approach to employee onboarding (through Key Academy), to welcome them into their specific positions and to increase the chances they remain with the Bank.

Meanwhile, after the Orientation Training Package or in cases of change of position are established the on-the-job training sessions with experienced staff, which serve also as mentors for them.

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 2018, 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 the challenges and meet the set targets and results. In this context, **4,085.5 days of classroom training** were held and **100 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 (Online Development Assistant - ODA), which serves as a tool for knowledge and information management. 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/she 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 the 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 2018 aimed to strengthen the competencies and behaviors the bank managers should reflect 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

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

The scope of the Remuneration Policy is meeting of international standards for an objective, transparent and fair compensation structure in compliance with current regulatory requirements. The remuneration policy of Banking Group is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk. It is in line with the business strategy, objectives, values and long-term interests of the RBI Group and Banking Group in Albania.
Raiffeisen Bank Sh.a (Raiffeisen Leasing excluded) identifies on annual basis 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 result and balance sheet. The number of staff who falls under this category is 35 and includes Supervisory Board members, Board Members, Audit Committee Members and some of Middle management staff.

2. **Less Material or Partially Affected Identified Staff.** This category has an influence on Bank's risk profile but not necessarily in a direct way. The number of staff who falls under this category is 41 and includes some of Middle management staff.

The salary and other employee benefits are defined with the aim of establishing satisfactory and competitive levels. The policy followed in defining the salary system and structure aims to guarantee the achievement of 5 main objectives:
- Reward based on work performance and quality;
- Maintaining the competitive position in the market. The general compensation shall be in the third quarter of the domestic market (between the 50 per cent and 75 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 leading the market;
- The salary expenses in the total cost of personnel and the budget in general, shall be in acceptable parameters.

For a certain category of positions, the salary is composed of two components:
- Base Pay
- Variable Pay

The Structure of Base Salary:
- represents the gross income, excluding bonuses and other extra benefits;
- is administered through salary bands, which are based on the grading structure, level of living standards in the country and market data;
- The individual salary increases are closely related to the performance evaluation results, meaning that employees are eligible to a salary increase only if their performance is above 3,5 score (out of a maximum score of 5). The percentage of salary increase shall be not higher than 25 per cent of gross salary.

Variable Pay (Annual Bonus):
Variable Pay is allocated or paid only if the Step-In-Criteria are met as described in Remuneration Policy.
- is closely related to the RBI Group (1/3); Bank (2/3); individual's performance results (above 3,5 score);
- is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
- shall be up to 16 per cent of yearly base salary for all job positions that are included in Annual Bonus;
- In case of Identified Staff, a special bonus pay-out model is applied if their total variable compensation is over EUR 30'000.

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

Variable Pay (Risk-Reduction Incentive Scheme):
- is closely related to the individual's performance results (above 70 per cent of target achievement);
- is capped to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
- shall be up to 24 per cent of quarterly base salary for all job positions which are included in Incentive schemes (Sales & Support).

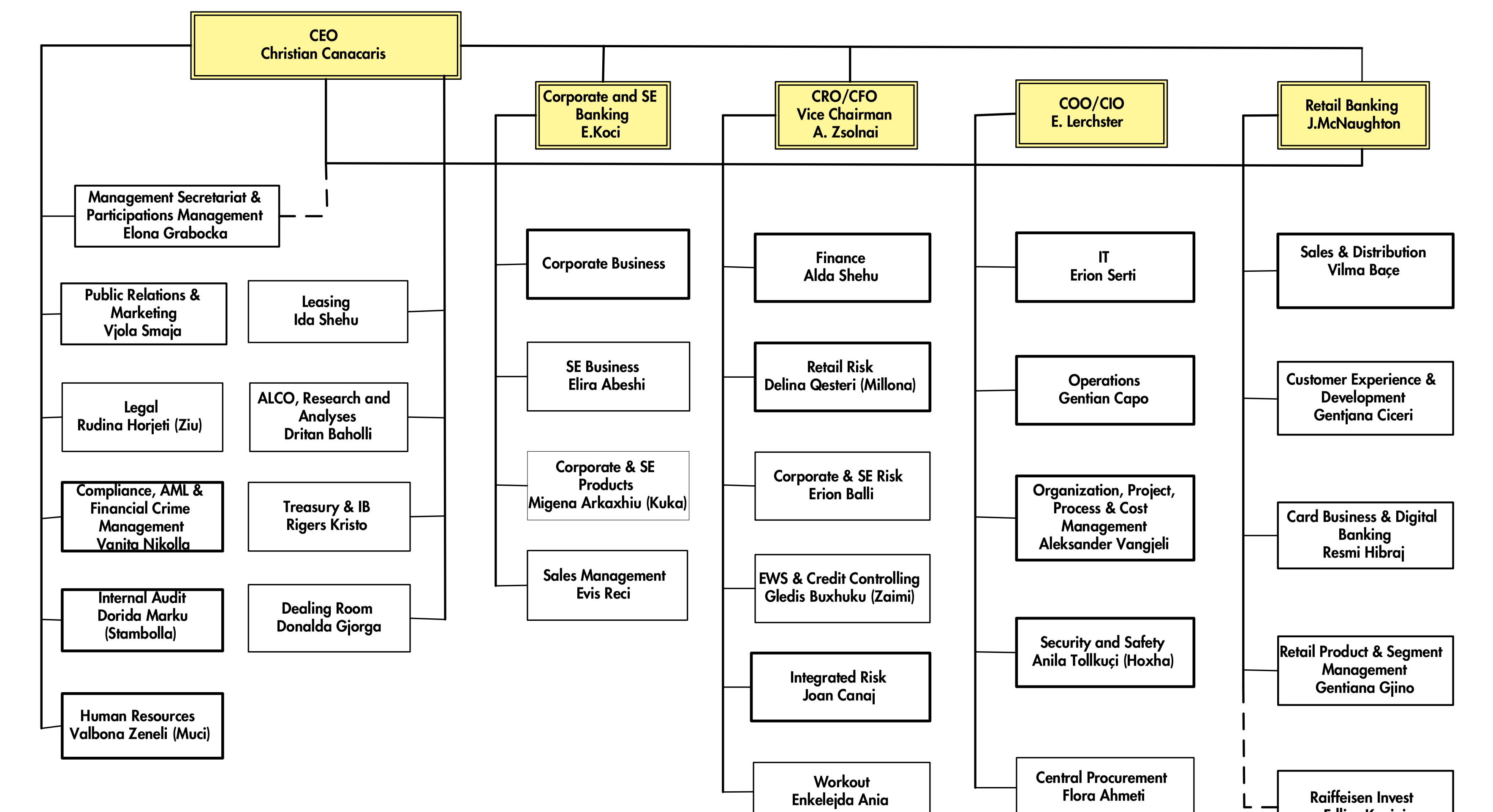
Forms and elements of remuneration for the Steering Council *(every year end)*
(in 000/ ALL)

Forms and elements of temuneration for Steering Council (in 000/ ALL)	Immediate/for the actual period Year 2018	Deferred Year 2017
Fixed remuneration	10,000	10,695
Cash/bonus	10,000	10,695
Shares		
Other		
Variable remuneration		
Cash/bonus		
Shares		
Other		

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 2018	Deferred Year 2017
Fixed remuneration	230,436	209,669
Cash/bonus	197,946	179,227
Shares		
Other	32,490	30,442
Variable remuneration	36,825	51,836
Cash/bonus	36,332	44,420
Shares	493	7,416
Other		

Organizational Structure – RBAL HO



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

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

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

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

Contents

Raiffeisen Bank Sh.a.

Consolidated financial statements
for the year ended 31 December 2018

(with Independent auditors' report thereon)

Independent Auditors' Report	172
The Group	174
Material changes	174
Consolidated statement of comprehensive income	175
Consolidated statement of financial position	176
Consolidated statement of changes in equity	177
Consolidated statement of cash flows	178
Notes	179
Notes to financial instruments	202
Risk management	221
Other disclosures	241
Regulatory information	243
Recognition and measurement principles	244
Events after the reporting date	262
Statement of legal representatives	263

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Independent Auditors' Report

To the Shareholder and Management Board of Raiffeisen Bank Sha

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank Sha and its subsidiaries (the "Group"), as set out on pages 1 to 82, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' 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 eith Institute of Authorized Chartered Auditors of Albania Code of Ethics (IEKA Code), togather with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the statutory auditors and chartered accountants profession", amended, 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 and the IESBA Code and IEKA Code. We belive that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017, prepared in accordance with IFRS were audited by another auditor who expressed an unmodified opinion on those statements on 14 June 2018.

Other information

Management is responsible for the other information. The other information comprises the information included in the 2018 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we dol not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

Fatos Beqja
Statutory Auditor

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Tirana, Albania

Tirana, 5 July 2019

The Group

These consolidated financial statements have been prepared in accordance with International Financial Re-porting Standards for the year ended 31 December 2018 for Raiffiesen Bank sh.a. and its subsidiaries (the "Group"). The Group includes the parent company – Raiffeisen Bank Sh.a. (hereinafter also the "Bank" or the "Parent Company") and its 2 fully owned subsidiaries Raiffeisen Leasing sh.a. and Raiffesien Invest - Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST").

Raiffeisen Bank Sh.a. is a banking institution operating in accordance with the provisions of Law 9901, dat-ed 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 domi-ciled 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.

The Group's principal business activities are retail banking operations, providing finance leasing to compa-nies and individuals and collection and investment of voluntary pension funds, within the Republic of Alba-nia. The Bank operates through a banking network of 76 service points, as of 31 December 2018 (31 Decem-ber 2017: 76 service points) throughout Albania, which are managed through 6 Districts and has no overseas operations.

Material changes

The requirements of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. In addition to the introduction of IFRS 9, the Group has also made changes to the presentation of the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows. The change also made it necessary to adapt the figures of the comparable period and the comparable reporting date. This change firstly improves comparability while also enabling more efficient processing of financial statements in accordance with com-mercial law and regulatory requirements.

The changes are explained in greater detail in the notes in the section entitled, principles underlying the consolidated financial statements, under changes in the presentation of the financial statements and IFRS 9 transition.

Consolidated statement of comprehensive income
(in LEK'000)

Raiffeisen Group Sh.a. changed the structure of the consolidated statement of comprehensive income during the financial year. The disclosures for the previous year were adapted accordingly. The changes are explained in greater detail in the notes in the section on principles underlying the consolidated financial statements, under changes in the presentation of the financial statements.

	Note	2018	2017
in LEK thousand			
Interest income		7,413,407	7,259,303
Other interest income		177,440	1,034,587
Interest expenses		-546,930	-807,134
Net interest income	**[1]**	**7,043,917**	**7,486,756**
Fee and commission income		*3,377,633*	*3,303,282*
Fee and commission expenses		*-748,972*	*-682,457*
Net fee and commission income	**[2]**	**2,628,661**	**2,620,825**
Net trading income/(loss)	[3]	-270,043	-218,134
Other operating income		*109,313*	*1,060,789*
Other operating expenses		*-296,466*	*-539,152*
Other net operating (loss)/income	**[4]**	**-187,153**	**521,637**
Operating income		**9,215,382**	**10,411,084**
General administrative expenses	[5]	-5,758,555	-5,979,312
Special governmental measures	[6]	-123,050	-
Impairment recovery on financial assets	[7]	640,480	447,691
Profit before tax		**3,974,257**	**4,879,463**
Income taxes	[8]	-676,477	-144,123
Profit for the period		**3,297,780**	**4,735,340**
Other comprehensive income for the year		-	-
Total comprehensive income		**3,297,780**	**4,735,340**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 179 to 263.

Consolidated statement of financial position

Raiffeisen Group Sh.a. changed the presentation of the consolidated statement of financial position during the financial year. The disclosures for the comparative period were updated accordingly. The changes are explained in greater detail in the notes in the section on principles underlying the consolidated financial statements, under changes in the presentation of the financial statements.

Assets

	Note	31 December 2018	31 December2017	1 January 2017
in LEK thousand				
Cash, cash balances at central bank and other demand deposits	[10, 30]	22,996,693	34,844,930	47,418,311
Investment securities		*74,427,729*	*72,768,827*	*77,813,330*
Loans and advances to financial instiu-tions		*33,025,375*	*35,694,492*	*34,525,475*
Loans and advances		*87,051,837*	*90,089,630*	*87,329,067*
Financial assets - amortized cost	[11, 30]	194,504,941	198,552,949	199,667,872
Financial assets - designated fair value through profit or loss	[12, 22, 30]	-	2,485,514	2,528,780
Financial assets – fair value through profit or loss	[13, 22, 30]	2,516	7,826,094	14,219,127
Goodwill	[14]	92,783	92,783	92,783
Tangible fixed assets	[15, 30]	1,456,318	1,482,584	1,603,016
Intangible fixed assets	[15, 30]	1,336,287	1,460,951	1,557,194
Current tax asset	[16, 30]	677,936	1,217,819	746,741
Deferred tax asset	[16, 30]	7,041	20,140	28,039
Other assets	[17, 30]	2,105,091	2,471,148	2,675,590
Total assets		**223,179,606**	**250,454,912**	**270,537,453**

Equity and Liabilities

	Note	31 December 2018	31 December2017	1 January 2017
in LEK thousand				
Liabilities				
Deposits from Banks		*4,553,042*	*4,106,086*	*4,329,408*
Subordinated financial liabilities		*1,899,629*	*8,820,852*	*8,965,577*
Deposits from customers		*187,798,423*	*205,022,700*	*229,179,129*
Other financial liabilities		*298,423*	*1,276,508*	*1,001,232*
Financial liabilities - amortized cost	[18, 30]	194,549,517	219,226,146	243,475,346
Provisions for liabilities and charges	[19, 30]	292,781	224,708	331,082
Other liabilities	[20, 30]	722,642	670,156	1,132,463
Total liabilities		**195,564,940**	**220,121,010**	**244,938,891**
Equity				
Share capital	[21, 30]	14,178,593	14,178,593	14,178,593
Other reserves	[21, 30]	3,306,190	3,306,190	3,306,190
Retained earnings	[21, 30]	10,129,883	12,849,119	8,113,779
Total Equity		**27,614,666**	**30,333,902**	**25,598,562**
Total liabilities and equity		**223,179,606**	**250,454,912**	**270,537,453**

These consolidated financial statements have been approved by the Management Board of the Group on 12 June 2019 and signed on its behalf by:

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice Chairman of Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consoli-dated financial statements set out on pages 179 to 263.

Consolidated statement of changes in equity

	Share capital	Other reserves	Retained earnings	Equity
in LEK thousand				
Equity at 1 January 2017	**14,178,593**	**3,306,190**	**8,113,779**	**25,598,562**
Profit for the year			4,735,340	4,735,340
Other comprehensive income				-
Total comprehensive income for the year			4,735,340	4,735,340
Equity at 31 December 2017	**14,178,593**	**3,306,190**	**12,849,119**	**30,333,902**
Impact of adopting IFRS 9 (a)			-1,923,332	-1,923,332
Equity at 1 January 2018	**14,178,593**	**3,306,190**	**10,925,787**	**28,410,570**
Dividend payments (Note 21)			-4,093,684	-4,093,684
Profit for the year			3,297,780	3,297,780
Other comprehensive income				
Total comprehensive income for the year			3,297,780	3,297,780
Equity at 31 December 2018	**14,178,593**	**3,306,190**	**10,129,883**	**27,614,666**

(a) The Impact of adopting IFRS 9 is further detailed in section "IFRS 9 transition" of these financial statements.

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consol-idated financial statements set out on pages 179 to 263.

Consolidated statement of cash flows

in LEK thousand	Note	2018	2017
Cash, cash balances at central Banks and other demand deposits as at 1 January	**[10]**	**51,071,193**	**57,046,334**
Operating activities:			
Profit before tax		4,118,977	4,767,105
Adjustments for the reconciliation of profit/loss after tax to the cash flow from operating activities:		0	0
Depreciation, amortization	[6]	533,537	639,277
Impairment and reversal of impairment of assets	[8]	-663,965	-426,258
Net provisioning for liabilities and charges and impairment losses		110,503	96,150
Net interest income	[1, 2]	-7,042,351	-7,488,385
Other interest income		-246,894	0
Interest received		7,235,355	1,327,229
Interest paid		-568,819	-1,092,616
Dividends received		0	0
Effect of unrealized exchange rate changes		-753,205	-518,921
Other adjustments (net)		-47,263	-47,364
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:			
Decrease in restricted balances		1,717,632	2,160,614
Financial assets - amortized cost	[11]	4,396,563	8,681,466
Financial assets - designated fair value through profit/loss	[12]	2,241,346	43,267
Financial assets - fair value through profit or loss	[13]	6,858,286	6,304,827
Tax assets	[16]	-9,297	-475,758
Other assets	[17]	366,059	204,462
Financial liabilities - amortized cost	[18]	-18,044,385	-23,754,379
Provisions for liabilities and charges	[19]	-79,268	-212,146
Other liabilities	[20]	52,287	-449,425
Net cash from operating activities		**175,098**	**-10,240,855**
Investing activities:			
Purchase of Investment securities and shares		-36,480,367	-47,301,504
Purchase of Tangible and intangible fixed assets		-433,282	-494,592
Proceeds from matured Investment securities and shares		33,837,755	51,442,722
Proceeds from Tangible and intangible fixed assets		85,750	100,167
Net cash from investing activities		**-2,990,144**	**3,746,793**
Financing activities:			
Outflows of subordinated liability	[18]	-6,643,768	-
Dividend payments		-4,093,684	-
Net cash from financing activities		**-10,737,452**	**-**
Effect of exchange rate changes		753,205	518,921
Net decrease during te year		**-12,799,293**	**-5,975,141**
Cash, cash balances at central Banks and other demand deposits as at 31 December	**[10]**	**38,271,900**	**51,071,193**

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 179 to 263.

NOTES

Principles underlying the consolidated financial statements

Principles of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) including the applicable interpretations of the Interna-tional Financial Reporting Interpretations Committee (IFRIC/SIC) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss.

A financial asset is recognized when it is probable that the future economic benefits will flow to the company and the acquisi-tion or production costs or another value can be reliably measured. A financial liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation and the amount at which the settlement will take place can be measured reliably. An exception is certain financial instruments which are recog-nized at fair value at the reporting date. Revenue is recognized if the conditions of IFRS 15 are met and if it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

As of 1 January 2018, the requirements of IFRS 9 Financial Instruments became effective. Further details regarding the first-time adoption of IFRS 9 can be found in this section. The changes and impacts of the new provisions are presented in the section IFRS 9 transition. The comparative information was not adjusted in accordance with IFRS 9 and has consequent-ly been prepared in accordance with the provisions of IAS 39.

In addition to the introduction of IFRS 9, the Group has also made changes to the presentation of the consolidated statement of financial position. The change also made it necessary to adapt the disclosures for the presentation of the comparable period and the comparable reporting date. The changes are explained in more detail in the section Changes in the presentation of the financial statements.

Key sources of estimation uncertainty and critical accounting judgments

If estimates or assessments are necessary for accounting and measuring under IFRSs, they are made in accordance with the respective standards. They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely. The estimates and underlying assumptions are reviewed on an ongoing basis. Alterations to estimates that affect only one period will be taken into account only in that period. If the following reporting periods are also affected, the alterations will be taken into consideration in the current and following periods. The critical assumptions, esti-mates and accounting judgments are as follows:

Impairment of financial assets

The application of the Group's accounting policies requires accounting judgments of the management. The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortized cost and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The calculation of expected credit losses (ECL) requires the use of accounting estimates that by definition rarely match actual results. The amount of impairment to be allocated depends on the change in the default risk of a financial instrument after it was added. In order to determine the amount of the impairment, significant credit risk parameters such as PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as well as future-oriented information (economic forecasts) are to be estimated by management. The allowance for credit risks is adjusted for this expected loss at each reporting date. The meth-ods for determining the amount of the impairment are explained in section Impairment general (IFRS 9) under Recognition and measurement principles. The quantitative effects of the first-time adoption of IFRS 9 as of 1 January 2018 are presented in the section IFRS 9 transition.

Fair value of financial instruments

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

Net realizable value of repossessed collaterals

Repossessed collaterals represent real estate assets acquired by the Group in settlement of overdue loans which are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired and are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss. The Group revalues these assets on annual basis using a team of external independent valuers and internal certified appraisers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Deferred tax assets

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

Deferred taxes are not reported consolidatedly in the income statement and are disclosed under (9) Income taxes. By contrast, deferred taxes are shown consolidatedly in the statement of financial position in the notes under (16) Tax assets.

Foreign currency translation

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

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

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

The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2018 and 31 December 2017 were as below:

	2018		**2017**	
	As at	*Average*	*As at*	*Average*
Rates in LEK to the units	31/12	1/1-31/12	31/12	1/1-31/12
European Union currency unit (EUR)	123.42	127.74	132.95	134.15
US dollar (USD)	107.82	108.19	111.10	119.08

Application of new and revised standards

IFRS 9 Financial instruments (entry into force 1 January 2018)

As of 1 January 2018, the requirementsof the new accounting standard for financial instruments (IFRS 9) became effective. Changes in accounting standards resulting from the application of IFRS 9 have generally been applied retrospectively, with the exception of those described below:

The Group took advantage of the exemption allowing it not to restate comparative information for prior periods with to clas-sification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 were recognized in retained earnings as of 1 January 2018. The following assessments had to be made on the basis of the facts and circumstances existing at the time of first application:

- The determination of the business model in which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL.
- The designation of certain strategic investments not held for trading as at FVOCI.

