Raiffeisen Bank Albania

Annual Report 2017

Contents

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 Supervisory Board

Ladies and Gentlemen,

The 2017 financial year saw a positive overall macroeconomic trend and favorable market environment. This contributed to the strong year-on-year improvement in RBI's consolidated profit, which more than doubled compared to last year. The better operating result was mainly positively impacted by lower risk costs. Alongside the successful sale of non-performing loans, this was also due to a notable decrease in net provisioning for impairment losses. The result achieved by RBI in 2017 also confirmed that the strategic decisions taken over the past years have played a key role in helping the group to successfully emerge from a challenging transformation period with increased strength. This is further demonstrated by a steadily strengthening capital base, balanced risk profile and considerably reduced NPL ratio – from 8.7 per cent (2016 pro forma) to 5.7 per cent. This improvement in asset quality was based not least on the determined reduction of non-performing loans in recent years.

The merger of Raiffeisen Zentralbank Österreich AG and RBI AG was put into effect on schedule upon entry in the commercial register on 18 March 2017. Following the merger, RBI will continue to pursue its strategy as a leading universal banking group in CEE and Austria with the primary objective of creating long-term value. Selective growth is planned for the coming years in specific markets which demonstrate stability and good economic prospects. Effective capital and risk management as well as the further reduction in non-performing loans will also remain crucial in future. In 2018, there will be an increased focus on the challenges in the form of ongoing regulatory requirements, political risks, progressing digitalization and related changes to the competitive environment.

As far as Raiffeisen Bank Sh.a is concerned, I am glad to state that after a difficult 2016, the bank had a very succesful year in 2017. I would like to mention that the bank reached one of the highest profits in its history. In addition to this excellent result, Raiffeisen Bank Sh.a. launched the most innovative digital banking platform in the country, with a high number of users in less than one year from its launching.

I would like to take this opportunity to thank all employees of Raiffeisen Bank Sh.a for their hard work and unwavering efforts in 2017, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board,

Peter Lennkh,
Chairman of the Supervisory Board

Message from the CEO

The 2017 financial year was a very positive year for Raiffeisen Bank in Albania, with very good results in all performance indicators. In particular, the retail loan grew to approximately € 250 million, increasing this way our presence in the loan retail market by reaching 18.6 per cent of it.

One of our biggest achievements in 2017 was the launching of Digital Banking Platform "Raiffeisen ON". This platform which is designed for both retail and business customers offers fast and secure banking services through its advanced technology. Being the most innovative digital banking platform in the market Raiffeisen ON had around 40,000 active users both in retail and business by the end of 2017, since its launch in March 2017.

In addition, we are pleased to serve more than 800,000 customers nationwide, providing them with a broad range of saving, loan and payment products. Raiffeisen Bank in Albania continues to have the widest branches and ATM network in the country.

During 2017, the country saw a positive GDP growth at 3.84 per cent, which was reflected moderately in the total banking assets, that grew by 2.7 per cent year on year. Raiffeisen Bank in Albania ranks second as far as assets and deposits are concerned, with a market share of 17.1 and 17.8 per cent respectively.

We continued to focus on improving and expanding the range of services and products we provide to our customers throughout the year. Our infrastructure is modernized with high standard branches, were the customers are served by our highly trained staff, because our goal is to always offer 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. is the leader company in the Albanian leasing market, owning more than 40 percent of it.

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

We excpect 2018 to be in the same trend as 2017. 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. In addition our digital transformation will continue with more products and services online making banking more convenient, and our business model more cost efficient.

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 2017 and I am looking forward to the year 2018, which I strongly believe will be another succesful year.

Christian CANACARIS
Chief Executive Officer
Chairman of the Management Board

Mission

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

We seek long-term customer relationships.

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

We achieve sustainable and above-average return on equity.