IFRS 9 contains principles for recognition, measurement and derecognition, and for hedge accounting. The key requirements of IFRS 9 can be summarized as follows:

According to IFRS 9, all financial assets are measured either at amortized cost or at fair value. Debt instruments which are held within the framework of a business model whose objective is to collect the contractual cash flows and whose contractual cash flows consist of solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost in the subsequent periods. All other instruments must be measured at fair value through profit or loss.

IFRS 9 also contains an option, which cannot subsequently be revoked, to recognize subsequent changes in the fair value of an equity investment (which is not held for trading) in other comprehensive income, with only dividend income recognized in profit or loss.

The application of IFRS 9 has fundamentally changed the accounting for allowances for credit risks by the Group. According to IFRS 9, the requirements for impairment are applicable for financial assets measured at amortized cost and

at fair value through other comprehensive income.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL. Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Credit-impaired financial assets carried at amortised cost and debt financial assets carried at FVOCI are referred to as 'Stage 3 financial assets.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Stage 1 requires, at the time of initial recognition, the recognition of the present value of twelve-month expected credit losses. If there is a significant increase in the credit risk, the loan loss provision must be increased up to the amount of the expected full lifetime loss (Stage 2).

The methods for determining the amount of impairment are explained in the section Impairment general (IFRS 9) under Recognition and measurement principles. The quantitative effects of the application of IFRS 9 as at 1 January 2018 are shown in the section IFRS 9 transition.

IFRS 15 (Revenue from contracts with customers; entry into force 1 January 2018)

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

Fees and charges that fall within the scope of IFRS 15 due to their economic substance are either recognized in profit or loss on the date on which the service is rendered or are deferred and recognized on a straight-line basis. Due to the fact that reve-nue within the scope of IFRS 15 includes performance fees for services in loan administration and management, which have already been deferred as commission income under IAS 18 and must also be deferred under IFRS 15, no effect arises in relation to net commission income.

Amendments to IFRS 2 (Share-based payment; entry into force 1 January 2018)

The amendments deal with individual issues related to the accounting of cash-settled share-based payments. The principal amendment/addition relates to the fact that IFRS2 now contains provisions which relate to the calculation of the fair value of the obligations resulting from share-based payments. The adoption of these amendments had no impact on the Group's consolidated financial statements.

Amendments to IAS 40 (Classification of investment property under construction; entry into force from 1 January 2018)

The amendments serve to clarify the provisions related to transfers to or from the investment property portfolio. In particular, the amendments clarify whether property is under construction or development which was previously classified under inven-tories can be transferred to investment property when there is an evident change of use. The adoption of these amendments had no impact on the Group's consolidated financial statements.

Annual improvements to IFRS – cycle 2014-2016 (entry into force 1 January 2017/2018)

The amendments concern in detail:

- IFRS 1 First-time adoption of International Financial Reporting Standards: Deletion of the remaining temporary relief provisions for first-time adopters.
- IAS 28 Investments in associates and joint ventures: clarification that the option to measure an investment in an associated entity or joint venture held by a venture capital company or other qualifying entity may be exercised differently for each investment.

The adoption of these amendments had no impact on the Group's consolidated financial statements.

IFRIC 22 (Foreign currency transactions and advance consideration, entry into force 1 January 2018)

This interpretation clarifies the accounting for transactions that include the receipt or payment of considerations in a foreign currency. The application of this interpretation had no impact on the consolidated financial statements of the Group.

Changes in the presentation of the consolidated financial statements

The Group has made changes in the presentation of the consolidated financial statements that mainly relate to the presentation of financial instruments, in order to align with the consolidated financial statements of Raiffeisen Group International AG. The change also made it necessary to adapt the presentation of the comparable period and the comparable reporting date.
The following tables show the reconciliation of the current financial statements' items with the items presented in the consoli-dated financial statements for the year ended at 31 December 2017.
The explanatory notes and consequences in relation to IFRS 9 are shown consolidatedly for each item in the next chapter IFRS 9 Transition and are already based on the current presentation. The column headings represent the previous items on the statement of financial position, while the line headers reflect the new presentation of the statement of financial position.

Assets 31/12/2017 in LEK thousand	Cash and cash equivalents	Restricted balances	Loans to customers	Impairment losses on loans and advances	Trading assets	Held to maturity investment securities	Financial assets designated at fair value
Cash, cash balances at central banks and other demand deposits	15,377,199	19,467,731	-	-	-	-	-
Financial assets - amortized cost	35,693,994	-	103,374,861	-13,293,312	-	72,768,827	-
Financial assets - designated fair value through profit or loss	-	-	-	-	-	-	2,485,514
Financial assets - fair value through profit or loss	-	-	-	-	7,826,094	-	-
Goodwill	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	-	-
Intangible fixed assets	-	-	-	-	-	-	-
Current tax assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Total	**51,071,193**	**19,467,731**	**103,374,861**	**-13,293,312**	**7,826,094**	**72,768,827**	**2,485,514**

Equity and liabilities 31/12/2017 in LEK thousand	Deposits from Banks	Deposits from customers
Financial liabilities - amortized cost	4,502,268	204,626,518
Provisions for liabilities and charges	0	0
Other liabilities	0	0
Equity	0	0
Total	**4,502,268**	**204,626,518**

Investments in subsidiaries	Current income tax prepayment	Deferred tax asset	Intangible fixed assets	Tangible	Të tjera	**Totali i aktiveve**
-	-	-	-	-	-	**34,844,930**
-	-	-	-	-	8,579	**198,552,949**
-	-	-	-	-	-	**2,485,514**
-	-	-	-	-	-	**7,826,094**
92,783	-	-	-	-	-	**92,783**
-	-	-	-	1,482,584	-	**1,482,584**
-	-	-	1,460,951	-	-	**1,460,951**
-	1,217,819	-	-	-	-	**1,217,819**
-	-	20,140	-	-	-	**20,140**
-	-	-	-	-	2,471,148	**2,471,148**
92,783	**1,217,819**	**20,140**	**1,460,951**	**1,482,584**	**2,479,727**	**250,454,912**

Other liabilities	Subordinated liability	Equity	**Total equity and liabilities**
1,276,508	8,820,852	0	**219,226,146**
224,708	0	0	**224,708**
670,156	0	0	**670,156**
0	0	30,333,902	**30,333,902**
2,171,372	**8,820,852**	**30,333,902**	**250,454,912**

Assets 01/01/2017 in LEK thousand	Cash and cash equivalents	Restricted balances	Loans to customers	Impairment losses on loans and advances	Trading assets	Held to maturity investment securities	Financial assets designated at fair value
Cash, cash balances at central banks and other demand deposits	25,789,966	21,628,345	-	-	-		
Financial assets - amortized cost	31,256,368	-	110,382,716	-19,790,784		77,833,482	
Financial assets - designated fair value through profit or loss	-	-	-	-	-	-	2,528,780
Financial assets - fair value through profit or loss	-	-	-	-	14,198,975	-	-
Goodwill	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	-	-
Intangible fixed assets	-	-	-	-	-	-	-
Current tax assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Total	**57,046,334**	**21,628,345**	**110,382,716**	**-19,790,784**	**14,198,975**	**77,833,482**	**2,528,780**

Equity and liabilities 01/01/2017 in LEK thousand	Deposits from Banks	Deposits from customers
Financial liabilities - amortized cost	4,329,408	229,179,129
Provisions for liabilities and charges	0	0
Other liabilities	0	0
Equity	0	0
Total	**4,329,408**	**229,179,129**

	Investments in subsidiaries	Current income tax prepayment	Deferred tax asset	Intangible fixed assets	Tangible	Të tjera	**Totali i aktiveve**
	-	-	-	-	-	-	**47,418,311**
	-	-	-	-	-	-	**199,688,023**
	-	-	-	-	-		**2,528,780**
		-	-	-	-		**14,198,975**
	92,783	-	-	-	-	-	**92,783**
		-	-	-	1,603,016		**1,603,016**
		-	-	1,557,194	-		**1,557,194**
		746,741	-	-	-		**746,741**
		-	28,039	-	-		**28,039**
		-	-	-	-	2,675,591	**2,675,591**
	92,783	**746,741**	**28,039**	**1,557,194**	**1,603,016**	**2,681,832**	**70,537,453**

	Other liabilities	Subordinated liability	Equity	**Total equity and liabilities**
	1,001,232	8,965,577	0	**243,475,346**
	375,145	0	0	**375,145**
	1,088,400	0	0	**1,088,400**
	0	0	25,598,562	**25,598,562**
	2,464,777	**8,965,577**	**25,598,562**	**270,537,453**

The following table shows the reconciliation of the statement of comprehensive income for the year ended 31 December 2017 to the new format. The column headings represent the previous items on the statement of financial position, while the line headers reflect the new presentation of the statement of financial position:

in LEK thousand	Net interest income	Net provisioning for impairment losses	Net fee and commission income	Net trading income/(loss)	Net income from financial investments	General administrative expenses	Other net operating	Të ardhura neto nga nxjerja jashtë perdorimit e aktiveve të grupit	Fitimi/Humbje para tatimit
Net interest income	7,140,841	0	0	345,915	0	0	0	0	7,486,756
Net fee and commission income	0	0	2,620,706	0	0	0	0	0	2,620,706
Net trading income/(loss)	0	0	0	-182,106	-36745	0	0	0	-218,851
Other net operating income	0	0	0	0	0	0	521756	0	521,756
Operating income	**7,140,841**	**0**	**2,620,706**	**163,809**	**-36,745**	**0**	**521,756**	**0**	**10,410,367**
Staff expenses	0	0	0	0	0	-2,567,105	0	0	-2,567,105
Other administrative expenses	0	0	0	0	0	-2,777,975	0	0	-2,777,975
Depreciation	0	0	0	0	0	-633,515	0	0	-633,515
Special governmental measures	0	0	0	0	0	0	0	0	0
Impairment losses on financial assets	0	447691	0	0	0	0	0	0	447,691
Profit/(loss) before tax	**7,140,841**	**447,691**	**2,620,706**	**163,809**	**-36,745**	**-5,978,595**	**521,756**	**0**	**4,879,463**

Net interest income: : Dividend income, previously presented in net interest income, is presented in a consolidated line as dividend income.

Net trading income/(loss): Net interest income from trading assets has been classified from Net trading income/(loss) to Other interest income.

Impairment: : Impairment losses on loans and advances, investment securities and other financial assets measured at amortised cost and FVOCI are presented as a consolidated line item in the statement of comprehen-sive income.

Resolution Fund and deposit insurance premium: The contribution for the resolution fund is presensted under special governmental measures line item and the deposit insurance premium, which in 2017 was presented as a consolidated line item, is presen-sted in General administrative expenses.

IFRS 9 transition

This section contains an analysis of the transition from the figures reported as at 31 December 2017 to those after the first-time adoption of IFRS 9 as at 1 January 2018.
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Ac-cordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not com-parable to the information presented for 2018 under IFRS 9.
  The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a consoli-dated line item in the statement of profit or loss and OCI, the Group has changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.
The transition effect shown in equity amounted to minus 1,923,332 LEK thousand.
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement catego-ries under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018:

Overview – IFRS9 transition

The transition effect shown in equity is comprised of the following:

in LEK thousand	Transition effect 01/01/2018
Classification and Measurement: Debt securities reclassified	810,673
Impairmentt effect	1,112,659
Total	**1,923,332**

in LEK thousand	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets (as restated)				
Cash, cash balances at central banks and other demand deposits	Loans and receivables	Amortised cost	34,844,930	34,844,930
Financial assets - amortized cost	Amortised cost	Amortised cost	198,552,949	197,678,509
Financial assets - designated fair value through profit or loss	FVTPL	Amortised cost	2,485,514	2,241,346
Financial assets - held for trading	FVTPL	FVTPL	7,825,175	7,057,653
Financial assets - held for trading	FVTPL	FVTPL	919	919
Other assets	Loans and Receivables	Amortised cost	223,313	223,313
Total financial assets			**243,932,800**	**242,046,670**
Financial liabilities (as restated)				
Financial liabilities - amortized cost	Amortised cost	Amortised cost	219,226,146	219,226,146
Provisions for liabilities and charges	Amortised cost	Amortised cost	224,708	261,910
Total financial liabilities			**219,450,854**	**219,488,056**

IFRS 9 transition (continued)

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in section "Recognition and measurement principles". The application of these policies resulted in the reclassifications set out in the table above and explained below.

1. Before the adoption of IFRS 9, the Group held trading investment securities and FVTPL securities. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those as-sets were accounted for at amortised cost from their inception.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount			IFRS 9 carrying amount
në mijë LEK	**31 December 2017**	**Reclassification**	**Remeasurement**	**1 January 2018**
Financial assets - Amortised cost				
Cash, cash balances at central banks and other demand deposits				
Opening balance	34,844,930			
Remeasurement				
Closing balance				**34,844,930**
Financial assets - amortized cost				
Opening balance	198,552,949	-	-	-
From Financial assets - designated fair value through profit or loss	-	2,485,514	-	-
From Financial assets - fair value through profit or loss	-	7,825,175	-	-
Remeasurement – reclassification of investment securities			-810,673	
Remeasurement - additional impairment	-	-	-1,075,457	-
Closing balance	**-**	**-**	**-**	**206,977,508**
Other assets	223,313	-	-	223,313
Total amortised cost	**233,621,192**	**10,310,689**	**-1,886,130**	**242,045,751**

IFRS 9 transition (continued)

in LEK thousand	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Financial assets - designated fair value through profit/loss				
Opening balance	2,485,514			
To Financial assets - amortized cost		(2,485,514)	-	
Closing balance				**-**
Financial assets - held for trading				
Opening balance	7,826,094			
To Financial assets - amortized cost		(7,825,175)	-	
Closing balance				**919**
Total FVTPL	**10,311,608**	**(10,310,689)**	**-**	**919**

in LEK thousand	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial liablitiess				
Amortised cost				
Provisions for liabilities and charges				
Opening balance	224,708	-	-	-
Remeasurement	-	-	-37,202	-
Closing balance	-	-	0	187,506
Total amortised cost	**224,708**	**0**	**-37,202**	**187,506**
Total impact	**-**	**-**	**-1,923,332**	**-**

Transition impairments financial assets – amortised cost

in LEK thousand	IAS 39 Carrying amount 31/12/2017	Additional impairmen	IFRS 9 Carrying amount 1/1/2018
Financial assets - amortized cost	**15,916,504**	**1,075,457**	**16,991,961**
hereof debt instruments	0	28,099	28,099
hereof loans and advances	15,916,504	1,047,358	16,963,862
Off-balance sheet items	**21,140**	**37,202**	**58,342**
hereof loan commitments given	15,034	40,878	55,912
hereof financial guarantees given	6,106	-3,676	2,430
Total	**15,937,644**	**1,112,659**	**17,050,303**

NOTES TO THE INCOME STATEMENT

1. NET INTEREST INCOME

in LEK thousand	2018	2017
Interest income		
Financial assets - amortized cost	7,324,417	7,254,950
Other assets	87,027	1,653
Interest income on financial liabilities	1,963	2,700
Other interest income	**177,440**	**1,034,587**
Interest expenses	**-546,930**	**-807,134**
Financial liabilities - amortized cost	-404,288	-595,887
Interest expenses on financial assets	-142,642	-211,247
Total	**7,043,917**	**7,486,756**

2. NET FEE AND COMMISSION INCOME

in LEK thousand	2018	2017
Clearing, settlement and payment services	2,059,571	1,554,847
Loan business	121,285	147,892
Securities	31,835	34,530
Foreign exchange transactions	141,646	126,179
Other	1,002,612	1,418,822
Total fee and commission income from contracts with customers	**3,356,949**	**3,282,270**
Financial guarantee contracts and loan commitments	20,684	21,012
Total fee and commission income	**3,377,633**	**3,303,282**
Clearing, settlement and payment services	-607,888	-502,212
Loan and guarantee business	-7,834	-15,343
Other	-133,250	-164,902
Total fee and commission expense from contracts with customers	**-748,972**	**-682,457**
Financial guarantee contracts and loan commitments	-	-
Total Fee and commission expenses	**-748,972**	**-682,457**

Fee and commissions do not include fees received for loans and advances (transaction costs), which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method. Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to only a customer.

The Group provides Banking services only to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency exchange transactions, credit card and servicing fees. Fees for ongoing account man-agement are charged to the customer's account on a monthly basis. The Group sets the rates consolidatedly for retail and corporate Banking customers on a regular basis. Transaction-based fees for interchange, foreign currency exchange transac-tions and overdrafts are charged to the customer's account when the transaction takes place.

Servicing fees are charged on a monthly basis and are based on fixed rates reviewed regularly by the Group.
Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

3. NET TRADING INCOME/(LOSS)

in LEK thousand	2018	2017
Net gains/(loss) on financial assets and liabilities - fair value through profit or loss	**54,728**	**-327,190**
Debt securities	54,728	-340,766
Short positions	-	13,576
Net loss on financial assets and liabilities - designated fair value through profit or loss	**-**	**-36,745**
Debt securities	-	-36,745
Exchange differences, net	**-324,771**	**145,801**
Total	**-270,043**	**-218,134**

4. OTHER NET OPERATING (LOSS)/INCOME

in LEK thousand	2018	2017
Gains on derecognition of non-financial assets	48,539	76,521
Net rental income from investment property incl. operating lease (real estate)	7,592	7,283
Income from release of other provisions	-	128,056
Sundry operating income	53,182	848,929
Other operating income	**109,313**	**1,060,789**
Write down of repossessed collateral	-154,308	-43,019
Losses on derecognition of non-financial assets	-	-15,757
Expense from allocation and release of other provisions	-13,255	-235,443
Other taxes	-46,486	-68,444
Sundry operating expenses	-82,417	-176,489
Other operating expense	**-296,466**	**-539,152**
Total	**-187,153**	**-521,637**

Sundry operating income comprise income from winning a litigation with tax authorities for an amount of 725,464 thousand LEK.

5. GENERAL ADMINISTRATIVE EXPENSES

in LEK thousand	2018	2017
Staff expenses	-2,451,253	-2,355,190
Other administrative expenses	-2,773,765	-2,984,845
Depreciation of tangible and intangible fixed assets	-533,537	-639,277
Total	**-5,758,555**	**-5,979,312**

5. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

Staff expenses

in LEK thousand	2018	2017
Wages and salaries	-2,126,191	-1,999,406
Social security costs and staff-related taxes	-226,117	-220,985
Other voluntary social expenses	-41,153	-35,222
Expenses for defined contribution pension plans	-15,917	-16,479
Staff expenses under deferred bonus program	-35,062	-83,098
Termination benefits	-6,813	-
Total	**-2,451,253**	**-2,355,190**

Expenses for severance payments and retirement benefits

in LEK thousand	2018	2017
Members of the management board and senior staff	-6,805	-6,853
Other employees	-9,112	-9,626
Total	**-15,917**	**-16,479**

Other administrative expenses

in LEK thousand	2018	2017
Office space expenses	-534,014	-584,332
IT expenses	-565,300	-601,758
Legal, advisory and consulting expenses	-289,926	-343,310
Advertising, PR and promotional expenses	-307,949	-300,730
Communication expenses	-54,862	-64,996
Office supplies	-25,543	-25,481
Car expenses	-40,964	-46,752
Deposit insurance fees	-571,743	-627,567
Security expenses	-20,532	-21,968
Traveling expenses	-31,029	-33,428
Training expenses for staff	-27,806	-36,204
Sundry administrative expenses	-304,097	-298,319
Total	**-2,773,765**	**-2,984,845**

Depreciation of tangible and intangible fixed assets

in LEK thousand	2018	2017
Tangible fixed assets	-283,792	-353,848
Intangible fixed assets	-249,745	-285,429
Total	**-533,537**	**-639,277**

6. SPECIAL GOVERNMENTAL MEASURES

in LEK thousand	2018	2017
Resolution fund	-123,050	-
Total	**-123,050**	**-**

The contribution for the resolution fund is in compliance with the Law on "On Recovery and Intervention in Groups in the Republic of Albania" and relevant bylaws, where each Group in Albania pays an annual con-tribution calculated in a proportionate manner with the relevant market share, for the creation of a certain level of emergency intervention fund. This fund is calculated by Group of Albania and is managed by Alba-nian Deposit Insurance Agency" (ADIA) in compliance with the investment policy of the financial instru-ments of the fund.

7. IMPAIRMENT RECOVERY ON FINANCIAL ASSETS

in LEK thousand	2018	2017
Loans and advances	671,890	426,258
Debt securities	-7,764	-
Loan commitments, financial guarantees and other commitments given	-23,646	21,433
Total	**640,480**	**447,691**

8. INCOME TAXES

in LEK thousand	2018	2017
Current income taxes	-663,378	-136,223
Deferred taxes	-13,099	-7,900
Total	**-676,477**	**-144,123**

9. INCOME TAXES(CONTINUED)

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

in LEK thousand	2018	2017
Profit before tax	**3,974,257**	**4,879,463**
Theoretical income tax expense using the domestic tax rate of 15%	596,139	731,919
Tax effect of:		
Tax-exempt income	7,748	9,714
Non-deductible expenses	116,453	76,564
Utilization of tax losses carried forward from prior years	-43,863	-674,074
Effective tax burden	**676,477**	**144,123**
Tax rate in per cent	14.3%	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

in LEK thousand	**2018**	**2017**
Cash on hand	4,381,367	3,621,219
Balances at central Banks	18,025,477	30,295,508
Hereof restricted balance – Compulsory reserve	*17,566,342*	*19,273,090*
Other demand deposits at Banks	589,849	928,203
herof restricted balance as bank guarantees	*183,757*	*194,641*
Total	**22,996,693**	**34,844,930**

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

Cash, cash balances at central Banks and other demand deposits, excluding compulsory reserves held with the central Bank, are highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Compulsory reserves with Central Bank are not for everyday use by the Group and represent a minimum reserve deposit, required by the Central Bank of Albania. 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).

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

in LEK thousand	**2018**	**2017**
Cash on hand (Note 10 above)	4,381,367	3,621,219
Balances at central bank, excluding compulsory reserve (Note 10 above)	459,135	11,022,418
Other demand deposits at banks net of restricted balances (Note 10 above)	406,092	733,562
Loans and advances to central banks (Note 11 below)	6,100,453	-
Loans and advances to other banks (Note 11 below)	26,924,853	35,693,994
Total cash and cash equivalents as included in the statement of cash flows	**38,271,900**	**51,071,193**

11. FINANCIAL ASSETS - AMORTIZED COST

	2018			2017
in LEK thousand	Gross carrying amount	Accumulated impairment	Carrying amount	Carrying amount
Debt securities	**74,463,592**	**-35,863**	**74,427,729**	**72,768,827**
General governments	60,147,998	-34,265	60,113,733	57,327,368
Banks	14,315,594	-1,598	14,313,996	15,441,459
Loans and advances	**131,854,427**	**-11,777,215**	**120,077,212**	**125,784,122**
Central Banks	6,100,500	-47	6,100,453	-
General governments	10	-	10	7
Banks	26,925,022	-169	26,924,853	35,693,994
Other financial corporations	70	-1	69	498
Non-financial corporations	62,326,745	-9,588,439	52,738,307	58,489,939
Households	36,502,080	-2,188,559	34,313,520	31,599,684
Total	**206,318,019**	**-11,813,078**	**194,504,941**	**198,552,949**

12. FINANCIAL ASSETS - DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

in LEK thousand	2018	2017
Debt securities	-	2,485,514
Total		**2,485,514**

Debt securities as at 31 December 2017 include bonds with 5 years and 7 years bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 6.62% to 7.85%.

13. FINANCIAL ASSETS - FAIR VALUE THROUGH PROFIT OR LOSS

in LEK thousand	2018	2017
Debt securities	2,516	7,826,094
Total	**2,516**	**7,826,094**

Treasury bills as at 31 December 2018 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 1.7% to 2.74% per annum (31 December 2017: zero-coupon treasury bills of the Gov-ernment of Albania with yields ranging from from 2.1% to 2.6%).

14. GOODWILL

During the year 2009, Raiffeisen Bank acquired 100% of the shares of the Raiffeisen INVEST – Shoqëri Ad-ministruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST"), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2009, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2018 (2017: Lek 90 mil-lion).

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 2018, the carrying amount of the cash generating unit to which goodwill has been allocated, does not exceed its recoverable amount and therefore goodwill is considered not to be im-paired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2018 (2017: nil).

15. DEVELOPMENT OF FIXED ASSETS

in LEK thousand	2018	2017
Tangible fixed assets	**1,456,318**	**1,482,584**
Land and buildings used by the Group for own purpose	599,350	639,658
Other land and buildings (investment property)	114,737	119,927
Office furniture, equipment and other tangible fixed assets	742,231	722,999
Intangible fixed assets	**1,336,287**	**1,460,951**
Software	1,336,287	1,460,951
Total	**2,792,605**	**2,943,535**

The fair value of investment properties carried at cost model as at 31 December 2018 is 172,167 thousand lek, 31 December 2017 is 119,927 thousand lek.

Rental income from investment property of Lek 7,592 thousand (2017: Lek 7,283 thousand) has been recog-nised in other net operating income.

	Cost of acquisition				
in LEK thousand	**As at 1/1/2018**	**Additions**	**Disposals**	**Transfers**	**As at 31/12/2018**
Tangible fixed assets	**4,907,652**	**310,803**	**-286,880**	**0**	**4,931,574**
Land and buildings used by the Group for own purpose	1,352,858	63,073	-98,463	477	1,317,945
Other land and buildings (investment property)	146,296	5,240	-4,751	0	146,785
Office furniture, equipment and other tangible fixed assets	3,408,498	242,490	-183,666	-477	3,444,068
Intangible fixed assets	**2,891,324**	**126,155**	**-4,942**	**0**	**3,012,537**
Software and licences	2,891,324	126,155	-4,942	0	3,012,537
Total	**7,798,976**	**436,958**	**-291,822**	**0**	**7,944,111**

15. DEVELOPMENT OF FIXED ASSETS (CONTINUED)

Fixed assets developed as follows:

	Write-ups, amortization, depreciation, impairment			Carrying amount
in LEK thousand	Cumulative	Accumulated depreciation on sales	Depreciation	As at 31/12/2018
Tangible fixed assets	**-3,425,068**	**233,345**	**-283,534**	**1,456,318**
Land and buildings used by the Group for own purpose	-713,200	59,497	-64,892	599,350
Other land and buildings (investment property)	-26,369	2,765	-8,444	114,737
Office furniture, equipment and other tangible fixed assets	-2,685,499	171,083	-210,198	742,231
Intangible fixed assets	**-1,430,373**	**3,706**	**-249,583**	**1,336,287**
Software	-1,430,373	3,706	-249,583	1,336,287
Total	**-4,855,441**	**237,051**	**-533,117**	**2,792,605**

in LEK thousand	As at 1/1/2018	Additions	Disposals	Transfers	As at 31/12/2018
Tangible fixed assets	**4,907,652**	**310,803**	**-286,880**	**0**	**4,931,574**
Land and buildings used by the Group for own purpose	1,352,858	63,073	-98,463	477	1,317,945
Other land and buildings (investment property)	146,296	5,240	-4,751	0	146,785
Office furniture, equipment and other tangible fixed assets	3,408,498	242,490	-183,666	-477	3,444,068
Intangible fixed assets	**2,891,324**	**126,155**	**-4,942**	**0**	**3,012,537**
Software	2,891,324	126,155	-4,942	0	3,012,537
Total	**7,798,976**	**436,958**	**-291,822**	**0**	**7,944,111**

in LEK thousand	Cumulative	Acc. Depreciation on sales	Depreciation	Carrying amount as at 31/12/2017
Tangible fixed assets	**-3,426,675**	**353,025**	**-351,419**	**1,482,583**
Land and buildings used by the Group for own purpose	-679,946	30,200	-63,454	639,658
Other land and buildings (investment property)	-19,296	0	-7,073	119,927
Office furniture, equipment and other tangible fixed assets	-2,727,433	322,825	-280,892	722,998
Intangible fixed assets	**-1,216,973**	**72,029**	**-285,429**	**1,460,951**
Software	-1,216,973	72,029	-285,429	1,460,951
Total	**-4,643,648**	**425,054**	**-636,848**	**2,943,534**

16. TAX ASSETS

in LEK thousand	2018	2017
Current tax assets	677,936	1,217,819
Deferred tax assets	7,041	20,140
Total	**684,977**	**1,237,959**

Deferred tax assets derived from the following items:

in LEK thousand	2017	TRecognised in profit or loss	2018
Tangible and Intangible Fixed Assets	20,140	**-13,099**	7,041
Total	**20,140**	**-13,099**	**7,041**

in LEK thousand	2016	Recognised in profit or loss	2017
Tangible and Intangible Fixed Assets	28,039	**-7,899**	20,140
Total	**28,039**	**-7,899**	**20,140**

17. OTHER ASSETS

in LEK thousand	2018	2017
Prepayments and other deferrals	285,727	307,974
Repossessed collaterals	1,359,633	1,518,310
Other assets	459,731	644,864
Total	**2,105,091**	**2,471,148**

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

Repossessed collateral, net comprise the following:

in LEK thousand	2018	2017
Repossessed collaterals	1,780,254	1,789,708
Write down of repossessed collateral	-420,621	-271,398
Total	**1,359,633**	**1,518,310**

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

in LEK thousand	2018	2017
Balance at the beginning of the year	271,398	243,049
Additional write down	154,308	43,019
Reversal of write down	-5,085	-14,670
Balance at the end of the year	**420,621**	**271,398**

18. FINANCIAL LIABILITIES - AMORTIZED COST

The following table provides a breakdown of Deposits from Banks and customers by product and a break-down of debt securities issued:

in LEK thousand	2018	2017
Due to Banks	**6,452,671**	**12,926,938**
Current accounts/overnight deposits/redeemable at notice	50,751	1,640,645
Deposits with agreed maturity	4,502,291	2,465,441
Subordinated financial liabilities	1,899,629	8,820,852
Deposits from customers	**187,798,423**	**205,022,700**
Current accounts/overnight deposits/redeemable at notice	138,058,897	149,354,463
Deposits with agreed maturity	49,739,526	55,668,237
Other financial liabilities	**298,423**	**1,276,508**
Total	**194,549,517**	**219,226,146**

In Deposits from Banks is included the 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 5.43% p.a. (2017: 5.43% p.a) and matured and paid 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. (2017: 4.8% p.a) and matures on 28 June 2020. The debt ranks after all other creditors in case of liquidation.

The following table shows the cash and non-cash effects for financial according to IAS 7:

in LEK thousand	2018	2017
Carrying amount as at 1 January	**8,820,852**	**8,965,577**
Cash flows		-
effect of exchange rate changes	-146,682	-148,200
Interest expense	337,406	494,475
Interest paid	-468,180	-491,000
Principal paid	-6,643,768	-
Total change	**-6,921,224**	**-144,725**
Carrying amount as at 31 December	**1,899,629**	**8,820,852**

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

in LEK thousand	2018	2017
Central Banks	2	-
General governments	2,153,744	1,167,531
Banks	6,452,669	12,926,938
Other financial corporations	3,507,756	2,160,288
Non-financial corporations	38,451,903	39,412,758
Households	143,685,020	162,282,123
Total	**194,251,094**	**217,949,638**

19. PROVISIONS FOR LIABILITIES AND CHARGES

in LEK thousand	2018	2017
ECL for off-balance-sheet items	**81,821**	**21,140**
ECL for contingent liabilities and commitments	81,821	21,140
Accruals for staff	**174,889**	**160,548**
Bonus payments	125,428	120,548
Overdue vacations	49,461	40,000
Other provisions	**36,071**	**43,020**
Legal issues and tax litigation	36,071	33,255
Other provisions	-	9,765
Total	**292,781**	**224,708**

The following table shows the changes in provisions for liabilities and charges in the reporting year, alt-hough provisions for off-balance-sheet items pursuant to IFRS 9 of 81,988 LEK thousand are not included. These are shown under (28) Development of impairments.

in LEK thousand	1/1/2018	Allocation	Release	Usage	Transfers,	31/12/2018
Accruals for staff	**160,548**	**exchange**	**-260,283**	**-64,135**	**0**	**174,889**
Bonus payments	120,548	differences	-223,380	-64,135	0	125,428
Overdue vacations	40,000	46,364	-36,903	0	0	49,461
Other provisions	**43,020**	**14,710**	**-6,328**	**-14,631**	**-700**	**36,071**
Legal issues and tax litigation	33,255	14,228	-6,328	-5,084	0	36,071
Other provisions	9,765	482	-	-9,547	-700	0
Total	**203,568**	**353,469**	**-266,611**	**-78,766**	**-700**	**210,960**

Due to the change in the presentation of the statement of financial position, preparation of a direct compari-son with the previous year would entail disproportionate effort. The following table shows the changes in provisions in the previous year:

in LEK thousand	1/1/2017	Allocation	Release	Usage	Exchange differences	31/12/2017
ECL for contingent liabilities and commitments	42,573	925	-22,358		-	21,140
Legal issues	61,035	12,645	-10,378	-30,047	-	33,255
Overdue vacation	36,979	44,579	-	-41,558	-	40,000
Bonus payments	197,399	77,881	-	-154,732	-	120,548
Other	37,159	-	-7,144	-19,659	-591	9,765
Total	**375,145**	**136,030**	**-39,880**	**-245,996**	**-591**	**224,708**

20. OTHER LIABILITIES

in LEK thousand	2018	2017
Deferred income and accrued expenses	242,581	255,985
Due to employees	115,488	70,188
Other tax liabilities	107,016	41,623
Sundry liabilities	257,557	302,360
Total	**722,642**	**670,156**

21. EQUITY

in LEK thousand	2018	2017
Sharecapital	14,178,593	14,178,593
Other reserves	3,306,190	3,306,190
Retained earnings	10,129,883	12,849,119
hereof profit for the year	*3,602,202*	*4,720,454*
Total	**27,614,666**	**30,333,902**

During 2018, the Assembly meeting of the Sole Shareholder approved the distribution and payment of a dividends amounting to Lek 4,093,684 from the retained earnings.

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

Share capital

The Group's capital is EUR 100,397,823 comprised of 7,000 shares (2017: 7,000 shares). The Group's capital is equal to LEK 14,178,593 thousand and the nominal value of each share is LEK 2,025,513 (2017: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each). The capital con-version was approved through decision of General Meeting of the Shareholders dated 25 January 2016.

Other reserves

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

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

in LEK thousand	2018	2017
Regulatory reserves	1,852,979	1,852,979
Legal reserves	1,453,211	1,453,211
Total	**3,306,190**	**3,306,190**

NOTES TO FINANCIAL INSTRUMENTS

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

If fair value cannot be measured using either sufficiently regularly quoted market prices (Level I) or using valuation models which are entirely based on observable market prices (Level II), then individual input pa-rameters which are not observable on the market are estimated using appropriate assumptions. If parameters which are not observable on the market have a significant impact on the measurement of the underlying fi-nancial instrument, it is assigned to Level III of the fair value hierarchy. These measurement parameters, which are not regularly observable, are mainly credit spreads derived from internal estimates.

Assigning certain financial instruments to the level categories requires regular assessment, especially if measurement is based on both observable parameters and also parameters which are not observable on the market. The classification of an instrument can also change over time to take account of changes in market liquidity and thus price transparency.

Fair value of financial instruments reported at fair value

In the tables below, the financial instruments reported at fair value in the statement of financial position are grouped according to items in the statement of financial position and classified according to measurement category. A distinction is made as to whether the measurement is based on quoted market prices (Level I), or whether the valuation models are based on observable market data (Level II) or on parameters which are not observable on the market (Level III). Items are assigned to levels at the end of the reporting period.

	2018			**2017**		
Assets in LEK thousand	**Level I**	**Level II**	**Level III**	**Level I**	**Level II**	**Level III**
Financial assets - fair value through profit or loss			**2,516**		**7,826,094**	
Debt securities			2,516		7,826,094	
Financial assets - designated fair value through profit or loss					**2,485,514**	
Debt securities			-		2,485,514	

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Qualitative information for the valuation of financial instruments in Level III

Assets	Fair value in LEK thousand	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
2018	-			
Financial assets - fair value through profit or loss	2,516	Discounted cash flow method (DCF)	ALL base rate -last auctions yields -T bills	1 - 1.433%
Treasury bills, fixed coupon bonds	**2,516**			
Total				

Fair value of financial instruments not reported at fair value

The financial instruments in the following table are not managed on a fair value basis and are therefore not measured at fair value in the statement of financial position. For these instruments the fair value is calculated only for the purposes of providing information in the notes, and has no impact on the consolidated statement of financial position or on the consolidated income statement. With the introduction of IFRS 9, the calcula-tion of the fair value of receivables and liabilities not reported at fair value was reclassified and, among other things, input factors are also used in the models which are not observable on the market, but which have a significant influence on the calculated value. A simplified fair value calculation method for retail and non-retail portfolios is applied for all short term transactions (transactions with maturities up to 3 months). The fair value of these short term transactions will be equal to the carrying amount of the product. For the other transactions the methodology as described in the section entitled Fair value of financial instruments reported at fair value is applied.

2018						
in LEK thousand	**Level I**	**Level II**	**Level III**	**Fair value**	**Carrying amount**	**Difference**
Assets						
Financial assets - amortized cost						
Cash and cash equivalents	-	-	22,996,693	22,996,693	22,996,693	-
Debt securities	-	-	75,977,043	75,977,043	74,427,729	1,549,314
Loans and advances	-	-	120,077,213	120,077,213	120,077,213	-
Liabilities						
Financial liabilities - amortized cost	-	-	194,534,298	194,534,298	194,549,517	-15,219
Deposits	-	-	194,235,875	194,235,875	194,251,094	-15,219
Other financial liabilities	-	-	298,423	298,423	298,423	-

As a result of the change in the presentation of the statement of financial position, the preparation of a direct prior-year comparison would require undue cost and effort.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2017						
in LEK thousand	**Level I**	**Level II**	**Level III**	**Fair value**	**Carrying amount**	**Difference**
Assets						
Cash and cash equivalents	-	-	33,919,279	33,919,279	33,919,279	-
Loans to Groups	-	28,699,610	7,920,009	36,619,618	36,619,618	-
Loans to customers	-	-	90,081,549	90,081,549	90,081,549	-
Financial investments	-	73,065,406	20,152	73,085,558	72,768,827	316,731
Liabilities						
Deposits from Banks	-	6,167	4,099,919	4,106,086	4,106,086	-
Deposits from customers	-	-	205,006,537	205,006,537	205,022,700	-16,163
Subordinated liability	-	8,820,852	8,820,852	8,820,852	8,820,852	-

Level I Quoted market prices
Level II Valuation techniques based on market data
Level III Valuation techniques not based on market data

23. LOAN COMMITMENTS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS

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

in LEK thousand	2018	2017
Loan commitments given	12,204,151	11,499,800
Financial guarantees given and other commitments given	9,038,241	9,724,782
Total	**21,242,392**	**21,224,582**
Provisions for off-balance-sheet items under IFRS 9	81,821	58,342

The following table shows the nominal amount and provisions for off-balance-sheet liabilities from commit-ments and financial guarantees under IFRS 9.

2018	Nominal amount			Provisions for off-balance-sheet items under IFRS 9		
in LEK thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Central Banks	11,858	-	-	9	-	-
Banks	2,702,366	757,627	-	58	4	-
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	13,470,695	595,094	465	26,456	3,219	300
Households	3,430,117	245,991	28,180	21,630	6,412	23,733
Total	**19,615,036**	**1,598,712**	**28,645**	**48,153**	**9,635**	**24,033**

24. CREDIT QUALITY ANALYSIS

The credit quality analysis of financial assets is a point in time assessment of the probability of default of the assets. It should be noted that for financial assets in stage 1 and 2, due to the relative nature of significant increase in credit risk it is not necessarily the case that stage 2 assets have a lower credit rating than stage 1 assets, although this is normally the case. The following list provides a description of the Banking of assets by probability of default:

- Excellent are exposures which demonstrate a strong capacity to meet financial commitments, with negligible or no probability of default (PD range 0.0000 - 0.0300 per cent).
- Strong are exposures which demonstrate a strong capacity to meet financial commitments, with neg-ligible or low probability of default (PD range 0.0300 - 0.1878 per cent).
- Good are exposures which demonstrate a good capacity to meet financial commitments, with low default risk (PD range 0.1878 - 1.1735 per cent).
- Satisfactory are exposures which require closer monitoring and demonstrate an average to fair capac-ity to meet financial commitments, with moderate default risk (PD range 1.1735 - 7.3344 per cent).
- Sub-standard are exposures which require varying degrees of special attention and default risk is of greater concern (PD range 7.3344 - 100.0 per cent).
- Credit impaired are exposures which have been assessed as impaired (PD range 100.0 per cent).

The following table sets out information about the credit quality of financial assets measured at amortized cost and fair value through other comprehensive income. The amortized cost and fair value through other comprehensive income amounts represent the gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.
The following table shows the carrying amounts of the financial assets – amortized cost by rating category and stages:

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
in LEK thousand	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	
Excellent	-	-	-	-
Strong	38,416,777	-	-	38,416,777
Good	95,663,089	583,103	-	96,246,192
Satisfactory	43,978,765	4,172,249	-	48,151,014
Substandard	3,062,972	3,955,953	-	7,018,925
Credit impaired	-	-	13,795,441	13,795,441
Unrated	2,589,492	95,076	-	2,684,568
Gross carrying amount	**183,711,094**	**8,806,382**	**13,795,441**	**206,312,916**
Accumulated impairment	-596,365	-756,901	-10,459,811	-11,813,078
Carrying amount	**183,114,728**	**8,049,481**	**3,335,629**	**194,499,838**

The category unrated includes financial assets for several retail customers for whom no ratings are available. The rating is therefore based on qualitative factors.