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

Perspectives and Future Plans for 2018

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

In the framework of our continuous digital transformation, we 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 2017, Raiffeisen Bank in Albania remained the first choice for more than 800,000 customers all over the country. The quality of customer service in all our segments will continue to be a priority. In addition, Retail Segment will continue to focus in offering the customers the best products and services in the market like consumer loans, digital banking, 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 also be a priority for these segments.

We will maintain our focus on the training and development of our employees, in order to achieve the highest standards of customer service. At the same time, the branch network will continue to improve by the establishment of new standards as well as the relocation of some branches to larger and more suitable places.

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 2018 as well.

Finally, we would like to sincerely thank all our customers and business partners for their cooperation and support during 2017. We remain fully committed to meeting their banking requirements and providing high quality service at every meeting point that they may have with us. We will do our best to remain their first choice as a banking partner.

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

Evolution

Report of the Management Board

Economic Developments

The economy accelerated in 2017, increasing by 3.9 per cent on average in the first three quarters, compared to the annual growth of 3.4 per cent in 2016. Strengthening of the economic growth in 2017 was mainly driven by the expansion of consumption and investments, and the growth of Albanian exports, in particular the export of tourism. All sectors of the economy, Industry, Services, Construction and Agriculture have contributed positively to the expansion of production throughout 2017. The economy is expected to maintain the same growth of 3.8 per cent - 4.0 per cent in 2018, driven by domestic demand encouraged by good financing conditions, increased confidence levels, and the advancement of structural reforms. The expected economic recovery of the main trading partners in the region will have a positive effect on the domestic economy as well.

The inflation rate increased to 2.0 per cent on average in 2017 compared to 1.3 per cent in 2016, but still lags behind the Bank of Albania's 3.0 per cent target. The main contribution came from food prices, while core inflation and imported inflation remained at low levels. The monetary policy continued to be expansionary in 2017, with a base rate of 1.25 per cent, the lowest historic level set since May 2016. For 2018 we expect an average inflation rate of 2.4 per cent and a return on target by first half of 2019, therefore monetary policy is not expected to reduce the intensity of the monetary stimulus at least until the end of 2018.

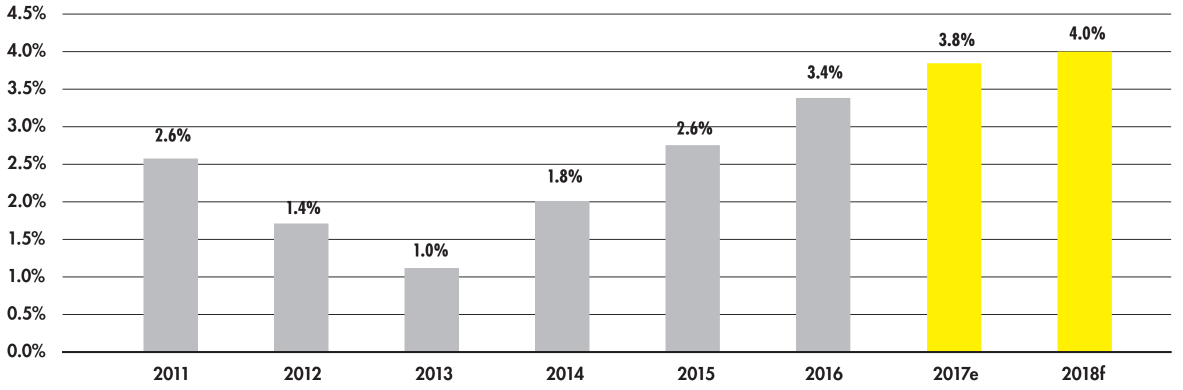
Developments in the labor market have shown signs of improvement over 2017. The unemployment rate was 13.4 per cent by the end of 2017 down from 14.2 per cent by the end of 2016. In the fourth quarter of 2017, the employment increased by 4.3 per cent year-on-year. Services and Industry had the highest employment growth, while Agriculture marked a decline on annual terms.