24. CREDIT QUALITY ANALYSIS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

	Corporate	*Small Enterprises*	*Micro SMEs*	*Individuals*	*Employees*	*Total*
Neither past due nor impaired						
Grade 2B	12,863	-	-	-	-	12,863
Grade 3C	1	-	-	-	-	1
Grade 4A	12,743	-	-	-	-	12,743
Grade 4B	4,284	2,266,442	-	-	-	2,270,726
Grade 4C	311	-	-	-	-	311
Grade 5A	966,845	-	-	-	-	966,845
Grade 5B	1,210,244	1,658,876	-	-	-	2,869,120
Grade 5C	825,248	-	-	-	-	825,248
Grade 6A	1,971,695	872,562	-	-	-	2,844,257
Grade 6B	1,467,439	400,216	-	-	-	1,867,655
Grade 6C	3,138,734	677,150	-	-	-	3,815,884
Grade 6.1	89,240	-	-	-	-	89,240
Grade 6.2	43,813	-	-	-	-	43,813
Grade 7A	24,144,913	233,519	-	-	-	24,378,432
Grade 7B	2,432,915	592,846	-	-	-	3,025,761
Grade 7C	1,518,460	402,052	-	-	-	1,920,512
Grade 8A	800,992	224,298	-	-	-	1,025,290
Grade 8B	46,515	232,825	-	-	-	279,340
Grade 8C	541,656	162,654	-	-	-	704,310
Grade 9A	1,267	-	-	-	-	1,267
Grade 9B	2,009,806	544,657	-	-	-	2,554,463
Grade 9C	373,913	-	-	-	-	373,913
*Grade (unrated)	4,580	3,808	1,184,461	25,575,049	4,341,062	31,108,960
Total neither past due nor impaired	**41,618,477**	**8,271,905**	**1,184,461**	**25,575,049**	**4,341,062**	**80,990,954**

	Corporate	Small Enterprises	Micro SMEs	Individuals	Employees	Total
Past due but not impaired						
- less than 30 days overdue	1,861,788	1,063,408	63,465	1,108,290	149,310	4,246,261
- 30 to 60 days overdue	793,615	71,710	30,762	221,343	-	1,117,430
- 60 to 90 days overdue	-	21,886	14,769	112,295	-	148,950
- 90 to 180 days overdue	413	146,568	8,956	30,870	-	186,807
- 180 to 360 days overdue	7,556	19,667	2,753	15,282	-	45,258
- over 360 days overdue	162,022	61,489	6,018	15,260	-	244,789
Total past due but not impaired	**2,825,394**	**1,384,728**	**126,723**	**1,503,340**	**149,310**	**5,989,495**
- less than 30 days overdue	841,454	102,562	35,175	275,896	51	1,255,138
- 30 to 60 days overdue	723,690	8,311	1,462	76,859	4	810,326
- 60 to 90 days overdue	-	1,851	5,997	114,743	-	122,591
- 90 to 180 days overdue	534,162	64,345	22,897	245,507	1	866,912
- 180 to 360 days overdue	1,615,929	62,131	68,850	275,174	1,592	2,023,676
- over 360 days overdue	9,518,281	673,362	167,414	956,708	4	11,315,769
Total individually impaired loans (gross)	13,233,516	912,562	301,795	1,944,887	1,652	16,394,412
Less impairment provisions	(10,394,941)	(707,847)	(266,322)	(1,899,439)	(24,763)	(13,293,312)
Total loans and advances to customers	47,282,446	9,861,348	1,346,657	27,123,837	4,467,261	90,081,549

24. CREDIT QUALITY ANALYSIS (CONTINUED)

*Detailed analysis by credit quality of Unrated loans outstanding at 31 December 2017 for Micro SMEs, Individuals and Employees are as follows:

	Micro SMEs	*Individuals*	*Employees*	*Total*
Grade 0.5	1,011	329,586	67,691	398,288
Grade 1.0	-	2,438,985	1,192,562	3,631,547
Grade 1.5	8,926	5,143,781	1,672,944	6,825,651
Grade 2.0	15,688	6,868,474	862,908	7,747,070
Grade 2.5	127,705	5,996,660	386,899	6,511,264
Grade 3.0	630,691	2,425,019	57,492	3,113,202
Grade 3.5	78,290	730,143	25,840	834,273
Grade 4.0	10,391	191,406	878	202,675
Grade 4.5	722	134,922	129	135,773
Grade 5	1,469	10,913	-	12,382
Grade (unrated)	309,568	1,305,160	73,719	1,688,447
Total	1,184,461	25,575,049	4,341,062	31,100,572

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

2018	**Niveli 1**	**Niveli 2**	**Niveli 3**	**Totali**
in LEK thousand	**HPK 12 mujore**	**HPK gjatë gjithë jetës**	**HPK gjatë gjithë jetës**	**HPK 12 mujore**
Excellent	-	750,000	-	750,000
Strong	2,641,413	7,627	-	2,649,040
Good	6,600,777	245,933	-	6,846,709
Satisfactory	6,367,961	460,546	-	6,828,507
Substandard	342,191	129,552	-	471,743
Credit impaired	-	-	28,645	28,645
Unrated	3,662,693	5,054	-	3,667,747
Total	**19,615,035**	**1,598,712**	**28,645**	**21,242,391**
Provisions for off-balance-sheet items under IFRS 9	48,152	9,636	24,033	81,821

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

25. COLLATERAL AND MAXIMUM EXPOSURE TO CREDIT RISK

It should be noted that the collateral values shown in the tables are capped at the maximum value of the gross carrying amount of the financial asset. The following table shows financial assets at amortized cost subject to impairment:

2018			
in LEK thousand	**Maximum exposure to credit risk**	**Fair value of collateral**	**Credit risk exposure net of collateral**
Central Banks	6,100,453	-	6,100,453
General governments	60,108,640	-	60,108,640
Banks	41,238,849	-	41,238,849
Other financial corporations	2,705,590	-	2,705,590
Non-financial corporations	52,597,711	28,530,316	24,067,395
Households	34,814,437	10,035,027	24,779,410
Commitments/guarantees issued	21,792,051	5,445,743	16,346,308
Total	**219,357,731**	**44,011,086**	**175,346,645**

2017			
in LEK thousand	**Maximum exposure to credit risk**	**Fair value of collateral**	**Credit risk exposure net of collateral**
Banks and general governments	108,442,676	-	108,442,676
Other financial corporations	2,852,820	-	2,852,820
Non-financial corporations	58,330,077	43,586,457	14,743,620
Households	32,037,472	9,531,829	22,505,643
Commitments/guarantees issued	22,830,443	-	22,830,443
Total	**224,493,488**	**53,118,286**	**171,375,202**

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

2018				
in LEK thousand	**Maximum exposure credit risk (Stage 3)**	**Fair value of collateral (Stage 3)**	**Credit risk exposure net of collateral (Stage 3)**	**Impairment (Stage 3)**
Non-financial corporations	12,003,345	2,550,883	9,024,354	-9,080,518
Households	1,792,095	131,012	1,648,365	-1,379,292
Commitments/ guarantees issued	28,645	520	28,125	-24,033
Total	**13,380,329**	**2,459,071**	**10,921,258**	**-10,191,419**

26. EXPECTED CREDIT LOSSES

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of the money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

General approach

The measurement of impairment for expected credit loss on financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and signif-icant assumptions about future economic conditions and payment behavior. Significant judgements are re-quired in applying the accounting requirements for measuring expected credit losses, inter alia:

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

Significant increase in credit risk

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

Quantitative criteria

Whether credit risk has increased significantly over the expected life of the financial instrument, the risk of a default at reporting date needs to be compared with the risk of a default at initial recognition.

Qualitative criteria

Active management practice

If based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk management practice is expected to become more active, the impairment model will react by possibly assigning such financial instrument to stage 2, for which a lifetime expected credit loss will be calculated. Necessary information to detect the affected assets is available in the early warning system of the RBAL in form of a client risk status. Generally speaking, workout assets of RBAL are more closely monitored or con-trolled, which indicates significant increase in credit risk and in the implemented impairment calculation model triggers stage 2 and lifetime expected credit loss calculation.

Contractual framework of an instrument

If changes to the contractual framework of the instrument occur, the Group uses information on a financial instrument level and identifies all forborne assets, which are claimed to fulfill the criteria for a significant increase in credit risk and are consequently likely to be transferred to stage 2.

30 Days past due

Breaching the threshold of 30 days past due, a financial instrument will be considered to indicate a signifi-cant increase in credit riskand are consequently likely to be transferred to stage 2.

Default on customer level

In Private Individual segment a default on one instrument of the borrower causes all other instruments to move to stage 2 under the assumption that there is no cross-default clause for Retail ("default flag").

Backstop

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

26. EXPECTED CREDIT LOSSES (CONTINUED)

Low credit risk exemption

The low credit risk exception is applied within the Group only to the particular segment of sovereign bonds, defined via bond exposures to counterparties belonging to the sovereign rating model. The low credit risk exemption is applied regardless of the counterparty type within the sovereign rating model. And if for sover-eign bonds the one-year PD, including forward-looking information, is below 0.5% the credit risk is consid-ered to be low and stage 1 applies. In all other cases the usual staging rule is used solely.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.
The "Credit-impaired" indicators according to IFRS 9 are:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial diffi-culty, havinggranted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter Groupruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses,

when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on a material credit obligation. No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Qualitative criteria

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

- A credit obligation is sold at a material economic loss
- A credit obligation is subject to a distressed restructuring
- An obligor is Grouprupt/insolvent
- An obligor committed credit fraud
- An obligor is deceased
- A credit contract was prematurely terminated due to obligor's non-compliance with contractual obliga-tions.

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

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

Explanation of inputs, assumptions and estimation techniques

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

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

26. EXPECTED CREDIT LOSSES (CONTINUED)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash short-falls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carry-ing amount and the present value of estimated future cash flows;

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD and lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. ECL are discounte using the original effective interest rates

Probability of Default (PD)

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next twelvemonths or over the remaining lifetime of the obligation. Starting with the regulatory internal ratings-based approach (IRB) parameterization, a number of adjustments are necessary to achieve IFRS 9 conformity for expected credit losses (ECL):

- Switch from through-the-cycle (TTC) to point-in-time (PIT) estimates for PD
- Apply a forward looking perspective including expected macroeconomic, sub-systemic and idiosyn-cratic factors
- Extend the time horizon in case of Stage 2 (lifetime ECL)
- Extract downturn and conservative add-ons, regulatory floors from loss and exposure in default esti-mation

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

- Sovereign, local and regional governments, insurance companies and collective investment undertakings:
- Corporate customers, project finance and financial institutions:
- Retail mortgages and other retail lending

Loss Given Default (LGD)

default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a twelve-month or lifetime basis, where twelve-month loss given default is the percentage of loss expected to be made if the default occurs in the next twelve months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.
Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign: The loss given default is found by using market implied sources, as no sufficient loss data is available for the sovereign segment. The method is based on external sovereign default events between 1998 and 2015.Only the GDP turned out to have a significant impact.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies: The loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model.
- Retail mortgages and other retail lending: For portfolios with developed IRB models, the pool level Basel LGD values is used as a starting point for deriving IFRS 9 compliant LGD estimates. The key difference between Basel LGD and IFRS 9 LGD is that for Basel the intention is to have a TTC average estimate of the discounted value of post-default recoveries enlarged with margins of conservatism to account for prudency, whereas for IFRS 9 the LGD estimate has to be an unbiased point in time estimate that should consider forward-looking information. Therefore, the Basel LGD estimates must be adjusted for IFRS 9 purposes. The adjustments needed to achieve IFRS

26. EXPECTED CREDIT LOSSES (CONTINUED)

9 compliance are as follows:

- stripping of all conservative margins (e.g. downturn margin, estimation error margin),
- eliminating regulatory floors,
- adjusting the effect of the different discount rates inherent in the Basel LGD to resemble discounting with EIR,
- removing indirect costs from the LGD estimates, and
- carrying out adjustments to take into account relevant macroeconomic forecasts (if there is reasona-ble evidence that the relationship between recovery rates and macroeconomic factors exists).

In the limited circumstances where some inputs are not fully available alternative recovery models, bench-marking of inputs and expert judgement is used for the calculation.

Exposure at Default (EAD)

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

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of de-fault. The prudential regulatory margins are removed from the credit conversion factor. In the limited circum-stances where some inputs are not fully available benchmarking of inputs is used for the calculation.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the origi-nal effective interest rate of the existing financial asset.

Shared credit risk characteristics

Almost all of the provisions under IFRS 9 are measured collectively. Only for non-retail Stage 3 are most of the provisions individually assessed.

If reasonable and supportable information to measure ECL is not available on an individual instrument basis, lifetime ECL for assets in Stage 3 is recognised on a collective basis that considers comprehensive credit risk information - same treatment as for assets in stages 1 and 2. In Retail, almost of the cases is used the collec-tive approach, considering that the majority of cases are assessed collectively based on historical loss infor-mation, while the individual assessment shall be performed on exceptional basis only for cases where the entity has the whole dataset needed to make the full assessment of the estimated future cash flows.

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

26. EXPECTED CREDIT LOSSES (CONTINUED)

Forward looking information

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

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

In addition to the base economic scenario, Raiffeisen Research also estimates an optimistic and a pessimistic scenario to ensure non-linearities are captured. The Group has concluded that three or fewer scenarios appro-priately captured non-linearity. Expert judgment on idiosyncratic risks has also been applied in this process on the level of Raiffeisen Research in coordination with the Group risk management, resulting in selective adjustments to the optimistic and pessimistic scenarios. In case of a potential negative or positive forecast bias of selected macroeconomic indicators a potential bias correction is performed. In this respect the range of possible outcomes which is representative for each chosen scenario is taken into account. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected cred-it loss (ECL) model and multiplying it by the appropriate scenario weighting.

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

Sensitivity analysis

The most significant assumptions affecting the sensitivity of the expected credit loss allowance are as fol-lows:

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

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

2018 in LEK thousand	31/12/2018 (25/50/25%)	100% Optimist	100% Base	100% Pesimistic
Accumulated impairment (Stage 1 & 2)	1,343,364	1,311,270	1,231,805	1,405,133

Write-Offs

Loans and debt securities are written off (either partially or fully) where there is no reasonable expectation of recovery. This happens when the borrower does not have income from operations anymore and collateral values cannot generate sufficient cash flows to repay amounts subject to the write-off. For the exposure of companies in Groupruptcy, loans are written down on the value of the collateral if the company no longer generates cash flows from its operating business. The retail business takes into account qualitative factors. In cases where no payment has been made for one year, the outstanding amounts are derecognised whereby depreciated assets can continue to be subject to enforcement activities. For the exposure of companies in gone concern cases, loans are written down to the value of the collateral if the

26. EXPECTED CREDIT LOSSES (CONTINUED)

company no longer generates cash flows from its operat-ing business. The retail business takes into account qualitative factors. In cases where no payment has been made for one year, the outstanding amounts are written off here. The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity were immateri-al/amounts to LEK thousand.

27. GROSS EXPOSURE BY STAGES

The Group's credit portfolio is well diversified in terms of type of customer, geographical region and industry. Single name concentrations are also actively managed (based on the concept of Groups of connected customers) by limits and regular reporting. As a consequence, portfolio granularity is high. The following table shows the financial assets – amortized cost based on the respective counterparties and stages. This reveals the Group's focus on non-financial companies and households:

27. GROSS EXPOSURE BY STAGES (CONTINUED)

2018	Gross carrying amount			Accumulated impairment			ECL Coverage Ratio		
in LEK thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Central Banks	6,100,500	-	-	-47	-	-	-	-	-
General governments	60,142,905	-	-	-34,265	-	-	-	-	-
Banks	41,240,616	-	-	-1,767	-	-	-	-	-
Other financial corporations	70	-	-	-	-	-	-	-	-
Non-financial corporations	46,075,540	4,247,862	12,003,345	-266,334	-241,587	-9,080,518	0.58%	5.69%	75.65%
Households	30,151,464	4,558,520	1,792,095	-293,952	-515,314	-1,379,293	0.97%	11.30%	76.97%
hereof mortgage	10,898,113	1,912,089	422,409	-43,815	-151,535	-319,758	0.40%	7.93%	75.70%
Total	**183,711,095**	**8,806,382**	**13,795,440**	**-596,364**	**-756,901**	**-10,459,811**	**0.32%**	**8.59%**	**75.82%**

The following table shows the contingent liabilities and other off-balance-sheet commitments by counterparties and stages. This reveals the Group's focus on non-financial company customers.

2018	Nominal amount			Provisions for off-balance-sheet items under IFRS 9			ECL Coverage Ratio		
in LEK thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Central Banks	11,858	-	-	-9	-	-	0.08%	-	-
Banks	2,702,366	757,627	-	-58	-4	-	0.00%	-	-
Other financial corporations	-	0	-	-	0	-	-	-	-
Non-financial corporations	13,470,694	595,094	465	-26,456	-3,219	-300	0.20%	0.54%	64.52%
Households	3,430,117	245,991	28,180	-21,629	-6,413	-23,733	0.63%	2.61%	84.22%
Total	**19,615,035**	**1,598,712**	**28,645**	**-48,152**	**-9,636**	**-24,033**	**0.25%**	**0.60%**	**83.90%**

27. GROSS EXPOSURE BY STAGES (CONTINUED)

The following table shows the gross carrying amount and impairments of the financial assets – amortized cost that have moved from measurement on the basis of expected 12-month losses to measurement on the basis of expected lifetime losses or vice versa:

2018	Gross carrying amount		Impairment		ECL Coverage Ratio	
in LEK thousand	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL	12 month ECL	Lifetime ECL
Movement from 12 month ECL to lifetime ECL						
Other financial corporations	-1,668,534	-	-	-	-	-
Non-financial corporations	-2,086,706	1,668,534	-19,517	117,015	1.17%	7.01%
Households	-	2,086,706	-37,609	402,901	1.80%	19.31%
Movement from lifetime ECL to 12 month ECL	314,313	-	-	-		
Non-financial corporations	636,500	-314,313	4,156	-8,489	1.32%	2.70%
Households	-1,668,534	-636,500	7,925	-103,716	1.25%	16.29%

28. DEVELOPMENT OF IMPAIRMENTS

Tabela e mëposhtme tregon zhvlerësimin e kredive dhe borxhit për aktivet financiare të matur me koston e amortizuar dhe aktivet financiare.

	Stage 1	Stage 2	Stage 3		Total
in LEK thousand	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**POCI**	
As at 1/1/2018	**476,015**	**577,676**	**13,041,676**	**273,426**	**14,368,793**
Increases due to origination and acquisition	49,527	10,428	52,708	1,608,043	1,720,706
Decreases due to derecognition	-21,646	-34,596	-101,289	-	-157,531
Changes due to change in credit risk (net)	95,244	228,419	-2,193,910	-99,899	-1,970,146
Decrease in allowance account due to write-offs	-2,775	-25,026	-2,073,487	-47,456	-2,148,744
As at 31/12/2018	**596,365**	**756,901**	**8,725,698**	**1,734,114**	**11,813,078**

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

	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	
As at 1/1/2018	**30,993**	**8,572**	**18,777**	**58,342**
Increases due to origination and acquisition	25,845	2,753	-	28,598
Decreases due to derecognition	-16,849	-3,892	-	-20,741
Changes due to change in credit risk (net)	8,163	2,203	5,256	15,622
As at 31/12/2018	**48,152**	**9,636**	**24,033**	**81,821**

28. DEVELOPMENT OF IMPAIRMENTS (CONTINUED)

Tabela e mëposhtme tregon ndarjen sipas klasës së aktiveve të zhvlerësimeve dhe provizioneve në përputhje me SNRF 9 nivelet e zhvlerësimit:

	Stage 1	Stage 2	Stage 3	Total
in LEK thousand	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	
Loans and debt securities	-	-	-	-
Answer Central Banks	47	-	-	47
General governments	34,265	-	-	34,265
Banks	1,767	-	-	1,767
Other financial corporations	1	-	-	1
Non-financial corporations	266,334	241,587	9,080,518	9,588,439
Households	293,952	515,314	1,379,293	2,188,559
Loan commitments, financial guarantees and other commitments given	48,152	9,636	24,033	81,821
Total	**644,517**	**766,536**	**10,483,844**	**11,894,898**

Due to the implementation of IFRS 9 it is not possible to make a direct comparison with the previous year. The following table shows the development of impairment losses on loans and provisions for off-balance sheet liabilities in the comparable period:

in LEK thousand	As at 1/1/2017	Allocation1	Release	Usage2	As at 31/12/2017
Portfolio-based loan loss provisions	42,573	925	-22,358	-	21,140
Total	**42,573**	**925**	**-22,358**	**-**	**21,140**

1 Allocation including direct write-downs and income on written down claims
2 Usage including direct write-downs and income on written down claims

The following table shows the breakdown of loan loss provisions by asset class as at the reporting date of the previous year:

in LEK thousand	2017
Individual loan loss provisions	**12,033,618**
Non-financial corporations	10,580,815
Households	1,452,803
Portfolio-based loan loss provisions	**703,842**
Non-financial corporations	291,229
Households	412,613
Total	**12,737,460**

29. PAST DUE STATUS

The following table shows the overdue claims and bonds in the measurement categories amortized cost and fair value through other comprehensive income:

2018	Carrying amount								
	Past Due Assets without significant increase in credit risk since initial recognition (Stage 1)			Past Due Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Past Due Credit-impaired assets (Stage 3)		
in LEK thousand	**≤ 30 days**	**> 30 days**	**> 90 days**	**≤ 30 days**	**> 30 days**	**> 90 days**	**≤ 30 days**	**> 30 days**	**> 90 days**
Non-financial corporations	4,091,692	2	-	847,679	435,921	-	440,959	76,296	1,915,390
Households	1,066,099	-	-	570,885	271,277	-	22,878	45,710	277,437
Total	**5,157,791**	**2**	**-**	**1,418,564**	**707,198**	**-**	**463,837**	**122,006**	**2,192,827**

30. BREAKDOWN OF REMAINING TERMS OF MATURITY

Assets		**Current assets**		**Non-current assets**	
2018 in LEK thousand	**Due at call or without maturity**	**Up to 3 months**	**More than 3 months, up to 1 year**	**More than 1 year, up to 5 years**	**More than 5 years**
Cash, cash balances at central Banks and other demand deposits	5,467,672	-37,321	-	-	-
Financial assets - amortized cost	-	61,462,945	50,421,712	-	75,962,287
Financial assets - fair value through profit or loss		480	2,036	-	-
Other assets		33,011		-	-
Total	**5,467,672**	**61,459,114**	**50,423,748**	**-**	**75,962,287**

Liabilities		**Short-term liabilities**		**Long-term liabilities**	
2018 in LEK thousand	**Due at call or without maturity**	**Up to 3 months**	**More than 3 months, up to 1 year**	**More than 1 year, up to 5 years**	**More than 5 years**
Financial liabilities - amortized cost	138,117,630	-	19,280,295	34,798,064	2,361,511
Other liabilities	-	-	227,921	9,424	7,198
Total	**138,117,630**	**-**	**19,508,216**	**34,807,488**	**2,368,709**

Assets		**Current assets**		**Non-current assets**	
2017 in LEK thousand	**Due at call or without maturity**	**Up to 3 months**	**More than 3 months, up to 1 year**	**More than 1 year, up to 5 years**	**More than 5 years**
Cash, cash balances at central Banks and other demand deposits	15,587,996	380,000	-	-	-
Financial assets - amortized cost	1,382,674	58,124,094	67,588,163	68,106,616	16,248,531
Financial assets - designated fair value through profit or loss	-	-	-	-	-
Financial assets - fair value through profit or loss	-	-	-	-	-
Other assets	-	-	-	-	-
Total	**16,970,670**	**58,504,094**	**67,588,163**	**68,106,616**	**16,248,531**

Liabilities		**Short-term liabilities**		**Long-term liabilities**	
2017 in LEK thousand	**Due at call or without maturity**	**Up to 3 months**	**More than 3 months, up to 1 year**	**More than 1 year, up to 5 years**	**More than 5 years**
Financial liabilities - amortized cost	138,117,630	-	19,280,295	34,798,064	2,361,511
Other liabilities	-	-	227,921	9,424	7,198
Total	**138,117,630**	**-**	**19,508,216**	**34,807,488**	**2,368,709**

Compulsory reserve has not been included in the maturity analsysis for 2018 and 201 as it is not a contractual financial instrument.

31. FOREIGN CURRENCY VOLUMES

in LEK thousand	2018	2017
Assets	100,119,190	125,201,918
Liabilities	88,319,041	110,533,873

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

RISK MANAGEMENT

Active risk management is a core competency of the the Group. In order to effectively identify, measure, and manage risks the Group continues to develop its comprehensive risk management system. Risk management is an integral part of overall Group management. In particular, in addition to legal and regulatory requirements, it takes into account the nature, scale, and complexity of the Group's business activities and the resulting risks. The risk report describes the principles and organization of risk management and describes current risk exposure in all material risk categories.

32. RISK MANAGEMENT PRINCIPLES

The Group has a system of risk principles and procedures in place for measuring and monitoring risk, which is aimed at controlling and managing material risks in the Group. The risk policies and risk management principles are laid out by the Management Board. The principles include the following risk policies:

- Integrated risk management: Credit, country, market, liquidity, and operational risks are managed as key risks on a Group-wide basis. For this purpose, these risks are measured, limited, aggregated, and compared to available risk cov-erage capital.
- Continuous planning: Risk strategies and risk capital are reviewed and approved in the course of the annual budget-ing and planning process, whereby special attention is also paid to preventing risk concentrations.
- Independent control: A clear personnel and organizational separation is maintained between business operations and all risk management or risk control activities.
- Ex ante and ex post control: Risks are consistently measured within the scope of product selling and in risk-adjusted performance measurement. Thereby it is ensured that business in general is conducted only under risk-return considerations and that there are no incentives for taking high risks.

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

33. ORGANIZATION OF RISK MANAGEMENT

The Management Board of the Group ensures the proper organization and ongoing development of risk management. It decides which procedures are to be employed for identifying, measuring, and monitoring risks, and makes steering deci-sions according to the risk reports and analyses. The Management Board is supported in undertaking these tasks by independent risk management units and special committees.Risk management functions are performed on different lev-els in the Group. The Group develops and implements the relevant concepts as the parent credit institution. Risk management units implement the risk policies for specific risk types and take active steering decisions within the approved risk budgets in order to achieve the targets set in the business policy. For this purpose, they monitor resulting risks using standardized measurement tools and report them to central risk management units via defined interfaces.

The Central Bank Risk Controlling division assumes the independent risk controlling function required by Banking law.

33. ORGANIZATION OF RISK MANAGEMENT (CONTINUED)

Its responsibilities include developing the Group-wide framework for overall Group risk management (integrating all risk types) and preparing independent reports on the risk profile for the Supervisory Board's Risk Committee, the Group Management Board and the heads of individual business units. It also measures the required risk coverage capital for different Group units and calculates the utilization of the allocated risk capital budgets in the internal capital ade-quacy framework.

Risk committees

The Group Risk Committee is the most senior decision-making body for all of the Group's risk-related topic areas. It decides on the risk management methods and on the control concepts used for the overall Group and for key subdivisions, and is responsible for ongoing development and implementation of methods and parameters for risk quantification and for refining steering instruments. This also includes setting the risk appetite and the various risk budgets and limits at overall Group level as well as monitoring the current risk situation with respect to internal capital adequacy and the corresponding risk limits. It approves risk management and control activities (such as the allocation of risk capital) and advises the Management Board in these matters. The Group Asset/Liability Committee assesses and manages the statement of financial position structure and liquidity risk and defines the standards for internal funds transfer pricing. In this context it plays an important role in planning long-term funding and hedging structural interest rate and foreign exchange risks.

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

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

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

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

Quality assurance and internal audit

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

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

Two very important functions in assuring independent oversight are performed by the divisions Audit and Compliance: Independent internal auditing is a legal requirement and a central pillar of the internal control system. Internal Audit periodically assesses all business processes and contributes considerably to securing and improving them. It sends its reports directly to the Management Board of the Group, which discusses them on a regular basis in its board meetings. The Compliance Office is responsible for all issues concerning compliance with legal requirements in addition to and as an integral part of the internal control system. Thus compliance with existing regulations in daily operations is monitored.

34. OVERALL GROUP RISK MANAGEMENT

Maintaining an adequate level of capital is a core objective of the Group. Capital requirements are monitored regularly based on the risk level as measured by internal models, and in choosing appropriate models the materiality of risks an-nually assessed is taken into account. This concept of overall Group risk management provides for meeting capital re-quirements from both a regulatory perspective (sustainability and going-concern status) and from an economic perspec-tive (target rating). Thus it covers the quantitative aspects of the internal capital adequacy assessment process (ICAAP) as legally required. The full ICAAP process of the Group is audited by Internal Audit during the supervisory review process on an annual basis.

The Risk Appetite Framework (RAF) limits the Group's overall risk in accordance with the Group's strategic business objectives and allocates the risk capital calculated to the different risk categories and business areas. The primary aim of the RAF is to limit risk, particularly in adverse scenarios and for major singular risks in such a way as to ensure compli-ance with regulatory minimum ratios. The RAF is therefore based on the ICAAP's three pillars (target rating, going-concern, sustainability perspective) and sets the concentration risk limits for the risk types identified as significant in the risk assessment. In addition, the risk appetite decided by the Management Board and the Group's risk strategy and its implementation are reported regularly to the Supervisory Board's Risk Committee.

Target	**Risk**	**Measurement technique**	**Confidence level**
Target rating perspective	Risk of not being able to satisfy claims from the Group's senior debt holders	The unexpected loss for the one-year risk horizon (economic capital) may not exceed the present level of equity and subor-dinated liabilities	99.92 per cent as derived from the target rating's probability of default
Going concern perspective	Risk of not meeting the regu-latory capital requirement pursuant to the CRR	Risk taking capacity (projected earnings plus capital in excess of the regulatory requirement) may not exceed the Group's value at risk (one-year risk horizon)	95 per cent, reflecting the owners' willingness to in-ject additional own funds
Sustainability perspective	Risk of falling below a sustainable tier 1 ratio throughout an economic cycle	Capital and earnings projection for a three-year planning period based on assumptions of a significant downturn in the economy	85–90 per cent, based on potential management decisions to reduce risk temporarily or raise ad-ditional equity capital

35. CREDIT RISK

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

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

The following table shows total credit exposure by asset class (rating models):

35. CREDIT RISK (CONTINUED)

in LEK thousand	2018	2017
Corporate customers	62,328,600	69,636,667
Project finance	1,056,391	2,280,430
Retail customers	53,764,631	51,389,019
Banks	43,047,996	52,560,724
Sovereigns	85,165,187	87,580,376
Total	**245,362,805**	**263,447,216**

Credit portfolio – corporate customers

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

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

in LEK thousand		2018	Share	2017	Share
1	Minimal risk	-	-	-	-
2	Excellent credit standing	390,072	0.63%	357,104	0.51%
3	Very good credit standing	-	0.00%	548,135	0.79%
4	Good credit standing	4,094,893	6.57%	395,328	0.57%
5	Sound credit standing	9,982,021	16.02%	7,799,115	11.20%
6	Acceptable credit standing	10,637,990	17.07%	11,613,791	16.68%
7	Marginal credit standing	23,904,508	38.35%	31,142,356	44.72%
8	Weak credit standing / sub-standard	1,701,001	2.73%	1,633,448	2.35%
9	Very weak credit standing / doubtful	1,559,302	2.50%	2,951,455	4.24%
10	Default	10,056,419	16.13%	12,783,874	18.36%
NR	Not rated	2,394	0.00%	412,061	0.59%
Total		**64,363,877**	**62,328,600**	**100.00%**	**69,636,667**

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

in LEK thousand		2018	Share	2017	Share
6.1	Excellent project risk profile – very low risk	-	0.00%	792,598	34.76%
6.2	Good project risk profile – low risk	3,130	0.30%	44,924	1.97%
6.3	Acceptable project risk profile – average risk	514,348	48.69%	738,012	32.36%
6.4	Poor project risk profile – high risk	-	-		-
6.5	Default	538,911	51.01%	704,879	30.91%
NR	Not rated	2		16	-
Total		**1,056,391**	**1,056,391**	**100%**	**2,280,429**

35. CREDIT RISK (CONTINUED)

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

in LEK thousand	2018	Share	2017	Share
Manufacturing	9,498,903	14.99%	10,734,141	14.93%
Wholesale and retail trade	16,983,997	26.79%	13,329,148	18.53%
Financial intermediation	496,558	0.78%	400,811	0.56%
Real estate	1,614,163	2.55%	680,629	0.95%
Construction	4,472,292	7.06%	5,923,521	8.24%
Freelance/technical services	21,704	0.03%	5,495	0.01%
Transport, storage and communication	3,156,742	4.98%	3,320,384	4.62%
Electricity, gas, steam and hot water supply	16,686,840	26.33%	24,397,259	33.92%
Other industries	10,453,794	16.49%	13,125,708	18.25%
Total	**63,384,992**	**100%**	**71,917,096**	**100%**

Credit portfolio – Retail customers

Retail customers are subdivided into private individuals and small and medium-sized entities (SMEs). For retail custom-ers a two-fold scoring system is used, consisting of the initial and ad-hoc scoring based on customer data and of the behavioral scoring based on account data. The table below shows the Group's credit exposure to retail customers:

in LEK thousand	2018	Share	2017	Share
Retail customers – private individuals	40,064,521	75%	37,093,886	72%
Retail customers – small and medium-sized entities	13,700,110	25%	14,295,133	28%
Total	**53,764,631**	**100%**	**51,389,019**	**100%**

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

in LEK thousand		2018	Share	2017	Share
0.5	Minimal risk	1,083,599	2.58%	1,257,503	3.21%
1.0	Excellent credit standing	694,388	1.65%	3,804,932	9.71%
1.5	Very good credit standing	6,322,586	15.06%	7,007,592	17.88%
2.0	Good credit standing	13,451,722	32.05%	7,975,930	20.35%
2.5	Sound credit standing	8,546,421	20.36%	6,993,828	17.85%
3.0	Acceptable credit standing	3,082,215	7.34%	3,697,813	9.44%
3.5	Marginal credit standing	1,586,306	3.78%	1,213,190	3.10%
4.0	Weak credit standing / sub-standard	632,200	1.51%	535,397	1.37%
4.5	Very weak credit standing / doubtful	634,813	1.51%	621,511	1.59%
5.0	Default	2,065,329	4.92%	2,337,522	5.96%
NR	Not rated	3,876,243	9.23%	3,742,595	9.55%
Total		**41,975,822**	**100%**	**39,187,813**	**100%**

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

35. CREDIT RISK (CONTINUED)

in LEK thousand		2018	Share	2017	Share
1	Minimal risk	-	0.00%	-	0.00%
2	Excellent credit standing	-	0.00%	-	0.00%
3	Very good credit standing	-	0.00%	-	0.00%
4	Good credit standing	3,147,000	26.69%	3,447,468	28.26%
5	Sound credit standing	2,951,572	25.04%	2,267,104	18.58%
6	Acceptable credit standing	2,458,423	20.85%	2,553,505	20.93%
7	Marginal credit standing	1,499,546	12.72%	1,692,577	13.87%
8	Weak credit standing / sub-standard	916,675	7.78%	551,095	4.52%
9	Very weak credit standing / doubtful	449,361	3.81%	652,194	5.35%
10	Default	364,902	3.10%	1,024,601	8.40%
NR	Not rated	1,330	0.01%	12,661	0.10%
Total		**11,788,809**	**11,788,809**	**100.00%**	**12,201,205**

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

in LEK thousand	2018	Share	2017	Share
Mortgage loans	15,994,653	29.75%	14,780,291	28.76%
Personal loans	17,285,012	32.15%	15,940,174	31.02%
Credit cards	2,323,868	4.32%	2,256,997	4.39%
SME financing	13,108,627	24.38%	13,696,909	26.65%
Overdraft	4,131,829	7.69%	3,765,744	7.33%
Car loans	920,642	1.71%	948,904	1.85%
Total	**53,764,631**	**100%**	**51,389,019**	**100%**

Credit portfolio – Banks

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

in LEK thousand		2018	Share	2017	Share
1	Minimal risk	770,791	2%	0	0.00%
2	Excellent credit standing	29,944,944	70%	8,498,630	16.00%
3	Very good credit standing	9,366,924	22%	38,783,302	74.00%
4	Good credit standing	1,234,063	3%	4,003,276	8.00%
5	Sound credit standing	1,533,561	4%	1,260,133	2.00%
6	Acceptable credit standing	137,705	-	15,382	-
7	Marginal credit standing	60,008	-	-	-
8	Weak credit standing / sub-standard	-	-	-	-
9	Very weak credit standing / doubtful	-	-	-	-
10	Default	-	-	-	-
NR	Not rated	-	-	-	-
Total		**43,047,996**	**43,047,996**	**100%**	**52,560,724**

35. CREDIT RISK (CONTINUED)

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

in LEK thousand	2018	Share	2017	Share
Loans and advances	550,339	1%	925,406	2%
Bonds	14,307,811	33%	15,456,729	29%
Repo	538,307	1%	-	-
Money market	26,386,715	61%	35,693,993	68%
Other	1,264,825	3%	484,596	1%
Total	**43,047,996**	**100%**	**52,560,724**	**100%**

Credit portfolio – Sovereigns

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

in LEK thousand		2018	Share	2017	Share
A1	Excellent credit standing	-	-	-	-
A2	Very good credit standing	-	-	-	-
A3	Good credit standing	-	-	-	-
B1	Sound credit standing	-	-	-	-
B2	Average credit standing	-	-	-	-
B3	Mediocre credit standing	-	-	-	-
B4	Weak credit standing	84,281,070	99%	87,580,376	100%
B5	Very weak credit standing	-	-	-	-
C	Doubtful/high default risk	-	-	-	-
D	Default	-	-	-	-
NR	Not rated	884,117	1%	-	
Total		**85,873,256**	**85,165,187**	**100%**	**87,580,376**

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

in LEK thousand	2018	Share	2017	Share
Loans and advances	18,024,984	21.16%	30,295,018	34.59%
Bonds	60,144,221	70.62%	57,285,358	65.41%
Money market	6,100,017	7.16%	-	-
Other	895,965	1.05%	-	-
Total	**85,165,187**	**100.00%**	**87,580,376**	**100.00%**

Non-performing exposures (NPEs)

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

35. CREDIT RISK (CONTINUED)

	NPE		NPE ratio		NPE coverage ratio	
Në mijë Lek	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-financial corporations	12,117,430	14,923,350	19.44%	21.37%	74.92%	73.50%
Households	1,914,702	2,107,758	5.25%	6.29%	72.42%	70.07%
Loans and advances	**14,032,132**	**17,031,108**	-	-	-	-
Total	**14,032,132**	**17,031,108**	-	-	-	-

Non-performing loans (NPL)

According to Article 178 CRR, the definition of default and thus a non-performing loan (NPL) is triggered if it can be assumed that a customer is unlikely to fulfillall of its credit obligations to the Group, or if the debtor is overdue at least 90 days on any material credit obligation to the Group. For non-retail customers, twelve different indicators are used to identify a default event. For example, a default event applies if a customer is involved in insolvency or similar proceed-ings, if it has been necessary to recognize an impairment or a direct write-down on a customer loan, or if credit risk man-agement has judged a customer account receivable to be not wholly recoverable or the Workout Unit is considering a restructuring.