Fiscal consolidation continued in 2017, where the budget deficit amounted € 231.2 million, or 2.0 per cent of GDP, within the budget planning. Budget revenues increased by 5.7 per cent year-on-year, but still remained 2.8 per cent below the plan. Budget expenditures also increased compared to last year by 6.4 per cent, however remained under budget due to cuts in current and capital expenditures. The tendency of the public debt to GDP continued to decline in 2017. By the end of 2017, the public debt ratio resulted at 69.9 per cent of GDP from 72.4 per cent in 2016. The fiscal consolidation policy is expected to continue in 2018 and the public debt ratio to decline further.

The external position of the country improved in the first nine-months of 2017, as the current account deficit reached € 520 million, narrowing by 18 per cent compared to 2016. The exports of goods and services grew 23.3 per cent year-on-year in January-September 2017, mainly due to good performance of tourism, while exports of goods grew significantly by 18.1 per cent year-on-year. However, the trade deficit continued to expand in 2017, marking an expansion of 5.1 per cent compared to 2016 as a result of increased imports of goods driven by the construction of large projects in the energy sector. By the end of September 2017, Foreign Direct Investment-FDI inflows reached € 724.6 million with an annual growth of 6.6 per cent, and thus financing totally the current account deficit. Remittances reached € 463.5 million by September 2017, with an increase of 3.2 per cent compared to the previous year.

In 2017, the overall activity of the banking sector expanded slightly, marking an annual growth of 2.7 per cent of total assets (vs 6.8 per cent in 2016). Lending remained almost at the same level as last year, growing by only 0.1 per cent in 2017. The new loans volume in 2017 were in local currency, reflecting the transmission of the expansionary monetary policy. Looking ahead in 2018, the lending perspective is positive, reflecting the expected economic growth of about 4.0 per cent and improved level of non-performing loans. By the end of 2017, the level of non-performing loans fell to 13.2 per cent of the total loans from 18.3per cent in 2016. The implementation of measures taken throughout 2017 to reduce the level of non-performing loans, write off and restructuring process had a positive impact in improvement of the bad loans level. The banking system marked a good financial performance in 2017, reaching a record net profit of € 166 million. The banking system remained liquid and well capitalized in 2017, with a capital adequacy ratio of 16.6 per cent compared to the minimum required of 12.0 per cent.

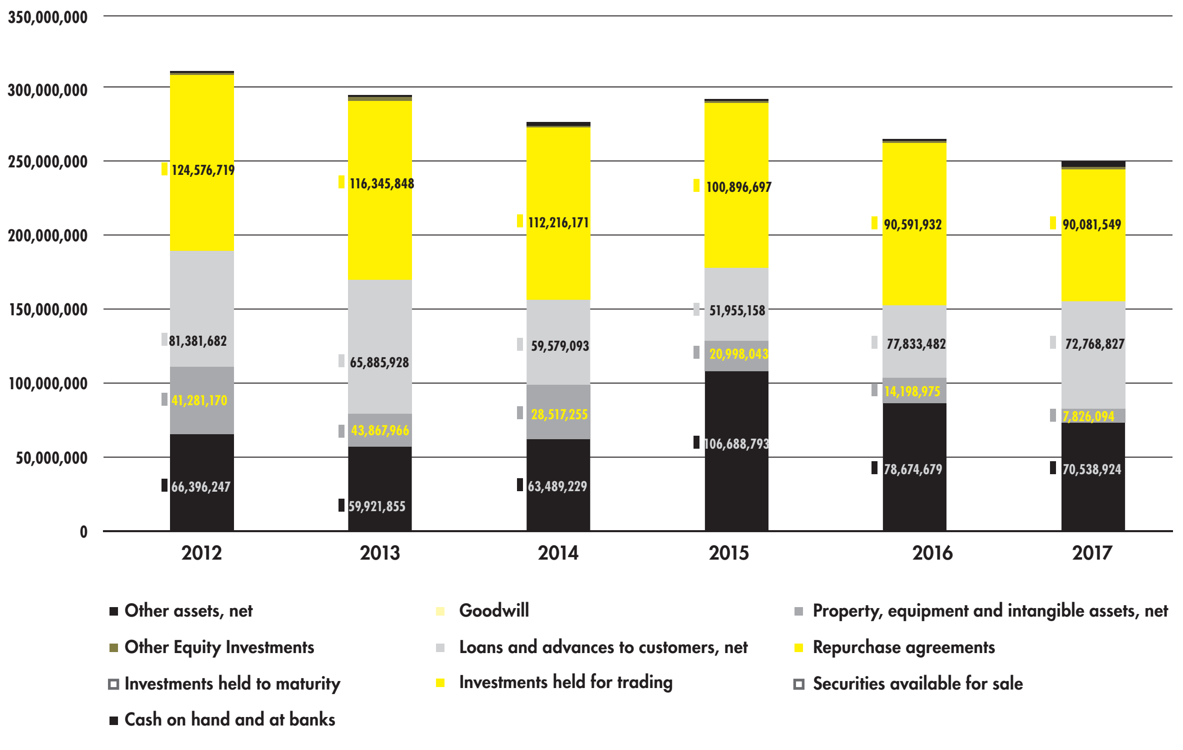
Real GDP Growth (%YoY)