The following table shows the share of non-performing loans (NPL) in the defined asset classes (excluding items off the statement of financial position):

	NPL		NPL ratio		NPL coverage ratio	
in LEK thousand	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-financial corporations	12,094,762	14,872,019	19.41%	21.29%	79.28%	76.07%
Households	1,810,929	2,029,418	5.55%	6.06%	120.84%	94.64%
Total non-Banks	**13,905,691**	**16,901,437**	-	-	-	-
Total	**13,905,691**	**16,901,437**	-	-	-	-

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

in LEK thousand	As at 1/1/2018	Additions	Decrease	As at 31/12/2018
Non-financial corporations	14,872,019	2,490,412	-5,267,648	12,094,783
Households	2,029,406	652,685	-871,010	1,811,081
Total non-Banks	**16,901,425**	**3,143,097**	**-6,138,658**	**13,905,864**
Banks	-	-	-	-
Total	**16,901,425**	**3,143,097**	**-6,138,658**	**13,905,864**

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

in LEK thousand	As at 1/1/2017	Additions	Disposals	As at 31/12/2017
Non-financial corporations	22,905,769	1,228,780	-9,262,530	14,872,019
Households	2,387,270	554,792	-912,656	2,029,406
Total non-Banks	**25,293,039**	**1,783,572**	**-10,175,186**	**16,901,425**
Banks	-	-	-	-
Total	**25,293,039**	**1,783,572**	**-10,175,186**	**16,901,425**

35. CREDIT RISK (CONTINUED)

Concentration risk

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

in LEK thousand	2018	Share	2017	Share
Czech Republic	10,602,369	4.30%	11,465,167	4.32%
Poland	3,705,442	1.50%	3,991,562	1.50%
Austria	13,719,335	5.57%	10,812,578	4.07%
Other European Union	1,714,583	0.70%	2,009,069	0.76%
Germany	10,587,451	4.30%	12,498,272	4.71%
Great Britain	70,622	0.03%	462,816	0.17%
France	-	0.00%	6,648,768	2.50%
Netherlands	155,597	0.06%	3,733,512	1.41%
Italy	9,875	-	11,871	-
Romania	-	-	2	-
Bulgaria	9	-	4	-
Albania	200,685,275	81.87%	209,582,082	79.72%
Other	2,224,728	0.90%	1,908,098	0.72%
Switzerland	913,737	0.37%	276,954	0.10%
North America	432,637	0.18%	4,292	-
Rest of World	541,144	0.22%	42,168	0.02%
Total	**245,362,804**	**100.00%**	**265,609,085**	**100.00%**

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

in LEK thousand	2018	Share	2017	Share
Euro (EUR)	89,691,873	36.55%	108,754,427	41.28%
US-Dollar (USD)	17,849,349	7.27%	21,681,892	8.23%
Swiss franc (CHF)	191,524	0.08%	336,851	0.13%
Albanian lek (ALL)	133,296,760	54.33%	125,154,232	47.51%
Other foreign currencies	4,333,300	1.77%	7,519,814	2.85%
Total	**245,362,806**	**100.00%**	**263,447,216**	**100.00%**

35. CREDIT RISK (CONTINUED)

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

in LEK thousand	2018	Share	2017	Share
Banking and insurance	67,681,609	27.58%	83,279,454	31.61%
Private households	40,914,828	16.68%	38,891,876	14.76%
Public administration and defense and social insurance institutions	61,742,630	25.16%	57,879,880	21.97%
Wholesale trade and commission trade (except car trading)	321,592	0.13%	237,761	0.09%
Other manufacturing	147,749	0.06%	202,605	0.08%
Real estate activities	1,709,610	0.70%	712,982	0.27%
Construction	6,344,265	2.59%	7,925,792	3.01%
Other business activities	3,663,619	1.49%	3,374,092	1.28%
Retail trade except repair of motor vehicles	24,853,390	10.13%	22,154,854	8.41%
Electricity, gas, steam and hot water supply	16,779,937	6.84%	24,605,011	9.34%
Manufacture of basic metals	11,974,097	4.88%	13,550,574	5.14%
Other transport	4,137,804	1.69%	4,069,718	1.54%
Land transport, transport via pipelines	198,942	0.08%	338,828	0.13%
Manufacture of food products and beverages	60,026	0.02%	60,368	0.02%
Manufacture of machinery and equipment	-	-	-	-
Sale of motor vehicles	279,018	0.11%	129,624	0.05%
Extraction of crude petroleum and natural gas	3,291,576	1.34%	3,671,581	1.39%
Other industries	1,262,113	0.51%	2,362,216	0.90%
Total	**245,362,805**	**100%**	**263,447,216**	**100%**

Counterparty credit risk

The Group defines counterparty credit risk as the risk of possible default of a counterparty in a financial instrument.

36. MARKET RISK

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

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

Organization of market risk management

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

The Market Risk Committee is responsible for strategic market risk management issues. It is responsible for managing and controlling all market risks in the Group. The Group's overall limit is set by the Management Board on the basis of the risk-taking capacity and

36. MARKET RISK (CONTINUED)

income budget. This limit is apportioned to sub-limits in coordination with business divi-sions according to the strategy, business model and risk appetite.

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

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

Limit system

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

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

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

Value-at-Risk (VaR)

The following tables show the VaR (99 per cent, one day) for the individual market risk categories in the trading book and the Banking book. The Group's VaR mainly results from currency risk for trading book and interest rate risk for Banking book.

Trading book VaR 99% 1d in LEK thousand	**VaR as at 31/12/2018**	**VaR as at 31/12/2017**
Currency risk	100%	100%
Interest rate risk	-	-
Credit spread risk	-	-
Share price risk	-	-
Vega risk	-	-
Basis risk	-	-
Total	**-3,572**	**-23,192**

36. MARKET RISK (CONTINUED)

Banking book VaR 99% 1d in LEK thousand	VaR as at 31/12/2018	VaR as at 31/12/2017
Currency risk	-	-
Interest rate risk	81.3%	92.8%
Credit spread risk	15.8%	6.7%
Vega risk	-	-
Basis risk	2.9%	0.5%
Total	**-72,410**	**-294,443**

Total VaR 99% 1d in LEK thousand	VaR as at 31/12/2018	VaR as at 31/12/2017
Currency risk	40.9%	3.2%
Interest rate risk	46.4%	89.6%
Credit spread risk	10.5%	6.7%
Share price risk	-	-
Vega risk	-	-
Basis risk	2.2%	0.5%
Total	**-85,003**	**-375,061**

Exchange rate risk and capital ratio

Market risk in the Group results primarily from exchange rate risk, exchange rate fluctuations also influence current revenues and expenses. They also affect regulatory capital requirements for assets denominated in foreign currencies, even if they are financed in the same currency and thus do not create an open foreign exchange position.

The Group aims at stabilizing its capital ratio when managing exchange rate risks. This risk is managed on a monthly basis in the Group Asset/Liability Committee based on historical foreign exchange volatilities, exchange rate forecasts, and the sensitivity of the regulatory capital ratio to changes in individual foreign exchange rates.

The following table shows all material open foreign exchange rate positions as at 31 December 2018 and the corresponding values for the previous year.

in LEK thousand	2018	2017
ALL	-11,551,792	-14,557,146
AUD	-5,244	18,159
CAD	-13,351	19,051
CHF	-2,813	42,632
DKK	1,161	813
EUR	11,645,381	14,436,022
GBP	-12	110,355
JPY	31,551	30,446
NOK	292	-523
SEK	936	-469
USD	-106,110	-99,340

36. MARKET RISK (CONTINUED)

Interest rate risk in the trading book

The following tables show the largest present value changes for the trading book of the Group given a one-basis-point interest rate increase for the whole yield curve in LEK thousand for the reporting dates 31 December 2018 and 31 December 2017.

2018 in 000 Lek	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20v
ALL	-0.12			-0.12	-0.12							

2017 in 000 Lek	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20v
ALL	-1,746	-27	-26	-27	-752	-603	-311					

Interest rate risk in the Banking book

Different maturities and repricing schedules of assets and the corresponding liabilities (i.e. deposits and financing from money markets and capital markets) cause interest rate risk in the Group. This risk arises in particular from different interest rate sensitivities, rate adjustments, and other optionality of expected cash flows. Interest rate risk in the Banking book is material for the EUR and US dollar as major currencies.

Management of the statement of financial position is a core task of the Treasury division, which is supported by the Group Asset/Liability Committee. They base their decisions on various interest income analyses and simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and the overall risk appetite.

Interest rate risk in the Banking book is not only measured within a value-at-risk framework but also managed by the traditional tools of nominal and interest rate gap analyses. Interest rate risk is subject to quarterly reporting in the context of the interest rate risk statistic submitted to the Banking supervisor.

The following table shows the change in the present value of the Group's Banking book given a one-basis-point interest rate increase for the whole yield curve in LEK thousand for reporting dates 31 December 2018 and 31 December 2017.

2018 in 000 Lek	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20v
ALL	-2,127	161	-618	-258	-1,633	123	-597	-30	269	209	154	93
CAD	-	-	-	-	-	-	-	-	-	-	-	-
CHF	-10	-	-	-8	-1	-	-	-	-	-	-	-
EUR	702	21	98	-365	112	503	230	2	39	50	12	10
GBP	46	4	3	39	-	-	-	-	-	-	-	-
USD	779	27	12	153	165	150	272	-	-	-	-	-

2017 in 000 Lek	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20v
ALL	-5,017	310	-495	-12	-1,799	-190	-627	-1,095	-335	-458	-244	-71
CAD	-	-	-	-	-	-	-	-	-	-	-	-
CHF	-12	-	-	-10	-1	-	-1	-	-	-	-	-
EUR	-2,278	121	154	931	-460	-187	-1,147	-371	-607	-408	-225	-80
GBP	62	-7	7	61	1	-	-	-	-	-	-	-
USD	595	38	43	148	98	126	142	-	-	-	-	-
CZK	-5,017	310	-495	-12	-1,799	-190	-627	-1,095	-335	-458	-244	-71

37. LIQUIDITY MANAGEMENT

Funding structure

The Group's funding structure is highly focused on retail deposit taking in the local market. Different funding sources are utilized in accordance with the principle of diversification. These include the use of third party financing loans and risk sharing schemes with different supranational organizations. Partly due to tight country limits and partly due to ben-eficial pricing, the Group is also using interGroup borrowing and placements with local and international Groups.

Principles

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

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

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

Responsibility and Organization

The responsibility to ensure adequate levels of liquidity lies with the entire Board of Management. However, in terms of functions, the responsible Board members are the Chief Executive Officer (Treasury and IB) and the Chief Risk Officer/Chief Financial Officer. Consequently, the processes related to liquidity risk are mainly carried out by two areas within the Group. Firstly, Treasury/Dealing Room department manage the liquidity risk positions within the strategy, guidelines and parameters set by decisions taken in Asset/Liability Committee (ALCO) meetings which reflect all regulatory constraints.

Secondly, these are monitored and supported by independent Integrated Risk division (Market Risk department). Market risk department measures and implements limits on different liquidity positions, as well as monitors their compliance. In addition to the aforementioned line functions, ALCO and Research department is responsible for implementing Group wide methodology on liquidity risk models.

Liquidity strategy

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

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

Liquidity risk framework

The Group is regularly forecasting its liquidity position under a going concern and stressed liquidity gaps scenarios, as well as internally measured stress survival period and in case it is necessary, the regulatory Liquidity Cover Ratio (LCR). The inputs used for these forecasts are mainly the balance sheet dynamics (maturities of main funding sources, i.e. cus-tomer deposits, financial institutions and other loans) and planned new loan disbursements. In addition, the planned stock of corporate term deposits, corporate current accounts and short term funding is taken into account. For the pur-pose of projecting the LCR, sovereign and Central Bank deposits are also relevant and considered. The funding

37. LIQUIDITY MANAGEMENT (CONTINUED)

activi-ties are calibrated by taking the forecast of the liquidity metrics (going concern, stressed liquidity gaps, and the LCR) into account.

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

Risk appetite and liquidity limits

comprehensive limit system. Limits are defined both under a business as usual as well as under a stress perspective. In accordance with the defined risk appetite, our Group has a survival horizon of several months (TTW) in a severe, combined stress scenario (reputational and market stress). This is ensured by both a structurally positive liquidity profile and by a sufficiently high liquidity buffer. In a normal going concern environment, maturity transformation is fully covered by the available liquidity buffer in the medium term. This means that the cumulative liquidity position over a period of up to one year is positive. In the long term (one year or more), maturity transformation is permitted up to a certain level. For internal models, these limits are supplemented by limits for compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR). All liquidity position limits are complied with on a daily basis.
Additionally, the Group is compliant with Group of Albania regulations on Liquidity Risk management, which is regulated by regulation No. 71, dated 14.10.2009, amended by regulation No.75, dated 26.10.2011 and further amended by regulations No. 28, dated 27.03.2013 and No. 14, dated 7.2.2018 of the Supervisory Council of the Group of Albania)

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

Liquidity Limits

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

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

Liquidity monitoring

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

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

Local Regulatory Liquidity Ratios

Local Regulatory Liquidity Ratios are calculated on daily basis and are reported on a weekly basis from market risk department. Results are reported to Treasury, which is then aware of the Group's current liquidity position versus local requirements. Treasury is in charge of reducing its liquidity surplus or increasing its liquidity base depending on the current position.

Liquidity stress testing

Stress tests are conducted for the individual Group units on a daily basis and on Group level on a weekly basis, in RBI HO. The tests cover three scenarios (market, reputational and com-bined crisis), consider the effects of the scenarios for a period of several months and demon-strate that stress events can simultaneously result in a time-critical liquidity re-quirement in sev-eral currencies. The stress scenarios include the principal funding and market liquidity risks, without considering beneficial diversification effects. This means that in the stress tests of the Group, all network units are simultaneously subject to a pronounced combined crisis for all their major products. The results of the stress tests are reported to the Chief Risk Officer and the Chief Financial Officer as well as other members of management on a weekly basis;

37. LIQUIDITY MANAGEMENT (CONTINUED)

they also form a key component of the monthly ALCO meetings and are included in the Group's strategic planning and contingency planning.

A conservative approach is adopted when establishing outflow ratios based on historical data and expert opinions. The simulation assumes a lack of access to the money or capital market and simultaneously significant outflows of customer deposits. In this respect, the de-posit concentration risk is considered by assigning higher outflow ratios to large customers. Furthermore, stress assumptions are formulated for the drawdown of guarantees and credit obligations. In addi-tion, the liquidity buffer positions are adapted by haircuts in order to cover the risk of disadvantageous market move-ments, and the potential outflows resulting from collateralized derivative transactions are estimated. The Group contin-uously monitors whether the stress assumptions are still appropriate or whether new risks need to be consid-ered. The time to wall concept has established itself as the main control instrument for day-to-day liquidity management and is therefore a central component of funding planning and budgeting. It is also fundamental to determining performance ratios relating to liquidity.

Liquidity buffer

As shown by the daily liquidity risk reports, the Group actively maintains and manages liquidity buffers, including high quality liquid assets (HQLA) which are always sufficient to cover the net outflows ex-pected in crisis scenarios. The Group has sizeable, unencumbered and liquid securities portfolios eligible for Central Bank outright auction transactions in order to ensure sufficient liquidity in local currency. The Group is responsible for ensuring the availability of liquidity buffers, testing its ability to utilize cen-tral Group funds, evaluating constantly its collateral positions as regards to their market value and encumbrance, as well examining the counterbalancing capacity, including the secured and unse-cured funding potential and the liquidity of the assets. Generally, a haircut is applied to all liquidity buffer positions. These haircuts include a market-risk specific haircut and a Central Bank haircut. While the market risk haircut represents the potential price volatility over the next 20 trading days of the securities held as assets as part of the liquidity buffer, the Central Bank haircut represents an addi-tional haircut by the Central Bank that may be offered as collateral. The eligibility criteria on group level further considers intra-group lending restrictions such as the legal lending limit.

Intraday Liquidity Management

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

- Fulfilling Group legal liquidity requirements (minimum reserve requirements);
- Optimize the liquidity flows, financing costs and the return on investments;
- Provides available funds for outgoing payments on our NOSTRO accounts with correspond-ent Groups.
- Follow up and continuous reporting on market liquidity situation

Money Market Desk within Dealing Room Department is in charge to manage daily liquidity needs and manage the short-term liquidity risk in local and foreign currency. Treasury takes information for all local and international pay-ments from other departments and pro-vides available funds on our NOSTRO account normally with value date T+2. There are special re-quests for value date T+1, T+0. For all the payments in local and international market should be re-spect the Group's cut off time until then the transaction can be performed. For payments in Local currency the cut off time fixed by Group of Albania (BoA) is 3.30 p.m. For payments in foreign currency the cut off time is 4.30 p.m.

The Group is using AIPS (Albanian InterGroup Payment System) as platform for monitoring online our Nostro Account with Group of Albania for all the payments / incomings in local currency LEK. The monitoring of our Nostro accounts in foreign currency is done using online platforms on this pur-pose, which facilitate the daily liquidity management. Daily queries produced by core Banking sys-tem MIDAS are used for the daily liquidity management.

Reuters dealing platform is used to performing trading deals in interGroup market. Money Market Desk is responsible to provide enough funds for payments executed on each value date. The basic information on the payments executed is received via e-mail by the Payment Pro-cessing & SWIFT unit (Central Operations & Facility Management Department) with value date T+2 and with specific request with value date T+0.

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

37. LIQUIDITY MANAGEMENT (CONTINUED)

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

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

Contingency funding plan

Under difficult liquidity conditions, the Group will switch to a contingency process in which it will follow a predefined liquidity contingency plans. These contingency plans also constitute an element of the liquidity management frame-work and are mandatory for all RBI Group members. The emergency management process is designed so that the Group can retain a strong liquidity position even in seri-ous crisis situations.

Liquidity position

Liquidity position of the Group is founded on a strong customer deposit base supplemented by whole-sale funding. Funding instruments are appropriately diversified and are used in case of need. The ability to procure funds is precisely monitored and evaluated by the Treasury/Dealing Room, Treasury Sales as well as ALCO and Research Department.

In the past year and to date, our Group's liquidity was significantly above all regulatory and internal limits. The result of the internal time to wall stress test demonstrates that the Group would survive throughout the modelled stress phase of several months even without applying contingency measures. The Going Concern report shows the structural liquidity position. It covers all material risk drivers which might affect the Group in a business as usual scenario. The results of the going concern sce-nario are shown in the following table. It illustrates excess liquidity and the ratio of expected cash inflows plus counterbalancing capacity to cash outflows (liquidity ratio) for selected maturities on a cumulative basis. Based on assumptions employing expert opinions, statistical analyses and country specifics, this calculation also incor-porates estimates of the stability of the customer deposit base, outflows from items off the statement of financial position and downward market movements in relation to positions which influence the liquidity counterbalancing capacity.

in LEK thousand	**2018**		**2017**	
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	85,444,619	113,180,699	97,179,422	122,162,991

Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets (HQLAs) held by the Group, to meet po-tential liability run offs (short-term obligations). HQLAs can be converted into cash to meet liquidity needs for a mini-mum of 30 calendar days in a liquidity stress scenario.

The calculation of expected inflows and outflows of funds and the HQLAs is based on regulatory specifications. In 2017, the regulatory limit for the LCR stood at 80 per cent. In 2018, it was raised to the current level of 100 per cent.

in LEK thousand	**2018**	**2017**
Average liquid assets	64,423,880	65,110,135
Net outflows	6,797,055	6,396,181
Inflows	38,180,213	44,061,305
Outflows	27,188,218	25,584,723
Liquidity Coverage Ratio	**948%**	**1018%**

Net Stable Funding Ratio (NSFR)

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

37. LIQUIDITY MANAGEMENT (CONTINUED)

in LEK thousand	2018	2017
Required stable funding	153,856,045	96,913,698
Available stable funding	212,873,943	201,648,084
Net Stable Funding Ratio	**138%**	**208%**

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

Funding liquidity risk

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

As a consequence, long-term funding depends on restoring confidence in Groups and increased ef-forts in collecting customer deposits. The Group Banking activities are financed by combining retail de-posit-taking and wholesale funding. In the Group's funding plans, special attention is paid to a diversi-fied structure of funding to mitigate funding liquidity risk. Wholesale funding measures in the Group are responsibility of Treasury Sales and IB Department, where Funding Manager is Mr. Christian Canacaris, the CEO of the Group. During this process we check the gap between as-sets and liabilities and check if we do have any funding needs. However, due to the fact that our Group has been always over-liquid, the Group has shown minimal needs for intra-network funding. The only outstanding funding deal is the RBI's sub-loan.

Additionally, to have a better optimized RWA value of our portfolio, the Group has entered into an agreement with RBI regarding a guarantee issued by MIGA (World Group group) so that our minimum reserve is counted at 0 risk weight in the portfolio.

Reporting and monitoring process for both these deals is made by Treasury Sales and IB department.
The following table shows a breakdown of cash flows according to the contractual maturity of financial assets:

2018 in LEK thousand	Carrying amount	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial assets	**217,504,148**	**234,737,381**	**71,949,904**	**56,216,681**	**86,694,484**	**19,876,311**
Cash, cash balances at central Banks and other demand deposits	22,996,693	22,996,693	22,996,693	0	0	0
Loans and advances	**120,082,314**	**131,506,563**	**37,250,794**	**24,493,299**	**50,873,363**	**18,889,106**
Central Banks	6,100,453	6,100,453	6,100,453	0	0	0
General governments	5,112	5,112	5,112	0	0	0
Banks	26,924,853	26,924,853	26,924,853	0	0	0
Other financial corporations	69	69	69	0	0	0
Non-financial corporations	52,738,307	56,923,335	4,132,126	17,745,959	30,906,209	4,139,040
Households	34,313,521	41,552,742	88,182	6,747,340	19,967,154	14,750,066
Debt securities	**74,425,141**	**80,234,125**	**11,702,417**	**31,723,382**	**35,821,121**	**987,205**
General governments	60,111,145	65,863,662	11,691,402	25,509,580	27,675,475	987,205
Banks	14,313,996	14,370,463	11,015	6,213,802	8,145,646	0

37. LIQUIDITY MANAGEMENT (CONTINUED)

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

2018 in LEK thousand	Carrying amount	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial liabilities	**216,428,288**	**216,887,466**	**159,566,546**	**44,162,517**	**10,739,255**	**2,419,148**
Deposits	194,251,094	197,421,880	160,026,140	35,033,645	2,362,095	-
Central Banks	2	2	2	-	-	-
General governments	2,153,744	2,153,744	2,153,744	-	-	-
Banks	6,452,669	6,546,439	4,553,271	93,539	1,899,629	-
Other financial corporations	3,507,756	3,508,293	2,728,100	780,193	-	-
Non-financial corporations	38,451,903	38,452,628	38,368,607	22,473	61,548	-
Households	143,685,020	143,687,911	109,149,553	34,137,440	400,918	-
Other financial liabilies	**298,423**	**298,423**	**298,423**	**-**	**-**	**-**
Issued financial guarantee contracts	9,038,241	9,038,241	854,544	4,902,704	3,030,637	250,356
Issued loan commitment	12,840,530	12,840,530	1,099,047	4,226,168	5,346,523	2,168,792

Due to the change in the structure of the statement of financial position, the effort required to prepare comparative figures would be disproportionately high. The following table presents the main items as at year-end 2017.