Financial Results

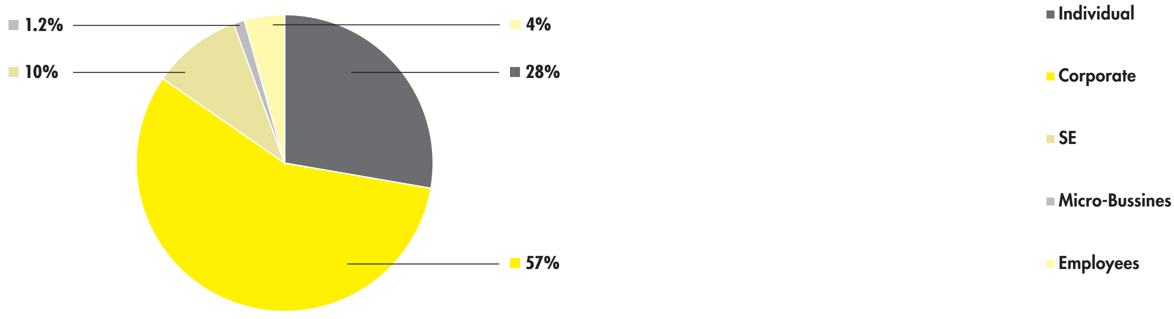
Total assets at the end of 2017 were ALL 250,455 million (2016: ALL 270,537 million). The loan book at the end of 2017 represented 36 per cent (2016: 33 per cent) of the Bank's total assets. The investments in securities represented nearly 33 per cent of it in 2017 (2016: 35 per cent).

Structure of Balance Sheet Assets
(in '000 LEK)