2017 in LEK thousand	Carrying amount	Contractual cash flows	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Non-derivative financial liabilities	219,880,342	220,209,382	172,062,618	45,301,712	2,845,051	-
Contingent liabilities	9,724,782	9,724,782	2,557,214	3,233,165	3,914,402	20,000
Commitments	731,438	731,438	10,366	-	721,072	-

38. OPERATIONAL RISK

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In this risk category internal risk drivers such as unauthorized activities, fraud or theft, conduct-related losses, modelling errors, execution and process errors, or business disruption and system failures are managed. External factors such as damage to physical assets or fraud are managed and controlled as well.

This risk category is analyzed and managed based on own historical loss data and the results of risk assessments.

As with other risk types the principle of firewalling of risk management and risk controlling is also applied to operation-al risk in the Group. To this end, individuals are designated and trained as Operational Risk Managers for each business area. Operational Risk Managers provide central Operational Risk Controlling with reports on risk assessments, loss events, indicators and measures. They are supported in their work by Dedicated Operational Risk Specialists (DORS).

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

Risk identification

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

Operational risk assessment is executed in a structured and Group-wide uniform manner according to risk categories such as business processes and event types. Moreover, risk assessment applies to new products as well. All Group units grade the impact of high probability/low impact events and low probability/high impact incidents according to their estimation of the loss potential for the next year and in the next ten years. Low probability/high impact events are quan-tified by a Group-wide analytical tool (scenarios). The internal risk profile, losses arising and external changes deter-mine which cases are dealt with in detail.

Monitoring

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

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

Quantification and mitigation

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

OTHER DISCLOSURES

39. OPERATING LEASES

Operating leases from view of lessor

Future minimum lease payments under non-cancelable operating leases are as follows:

in LEK thousand	2018	2017
Up to 1 year	4,098	6,537
More than 1 year, up to 5 years	1,488	5,586
Total	**5,586**	**12,123**

Operating leases from view of lessee

Future minimum lease payments under non-cancelable operating leases are as follows:

in LEK thousand	2018	2017
Up to 1 year	165,731	210,791
More than 1 year, up to 5 years	419,356	629,916
Total	**585,087**	**840,707**

40. RELATED PARTIES

Transactions with related parties (companies and individuals) are limited to Banking business transactions that are carried out at fair market conditions. Disclosures on related parties (individuals) are reported under note (46) Relations to key management.

in LEK thousand	2018	2017
Selected financial assets		
Equity instruments	329,205	329,205
Debt securities	10,610,151	11,449,897
Loans and advances	9,916,810	6,576,457
Other assets	5,962	3,664
Selected financial liabilities		
Deposits	1,955,617	8,827,019
Provisions & Other liabilities	59,723	57,104
Loan commitments, financial guarantees and other commitments given	2,195,238	2,676,015

in LEK thousand	2018	2017
Interest income	147,867	106,170
Interest expenses	-367,014	-520,530
Dividend income	-	-
Fee and commission income	1,725	13,813
Fee and commission expenses	-158,694	-171,565

41. AVERAGE NUMBER OF STAFF

Full-time equivalents	2018	2017
Salaried employees	1,251	1,279
Wage earners	40	41
Total	**1,291**	**1,320**

42. RELATIONS TO KEY MANAGEMENT

Group relationship with key management

in LEK thousand	2018	2017
Assets	192,842	232,731
Liabilities	196,692	125,787

Remuneration of members of the Management Board

The following table shows total remuneration of the members of the Management Board according to IAS 24.17. The expenses according to IAS 24 were recognized on an accrual basis and according to the rules of the underlying standards (IAS 19 and IFRS 2):

in LEK thousand	2018	2017
Short-term employee benefits	196,053	242,993
Post-employment benefits		
Other long-term benefits	32,683	53,885
Termination benefits		
Total	**228,736**	**296,385**

Remuneration of members of the Supervisory Board

in LEK thousand	2018	2017
Remuneration Supervisory Board	16,879	8,464

43. MANAGEMENT BOARD

The Management Board as at 31 December 2018 was as follows:

Members of the Management Board	First assignment	End of period
Christian Canacaris	01/10/2010	31/12/2019
Alexander Zsolnai	27/04/2010	31/12/2019
John McNaughton	01/03/2010	31/12/2020
Elona Mullahi	09/10/2015	30/06/2021
Egon Lerchster	13/11/2017	31/12/2020

43. MANAGEMENT BOARD (CONTINUED)

Supervisory Board

The Supervisory Board as at 31 December 2018 was as follows:

Members of the Supervisory Board	First assignment	End of period
Peter Lennkh	07/07/2017	09/03/2021
Heinz Hodl	10/07/2012	10/03/2020
Ferenc Berszan	21/03/2016	05/01/2020
Harald Kreuzmair	08/08/2014	08/08/2022
Andreas Engels	27/01/2011	08/08/2022

REGULATORY INFORMATION

44. CAPITAL MANAGEMENT AND TOTAL CAPITAL

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

Regulatory capital

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

Capital Adequacy Ratio

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

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

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 100%, 150%) are applied; for example, cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Premises and equipment 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 us-ing the same percentages as for on-balance-sheet assets.

in LEK thousand	2018	2017
Total risk weighted assets	113,098,889	114,853,776
Regulatory capital	23,270,769	23,668,639
Capital adequacy ratio	20.58 %	20.61 %

44. CAPITAL MANAGEMENT AND TOTAL CAPITAL (CONTINUED)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confi-dence and to sustain future development of the business. The impact of the level of capital on shareholder re-turn 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 has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

RECOGNITION AND MEASUREMENT PRINCIPLES

Financial instruments – Policy applicable from 1 January 2018

Recognition and initial measurement

The Group initially recognises loans and advances and deposits on the date on which they are originated. All other fi-nancial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification and measurement of financial assets and financial liabilities

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

IFRS 9 contains a classification and measurement approach which is firstly based on the business model under which the assets are managed, and secondly on the cash flow characteristics of the assets. For the Group, this results in five classifi-cation categories for financial assets:

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

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

On initial recognition of an equity instrument that is not for trading, the Group may irrevocably elect to present subse-quent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment

basis for each investment and essentially covers strategic interests that are not fully consolidated.

All other financial assets – i.e. financial assets that do not meet the criteria for classification as subsequently measured at either amortized cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recog-nized in profit or loss. In addition, the Group has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an "accountingmismatch" – that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. A financial asset is classified into one of these categories on initial recognition.

The presentation of financial liabilities is largely in accordance with the rules of IAS 39, with the exception that changes in the fair value of liabilities measured at fair value which are caused by changes in the Group's own default risk are to be booked in other comprehensive income. In accordance with IFRS 9, embedded derivatives are not consolidatedd from the host contract of a financial asset. Instead, financial assets are classified in accordance with the business model and their contractual characteristics as explained in the chapter Business model assessment and in the chapter Analysis of contractual cash flow characteristics. The recognition of derivatives which are embedded in financial liabilities and in non-financial host contracts has not changed in IFRS 9.

Business model assessment

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

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

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

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

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

For the Group, the sale of more than 10 per cent of the portfolio (carrying amount) during a rolling three-year period will potentially be considered 'more than infrequent' unless these sales are immaterial as a whole.

Analysis of contractual cash flow characteristics

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

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

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

Modification of the time value of money and the benchmark test

The time value of money is the element of interest that provides consideration for only the passage of time. It does not take into account other risks (credit, liquidity etc.) or costs (administrative etc.) associated with holding a financial asset. In some cases, the time value of money element may be modified (imperfect). This would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case units must assess the modification as to whether the contractual cash flows still represent solely pay-ments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a 'perfect' benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by conclud-ing that an instrument, in the absence of such an assessment, will be measured at fair value.

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

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

Financial assets and financial liabilities

Financial assets – amortized cost

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

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

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

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

Loans and advances include loan and advances to customers measured at amortised cost and lease receivables.
If there is a difference between the amount paid and face value – and this has an interest character – the effective interest method is used and the amount is stated under net interest income. Interest income is calculated on the basis of the gross carrying amount provided the financial asset is not impaired. As soon as the financial asset is impaired, interest income is calculated based on the net carrying amount. The amortized cost is also adjusted by the expected loss recognized, using the expected loss approach in accordance with IFRS 9, as outlined in the chapter Impairment general (IFRS 9).

Financial assets and financial liabilities – fair value through profit or loss

Financial assets and liabilities – fair value through profit or loss are acquired or incurred principally for the purpose of generating profit from short-term fluctuations in market prices. Securities held within a business model whose objective is achieved by selling financial assets are measured at their fair values. If securities are listed, the fair value is based on stock exchange prices. Where such prices are not available, internal prices based on present value calculations for origi-nated financial instruments and futures or option pricing models for options are applied. Present value calculations are based on an interest rate curve which consists of money market rates, future rates and swap rates. Option price formulas Black-Scholes 1972, Black 1976 or Garman-Kohlhagen are applied depending on the kind of option. The measurement for complex options is based on a binominal tree model and Monte Carlo simulations.

Positive fair values (dirty price) are shown under financial assets – fair value through profit or loss. Negative fair values are shown under financial liabilities – fair value through profit or loss. Changes in fair value are shown in net trading income.

Interest income is shown in other interest income, valuation results and proceeds from disposals are shown in net trading income/(loss).

Financial assets and financial liabilities – designated fair value through profit or loss

This category comprises mainly all those financial assets that are irrevocably designated as financial instruments at fair value (so-called fair value option) upon initial recognition in the statement of financial position. An entity may use this designation only when doing so eliminates or significantly reduces incongruities in measurement or presentation. These arise if the measurement of financial assets or liabilities or the presentation of resulting gains or losses has a different basis. Financial liabilities are also designated as financial instruments at fair value, to avoid valuation discrepancies with related derivatives. The fair value of financial obligations under the fair value option in this category reflects all market risk factors, including those related to the credit risk of the issuer.

For financial liabilities designated at fair value through profit or loss, changes in fair value attributable to a change in own credit risk is not reported in the income statement but in other comprehensive income.

In accordance with IFRS 9, these financial instruments are measured at fair value. Interest income is shown in net interest income; valuation results and proceeds from disposals are shown in net trading income/(loss).

Financial liabilities – amortized cost

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

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

Assets/Liabilities	Fair value	Amortized cost	Category according to IFRS 9
Assets classes			
Cash, cash balances at central Banks and other demand deposits		X	AC
Financial assets - amortized cost		X	AC
Financial assets - fair value through other comprehensive income	X		FVOCI
Non-trading financial assets - mandatorily fair value through profit/loss	X		FVTPL
Financial assets - designated fair value through profit/loss	X		FVTPL
Financial assets - held for trading	X		FVTPL
Liabilities classes			
Financial liabilities - amortized cost		X	AC
Financial liabilities - designated fair value through profit/loss	X		FVTPL
Financial liabilities - held for trading	X		FVTPL

AC: Amortized Cost
FVOCI: Fair Value Through Other Comprehensive Income
FVTPL: Fair Value Through Profit or Loss

Amortized cost

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

Financial instrumnets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- available-for-sale;
- loans and receivables;
- at fair value through profit or loss; and
- designated at fair value through profit or loss.

Trading assets and liabilities

Trading assets and liabilities were those assets and liabilities that the Group acquired or incurred principally for the pur-pose of selling or repurchasing in the near term, or held as part of the portfolio that was managed together for the short-term profit or position taking.Trading assets and liabilities were initially recognised and subsequently measured at fair value in the separate statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value were recognised as part of the net trading income in profit or loss. Trading assets and liabilities were not reclas-sified subsequent to their initial recognition.

Loand and advances

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term. When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement was accounted for as a loan or advance, and the underly-ing asset was not recognised in the Group's separate financial statements. Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Investment securities

Investment securities were 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 were assets with fixed or determinable payments and fixed maturity that the Group had the positive intent and ability to hold to maturity, and which were not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments were 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 classi-fying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit or loss

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

(iii) Available-for-sale

Available-for-sale investments were non-derivative investments that were not designated as another category of financial assets. Unquoted equity securities whose fair value could not be reliably measured are carried at cost. All other available-for-sale investments were carried at fair value. Interest income was recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss.
Other fair value changes were recognised in other comprehensive income until the investment was sold or impaired and the balance in other comprehensive income 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 were financial assets designated irrevocably, at initial recognition, into this category. Management designated securities into this category only if(a) such classification eliminates or significantly reduced 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.

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 repre-sents 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.

Derecognition of financial assets

Policy applicable from 1 January 2018

A financial asset is derecognized when the contractual rights to the cash flows arising from a financial asset have ex-pired, when the Group has transferred the rights to the cash flows, or if the Group has the obligation, in case that certain criteria occur, to transfer the cash flows to one or more receivers. A transferred asset is also derecognized if all material risks and rewards of ownership of the assets are transferred. The Group has in place a write-off policy based on the prin-ciple that the Group being the creditor of loans does not expect any recovery/payment either on the entire exposure (full write-off) or on a part of the exposure (partial write-off). Furthermore, the loans have to be either fully impaired in amount of the entire exposure or, in case of collateralized loans, they are impaired in the extent not being collateralized. Further information on write-offs is provided in (36) Expected credit losses

Policy applicable before 1 January 2018

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets oth-erwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qual-ifying 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. Con-trol 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.

Modification of financial assets

In the Group, a financial asset is derecognized on account of a modification if the underlying contract is modified substantially. Terms are substantially different if the discounted present value of the cash flows under the new terms using the original effective interest rate differs by at least 10 per cent from the discounted present value of the remaining cash flows of the original financial asset (present value test). In addition to the present value test further quantitative and qualitative criteria are considered in order to assess whether a substantial modification applies. These criteria consider the extension of the average remaining term (whereby in the case of Stage 3 loans which are restructured, this is often done to match the maximum expected payments). If this is the case then additional judgement is required to determine whether the extension is a new instrument in economic terms. The Group has defined qualitative criteria for a significant change in the terms of the contract as a change in the underlying currency and also the introduction of clauses that would normally cause the contractual cash flow criteria according to IFRS 9 to fail, or a change in the type of instrument (e.g. a bond is converted to a loan).

Derecognition of financial liabilities

The Group derecognizes a financial liability if the obligations of the Group have been paid, expired or revoked. The income or expense from the repurchase of own liabilities is shown in the notes under (5) Other net operating income. The repurchase of own bonds also falls under derecognition of financial liabilities. Differences on repurchase between the carrying value of the liability (including premiums and discounts) and the purchase price are reported in the income statement in other net operating income.

Reclassification of financial assets

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

Fair value

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

Quotation on an active market (Level I)

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

Measurement techniques based on observable market data (Level II)

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

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

If no sufficient current verifiable market data is available for the measurement with measurement models, parameters which are not observable in the market are also used. These input parameters may include data which is calculated in terms of approximated values from historical data among other factors (fair value hierarchy level III). The utilization of these models requires assumptions and estimates of the Management. The scope of the assumptions and estimates depends on the price transparency of the financial instrument, its market and the complexity of the instrument.
For financial instruments valued at amortized cost (this comprises loans and advances, deposits, other short-term borrowings and long-term liabilities), the Group publishes the fair value. In principle, there is low or no trading activity for these instruments, therefore a significant degree of assessment by the Management is necessary for determining the fair value. Further information on measurement methods and quantitative information for determination of fair value is shown in the notes under (22) Fair value of financial instruments.

Financial guarantees

According to IFRS 9, a financial guarantee is a contract under which the guarantor is obliged to make certain payments. These payments compensate the party to whom the guarantee is issued for losses arising in the event that a particular debtor does not fulfill payment obligations on time as stipulated in the original terms of a debt instrument. At the date of recognition of a financial guarantee, the initial fair value corresponds under market conditions to the premium at the date of signature of the contract. In contrast to the presentation of impairments of financial assets, expected loan defaults are shown as a provision on the liabilities side.

Contingent liabilities and commitments

This item mainly includes contingent liabilities from guarantees, credit guarantees, letters of credit and loan commitments recognized at face value. Guarantees are used in situations in which the Group guarantees payment to the creditor of a third party to fulfill the obligation of the third party. Irrevocable credit lines must be reported when a credit risk may occur. These include commitments to provide loans, to purchase securities or to provide guarantees and acceptances. Loan loss provisions for contingent liabilities and irrevocable loan commitments are reported under provisions for lia-bilities and charges. Often, loan commitments are only partially drawn and thus comprise a drawn and an undrawn com-mitment. If it is not possible to consolidatedly identify the expected credit losses applicable to a drawn

commitment and those to an undrawn commitment, these are shown together with the impairments for the financial asset, in accordance with IFRS 7. The total expected credit losses are shown as a provision if they exceed the gross carrying amount of the financial asset.

Impairment

Impairment general (IFRS 9) - Policy applicable from 1 January 2018

This section provides an overview of those aspects of the rules on impairment that involve a higher degree of judgement or complexity and major sources of estimation uncertainty and that resulted in a material adjustment in the financial year. Quantitative information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the consolidated financial statements.

Overview

As outlined in the chapter application of new and revised standards, the application of IFRS 9 has fundamentally changed the way in which the Group reports impairment losses on loans and advances. From 1 January 2018, impairment losses for all debt instruments which are not measured at fair value and for loan commitments and financial guarantees (hereinafter referred to in this section as financial instruments) are recorded in the amount of the expected credit loss. Equity instruments are not subject to the impairment rules of IFRS 9.

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

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

- Stage1 essentially includes all financial instruments whose credit default risk has not significantly increased since their initial recognition. Stage 1 also includes all transactions which show a low credit risk on the reporting date, where the Group has utilized the option available under IFRS 9 to waive the assessment of a significant increase in credit risk. A low credit risk exists for all financial instruments whose internal credit rating on the reporting date is within the investment grade range (corresponds to at least Standard & Poor's BBB-, Moody's Baa3 or Fitch BBB-). On initial recognition of loans, the Group records an impairment in the amount of the expected twelve-month loss. Stage 1 also includes loans where the credit risk has improved and which have thus been reclassified from Stage 2.
- Stage 2 includes those financial instruments whose credit risk has significantly increased since their initial recognition and which, as at the reporting date, are not classified as transactions with limited credit risk. Impairments in Stage 2 are recognized in the amount of the financial instrument's lifetime expected credit loss. Stage 2 also includes loans where the credit risk has improved and which have thus been reclassified from Stage 3.
- Stage 3 includes financial instruments which are classified as impaired as at the reporting date. the Group's criterion for this classification is the definition of a default in accordance with Article 178 CRR. The expected credit loss over the entire remaining lifetime of the financial instrument is also to be used as the basis for recognizing impairment of Stage 3 loans in default.
- POCI: Purchased or originated credit-impaired assets are financial assets which were already impaired at the time of initial recognition. On initial recognition, the asset is recorded at fair value without any impairment, using an effec-tive interest rate that is adjusted for creditworthiness. The impairment recognized in subsequent periods equals the cumulative change in the lifetime expected credit loss of the financial instrument since the initial recognition in the statement of financial position. This remains the basis for measurement, even if the value of the financial instrument has risen.

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

Determination of expected credit losses

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

The twelve-month loss used for the recognition of impairments in Stage 1 is the portion of the lifetime expected credit loss for the financial instrument that results from default events which are expected to occur within twelve months following the reporting date. The ECL for Stage 1 and Stage 2 as well as for insignificant financial instruments in Stage 3 is determined on an individual transaction basis taking into account statistical risk parameters. These parameters have been derived from the Basel IRB approach and modified to meet the requirements of IFRS 9. The most important input parameters used by the Group for determining the expected credit losses are as follows:

- PD: In the Group, the probability of default is the probability of a borrower being unable to fulfill its payment obligations either within the next twelve months or in the entire remaining lifetime of the instrument.
- Exposure at default (EAD): The exposure at default is the amount which the Group expects to be owed at the time of default, over the next twelve months or over the entire lifetime.
- Loss given default (LGD): The loss given default represents the Group's expectation of the extent of loss on a defaulted exposure.

All risk parameters used from the Group's internal models are adjusted to meet the specific requirements of IFRS 9, and the forecast horizon has been extended accordingly to cover the entire term of the financial instruments. For example, the forecast for the development of the exposure over the entire term of the financial instrument therefore also includes, in particular, contractual and statutory termination rights.
Further details on determining expected credit losses are provided in the notes (26) Expected credit losses.

Forward-looking information

As a rule, the risk parameters specific to IFRS 9 are estimated not only on historical default information but also, in par-ticular, on the current economic environment (point-in-time perspective) and forward-looking information. This assess-ment primarily involves regularly reviewing the effects which the Group's macroeconomic forecasts will have regarding the amount of the ECL, and including these effects in the determination of the ECL. A baseline scenario is used for this purpose which relies on the respective applicable consensus (forecasts of Raiffeisen Research on significant macroeco-nomic factors, such as real GDP, unemployment rate, reference interest rates and Information about the currently assumed state of the credit cycle). This baseline scenario is then supplemented with additional macroeconomic parameters that are relevant for the model. Other risks which cannot be depicted in the standard model and the related expected losses are also taken into account.

Further details on forward-looking information are provided in the notes (26) Expected credit losses in the chapter forward-looking information.

Significant increase in the credit risk

The Group's rating systems combine into the PD all available quantitative and qualitative information relevant for forecasting the credit risk. This metric is based primarily on a statistical selection and weighting of all available indictors. In addition, the PD adjusted in accordance with IFRS 9 requirements takes into account not only historical information and the current economic environment, but also, in particular, forward-looking information such as the forecast for the de-velopment of macroeconomic conditions. As a consequence, the Group uses the PD only as a frame of reference for as-sessing whether the credit risk of a financial instrument has risen significantly since the date of its initial recognition. By anchoring the review of the relative transfer criterion in the robust processes and procedures of the Group's Group-wide credit-risk-management framework, the Group ensures that a significant increase in the credit risk is identified in a relia-ble and timely manner based on objective criteria. The review to determine whether the credit default risk as at the fi-nancial reporting date has risen significantly since the initial recognition of the respective financial instrument is per-formed as at the reporting date. This review compares the observed probability of default over the residual maturity of the financial instrument (Lifetime-PD) against the lifetime PD over the same period as expected on the date of recognition. Further details on forward-looking information are provided in the notes (26) Expected credit losses in the chapter Significant increase in the credit risk.

Collateral

In order to mitigate credit risks for financial assets, the Groupendeavors to use collateral wherever possible. This collateral can take different forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets and credit improvements such as netting agreements. The accounting principles for

collateral remain unchanged compared to IAS 39. Collateral is not recorded in the Group's statement of financial position unless it is repossessed. The fair value of collateral does, however, affect the calculation of ECLs. Generally, it is valued at least at the outset, and subject to half-yearly reviews. Some collateral such as cash or securities are assessed daily in respect of margin requirements. Further details are provided in the notes (25) Collateral and maximum credit risk.

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

Policy applicable before 1 January 2018

Impairment losses were 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 had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Group determined that no objective evidence existed that impairment was incurred for an individually assessed financial asset, whether significant or not, it included 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 considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement sys-tems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considered bankruptcy or a financial reorganisation;
- there was 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 decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were 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.

Future cash flows in a group of financial assets that were collectively evaluated for impairment, were 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 wass 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 were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment was measured using the original effective interest rate before the modification of terms. The renegotiated asset was then derecognized and a new asset was recognized at its fair value only if the risks and rewards of the asset substantially changed. This was normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses were 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 reflected the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the pre-

viously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets were written off against the related impairment loss provision after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to impairment loss account in profit or loss for the year.

Genuine sale and repurchase agreements

In a genuine sale and repurchase transaction, the Group sells assets to a third party and agrees at the same time to repur-chase these assets at an agreed price and time. The assets remain on the Group's statement of financial position and are measured according to the standards applied to the item in the statement of financial position under which they are shown. The securities are not derecognized since all the risks and rewards of the Group associated with the ownership of the repurchased securities are retained. Cash inflows arising from a sale and repurchase transaction are recognized in the statement of financial position as financial liabilities – amortized cost. Under reverse repurchase agreements, assets are acquired by the Group with the obligation to sell them in the future. The purchased securities on which the financial transaction is based are not reported in the Group's statement of financial position and accordingly not measured. Cash outflows arising from reverse repurchase agreements are recorded in the statement of financial position under the item financial assets – amortized cost.

Interest expense from sale and repurchase agreements and interest income from reverse sale and repurchase agreements is accrued in a straight line over their term to maturity and shown under the Group's net interest income.

Securities lending

The Group concludes securities lending transactions with Groups or customers in order to meet delivery obligations or to conduct security sale and repurchase agreements. In the Group, securities lending transactions are shown in the same way as genuine sale and repurchase agreements. This means loaned securities continue to remain in the securities portfo-lio and are valued according to IFRS 9. Borrowed securities are not recognized and not valued in the Group. Cash col-lateral provided by the Group for securities lending transactions is shown as a claim under the item financial assets – amortized cost while collateral received is shown as financial liabilities – amortized cost in the statement of financial position.

Leasing

Leases are classified according to their contractual structure as follows:

Operating leases

An operating lease exists when the risks and rewards of ownership remain with the lessor. The leased assets are allocated to the Group under the item tangible fixed assets and depreciated in accordance with the principles applicable to the type of fixed assets. Rental income from the corresponding lease object is spread on a straight-line basis over the term of the leasing contract and reported in other net operating income. Expenses for operating leases are generally amortized on a straight-line basis over the term of the leasing contract and reported as administrative expenses.

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; 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.

Cash, cash balances at central Banks and other demand deposits

Cash, cash balances at central Banks and other demand deposits include notes and coins on hand, balances due on call and compulsory reserve at Central Bank of Albania, and demand deposits at Groups that are due on call.

Cash, cash balances at central Banks and other demand deposits are carried at amortised cost in the statement of finan-cial position.

Cash and cash equivalents

Cash and cash equivalents include highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Intangible fixed assets

Acquired intangible fixed assets

In the Group, consolidatedly acquired intangible fixed assets, i.e. those with a definite useful life not acquired in a busi-ness combination, are capitalized at acquisition cost less accumulated amortization and impairment. Amortization is accrued in a straight line over the expected useful life and reported as an expense in the income statement. The expected useful life and the depreciation method are reviewed at each reporting date and any possible changes in measurement taken into account prospectively. Consolidatedly acquired intangible fixed assets with an indefinite useful life are capi-talized at acquisition cost less accumulated impairment. The normal useful life of software is between four and six years. The normal useful life for large software projects may extend over a longer period.

Intangible fixed assets with a definite useful life are amortized over the period during which the intangible fixed asset can be used.

Tangible fixed assets

The land and buildings as well as office furniture and equipment reported under tangible fixed assets are measured at cost of acquisition or conversion less depreciation. Depreciation is recorded under the item general administrative ex-penses.
The straight-line method is used for depreciation and is based on the following useful life figures:

Useful life	Years
Buildings	20
Office furniture and equipment	4 – 7
Hardware	4 – 7
Software	8

Land is not subject to depreciation.

Expected useful lives, residual values and depreciation methods are reviewed annually. Any necessary future change of estimates is taken into account. Any anticipated permanent impairment is reported in the income statement and shown under the item general administrative expenses. In the event that the reason for the write-down no longer applies, a write-up will take place up to a maximum of the amount of the amortized cost of the asset.

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

Investment property

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

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

Provisions for liabilities and charges

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

These types of provision are reported in the statement of financial position under the item provisions for liabilities and charges. Allocation to the various types of provision is booked through different line items in the income statement

depending on the nature of the provision. Restructuring provisioning, provisioning for legal risks and other employee benefits are recorded in general administrative expenses. Provision allocations that are not assigned to a corresponding general administrative expense are as a matter of principle booked against other net operating income.

Employee compensation plans

Defined contribution plans

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

Social and health contributions

The Bank 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 Bank 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 Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

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

Subordinated liabilities

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

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2018 and 2017.

Net interest income

Policy applicable from 1 January 2018

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

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.
For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.
For information on when financial assets are credit-impaired, see Note 26 Expected credit loss, paragraph "Definition of default and credit-impaired assets".

Presentation

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

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

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trad-ing income (see Other interest income below).

Policy applicable from 1 January 2018

Interest income and expense were recognised as profit or loss in the separate statement of profit or loss and other com-prehensive 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 appro-priate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

Interest income and expense presented in the statement of profit or loss and other of comprehensive income included:
- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis

Interest income and expense on all trading assets and liabilities were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Other interest income

Other interest income comprises interest related to trading assets and liabilities and financial assets designed at fair value through or loss and interest income on finance leases.

Dividend income

Dividends from equities, subsidiaries not fully consolidated, strategic investments and associates not valued at equity are recognized under dividend income. Dividends are recognized through profit/loss if the Group's legal entitlement to payment has materialized.

Net fee and commission income

management, foreign exchange business and credit business. Fee and commission income and expenses are accrued in the reporting period.

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

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

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

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

Net trading income/(loss)

Net trading income/(loss) comprises gains less losses related to trading assets and liabilities, and includes all fair value changes and foreign exchange differences.

General administrative expenses

General administrative expenses include staff and other administrative expenses as well as amortization/depreciation on tangible and intangible fixed assets.

Income taxes

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to

the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Statement of cash flows

The cash flow statement reports the change in the Cash, cash balances at central Banks and other demand deposits of the Group through the net cash from operating activities, investing and financing activities. Cash flows for investing activi-ties mainly include proceeds from the sale, or payments for the acquisition of, financial investments and tangible fixed assets. The net cash from financing activities shows all cash flows from equity capital, subordinated liabilities.

Standards and interpretations that are not yet applicable

The following new or amended standards and interpretations, which have been adopted, but are not yet mandatory, have not been applied early.

IFRS 16 (Leases; entry into force 1 January 2019)

For lessees, the new standard establishes an accounting model which does not distinguish between financial leasing and operating leasing. In future, most lease agreements will have to be recognized in the statement of financial position. The standard requires lessees to recognize assets and liabilities in the statement of financial position for all leases of more than 12 months, unless the underlying asset has a low value. The lessee recognizes an asset which represents its right to use the underlying asset. It also recognizes a lease liability which represents its liability to effect the lease payments. For lessors, the rules under IAS 17 (Leases) remain largely valid, meaning that in future it will still also be necessary to distinguish between financial and operating leasing with corresponding different accounting consequences. In addition, the standard also requires entities to provide users of financial statements with more informative, relevant disclosures in the notes.

In 2018, the Group launched a Group-wide preliminary study to analyze the impact of IFRS 16 on existing leases. In the context of this preliminary study, contracts (rental and leasing contracts) were analysed on the basis of the extent to which the existing lease agreements were to be recorded as rights of use and lease liabilities on the statement of financial position, and on the other hand, Group-wide accounting guidelines were drafted. The analysis has shown that as at 1 January 2019, usage rights of around LEK 1,394 million are expected to be recognized which which relate almost entire-ly to leases of buildings for own purposes. A significant effect on equity is not expected.

IFRS 16 transitional rule

With regard to the transitional arrangements, IFRS 16 grants the Group as lessee an accounting option concerning the transition to the new leasing provisions. IFRS 16 is either fully applied retrospectively including earlier reporting peri-ods in accordance with the provisions in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, or the modified retrospective approach is used in which the cumulative impact of applying IFRS 16 retrospectively is accounted for under equity as an adjustment posting in the opening balance of retained earnings at the time of first application of the standard.

The Group has decided to use the modified retrospective approach, which also means that no adjustments of comparable information will be made in the as at 1 January 2019. As lessee, the Group will measure the liabilities from lease contracts which in accordance with IAS 17 were to be classified as operating leases, at the present value of the remaining lease payments using its incremental borrowing rate of interest at the time of first application of IFRS 16. In addition, the rights of use must be recognized in the same amount, adjusted by previously recognized, prepaid or deferred lease payments. No adjustments are necessary for contracts which in accordance with IAS 17 were accounted for as operating leases, provided that the assets underlying the contract are low-value assets as defined by IFRS 16. The relevant option is utilized on an individual basis. In addition, the Group can, as lessee, utilize the following practical exemptions and simplifications on an individual basis. The Group as lessee can apply a uniform interest rate to portfolios with sufficiently identical characteristics and apply the exemption for short-term lease contracts to lease contracts with a remaining term of less than twelve months at the time of first application.

If the lease agreement was classified under IAS 17 as a finance lease, the Group takes over the carrying amount of a leased asset as a right-of-use asset and the carrying amount of a leased liability as the carrying amount of the new leased liability.

If the Group is lessor, no specific transitional provisions apply. Consequently, no adjustments of the values are made at the time of transfer. The existing values are continued from the time of first application in accordance with the rules of IFRS 16.

If subleases exist (i.e. intraGroup lease agreements), the sub-lessor must, for all subleases classified as operating leases, examine whether an operating lease or a finance lease applies pursuant to IFRS 16. For subleases which were accounted for as operating leases in accordance with IAS 17 but which are classified as finance leases under the rules of IFRS 16, the sub-lessor must account for the leases in the same way as for a new finance lease contract concluded as at that date.

IFRIC 23 (Uncertainty over income tax treatments; entry into force 1 January 2019)

This interpretation clarifies the accounting for uncertainties in income taxes. The application of these amendments is not expected to have any impact on the consolidated financial statements of the Group.

Standards and interpretations not yet applicable

Annual improvements to IFRS – 2015–2017 cycle (entry into force 1 January 2019)

The amendments include in particular:
- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- IAS 23 Borrowing Costs: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The application of these amendments is not expected to have any significant impact on the consolidated financial statements of the Group.

Amendment to IAS 28 (Long-term interests in associates and joint ventures; entry into force 1 January 2019)

The amendments clarify that an entity is obliged to apply IFRS 9 Financial Instruments including its impairment provisions to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The application of IFRS 9 thus takes precedence over the application of IAS 28. The application of this amendment is not expected to have any significant impact on the consolidated financial statements of the Group.

Amendment to IAS 19 (Plan amendments, curtailments, and settlements; entry into force 1 January 2019)

As a result of the amendments to IAS 19, it will in future be a mandatory requirement that in the event of a plan amendment, curtailment or settlement of a defined benefit plan, the current service cost and the net interest for the remaining fiscal year must be redetermined using the current actuarial assumptions used for the required remeasurement of the net liability (asset). In addition, amendments were included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The application of this amendment is not expected to have any significant impact on the consolidated financial statements of the Group.

Amendment to the conceptual framework for IFRS (entry into force 1 January 2020)

The new conceptual framework contains revised definitions of assets and liabilities as well as new guidance on measurement and derecognition, presentation and disclosure. The new conceptual framework does not constitute a substantial revision of the document as was originally intended when the project was first taken up in 2004. Instead the IASB focused on topics that were not yet covered or that showed obvious shortcomings that needed to be dealt with. The re-vised conceptual framework is not subject to the endorsement process.

IFRS 17 (Insurance contracts entry into force 1 January 2021)

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect

that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021.The application of these amendments is not expected to have any significant impact on the consolidated financial statements of the Group.

Amendments to IFRS 10/IAS 28 (Sale or contribution of assets between an investor and its associate or joint venture)

The amendments clarify that for transactions with an associate or joint venture, the extent of recognition of gains or losses depends on whether the sold or contributed assets constitute a business. The effective date has been deferred in-definitely.

IFRS 14 (Regulatory deferral accounts; entry into force 1 January 2016)

Only entities applying IFRS for the first time and who recognize regulatory deferrals according to their previous accounting standards are allowed to continue with regulatory deferrals after transition to IFRS. The standard is intended to be a short-term interim solution till the IASB concludes the long-term project relating to price-regulated business transactions. The European Commission has decided not to adopt this standard.

EVENTS AFTER THE REPORTING DATE

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

Tirana, 12 June 2019

The Management Board

Christian Canacaris

Alexander Zsolnai John McNaughton

Elona Mullahi Egon Lerchster

STATEMENT OF LEGAL REPRESENTATIVES

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

The Management Board

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

Egon Lerchster
Member of the Management Board
responsible for CIO/COO

John McNaughton
Member of the Management Board
responsible for Retail Business

Elona Mullahi
Member of the Management Board
responsible for Corporate& SE Customers

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 2018, 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 2018 amounted to € 13 million, an increase of more than 8 per cent from previous year, of which € 11,6 million were used for vehicle financing, and € 1,4 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 51 per cent, with SE customers 15 per cent, and with Micro customers is done 18 per cent of the business, and the rest 16 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.

2018 was another year of challenges for the Albanian automotive market, where the number of new vehicles sold slightly surpassed 3,000 units, which represents only small number of the total cars sold in Albania.

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

Part of our activity 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 2018, Raiffeisen Leasing had 19 employees, providing their clients with prompt and highly competent services.

Raiffeisen Leasing publishes a wide range of printed and electronic materials on its website: www.raiffeisen-leasing.al. During 2018, 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 2018 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 2019 as well.

Prospect 2019

Thanks to our high professional standards and expertise of the Group which proved to be very strong, Raiffeisen Leasing sh.a will be in position to actively support the business and investment plans of its clients in 2019 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.

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.

Raiffeisen INVEST Sh.a

About Raiffeisen INVEST Sh.a

Even throughout 2018, Raiffeisen Invest sh.a remained market leader in the Albanian market for investment funds, holding 96.92 per cent of the investment funds market share in terms of asset under management, with a clear focus on investor care and implementation of best asset management practices.

Assets under the management of Raiffeisen Invest sh.a recognized a decrease of 10.56 per cent compared to the previous year, but nevertheless exceeded the value of € 524 million for the investment funds and pension fund combined. The investment funds marked a total of € 519 million, while the voluntary pension fund surpassed the level of € 5 million. The number of investors who trusted the management of their assets to Raiffeisen Invest was 28,648 investors for investment funds and 2,911 investors for the voluntary pension fund.

With a clear focus on the investor, the strategic objective of Raiffeisen Invest sh.a. has been the expansion of the range of products and investment alternatives in proportion to the degree of investor education and sophistication of the capital market as a whole, the promotion of the funds for the broad mass of investors, development of domestic market of the investment funds and voluntary pension funds as well as the enhancement of the level of transparency for the Albanian investor.

Based on these strategic objectives, during 2018, Raiffeisen Invest successfully launched the third investment fund Raiffeisen Vizion, with the aim of offering the investors another investment alternative in ALL, which focuses mostly on long-term investments with a higher level of potential risk and return.

In addition, the company continued its efforts to promote the Voluntary Pension Fund in the form of individual and professional voluntary pension plans. During 2018, new companies joined the professional pension scheme offered by Raiffeisen Voluntary Pension Fund. These companies value the pension contribution on behalf of their employees, considering it a means of incentivization, motivation and fulfilment of social responsibility.

Fund Performance

During 2018, the funds under the management of Raiffeisen Invest generated the following net return on investment after deducting the management fee:

- Raiffeisen Voluntary Pension Fund: plus 5.47 per cent on an annual basis
- Raiffeisen Prestige Investment Fund: plus 4.24 per cent on an annual basis
- Raiffeisen Invest Euro Investment Fund: minus 1.63 per cent on an annual basis
- Raiffeisen Vision Investment Fund: plus 1.78 per cent since the launch of the fund in 03 September 2018 to 31 December 2018

Despite the low interest rate environment throughout year 2018 in the domestic market, Raiffeisen Invest managed to provide satisfactory performance for funds in ALL currency. The net annual return on ALL funds was higher than the 12-month deposit interest rate offered in the domestic market in ALL and higher than the 12 month Treasury bill yield issued by the Albanian Government.

Unlike the domestic market, international markets have been dominated by political issues such as Brexit, the imposition of high trading barriers among the biggest economies, and uncertainty about Central Banks monetary policy decision-making. As a result, the bond market has underperfomed and for the first time Raiffeisen Invest Euro investment fund has posted a negative annual performance.
For all funds under management, Raiffeisen Invest executed a prudent investment policy by combining an effective risk management with effective asset allocation, aiming for an optimal risk/return tradeoff for the fund investors.

Social Responsibility

As for several years, even during 2018, Raiffeisen Invest sh.a continued to make its important contribution to economic, social, cultural and environmental development in Albania.

During 2018, a number of projects mainly focused on education and environmental protection, as well as projects related to social protection, health and the promotion of art and culture in the country, have attracted the attention and support of Raiffeisen Invest sh.a.

Raiffeisen Invest sh.a, as part of a large and important group and leading asset management company in the domestic market, has already incorporated the social responsibility as part of its mission, continuing with dedication to contribute to the three pillars of sustainable development.

2019 Outlook

2019 is expected to be another challenging year for the Albanian economy and the financial market as a whole, where the domestic and external economic and political risks will be present.

The low interest rates environment and the high level of liquidity in the domestic financial market indicate a high prospect of an increase in the level of lending, and as per consequence could bring about economic expansion, which can however be conditioned by political developments in the country.
On the other side, the increase in interest rates - if it does not come gradually - would be a real challenge for investment funds in ALL, as it would have direct impact on their performance.

The economy for the euro area is expected to mark a slow-down in its growth rate and will continue to be affected by potential political risks, the still unclear consequences of Brexit and increased uncertainties about the real impact of the "trade war" with barriers imposed by the biggest economies. Markets assign a low probability for interest rates hike during 2019, which is a good signal for the bond market as a whole.

Raiffeisen Invest sh.a will continue to be engaged in high-quality management of existing porducts, as well as the introduction of new products, with the ultimate objective of fulfiling investor needs and expectations.

The introduction of investment plans as a way of saving and investing in small and regular amounts into investment funds, with the aim of meeting long-term objectives, will be an important priority for Raiffeisen Invest sh.a during 2019.

The company will further the attempts at increasing the level of digitalization, improving the legal and regulatory framework in comformity with international standards, and developing the capital market in Albania, through new investment alternatives.

Raiffeisen Bank International at a glance

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

In total, almost 47,000 RBI employees serve 16.1 million customers in more than 2,100 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2018, RBI's total assets stood at € 140 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

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