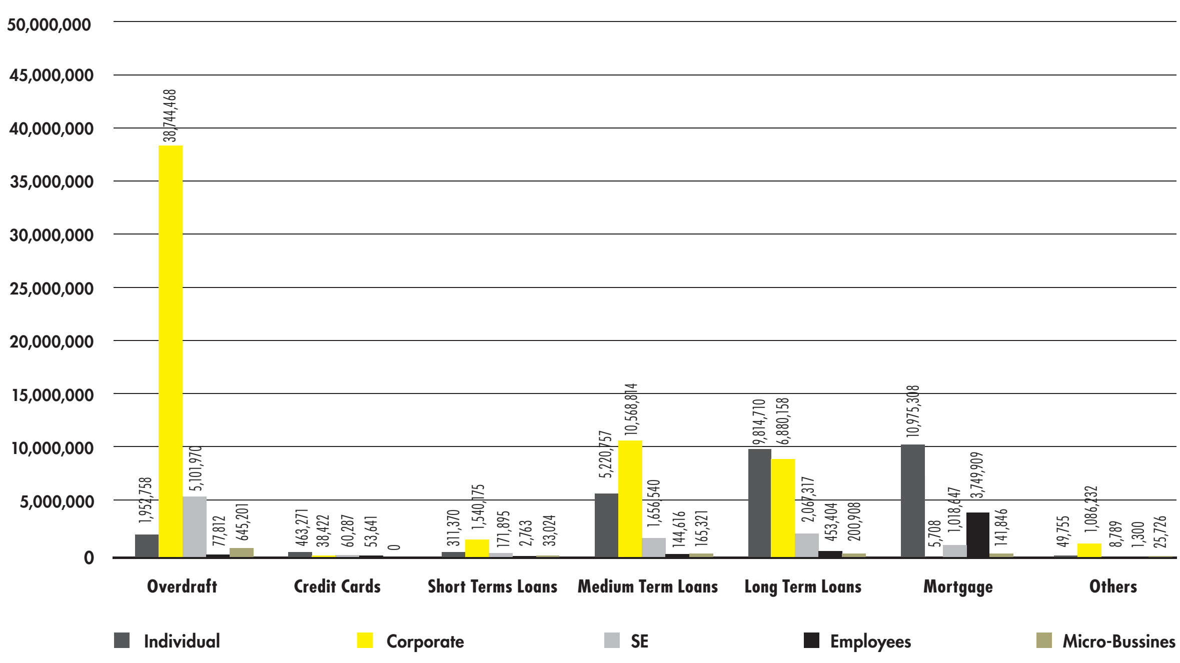
Total gross loans and advances to customers at year end 2017 totaled ALL 103,048 million (2016: ALL 110,383 million) representing a 7 per cent decrease in lending over the year. Corporate Sector in percentage terms is 57 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 58,763 million (2016: ALL 67,450 million). The SE recorded a 6 per cent decrease and Micro Business recorded a 35 per cent decrease in its outstanding loan book amounting to ALL 1,205 million (2016: ALL 1,859 million).

Structure of Loans to Customers



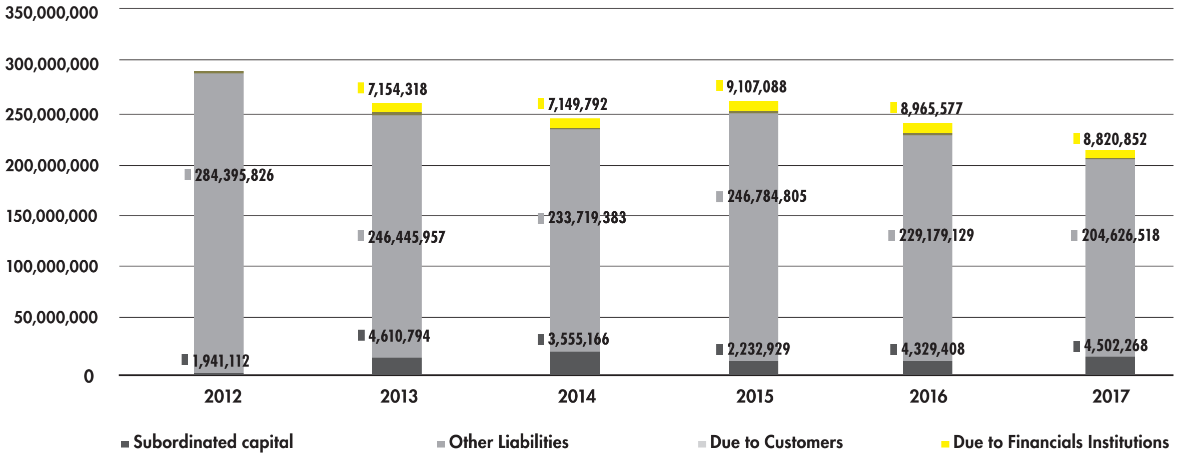
In 2017 the lending product portfolio was mainly a combination of overdrafts of 45 per cent (2016: 44 per cent), medium term loans of 17 per cent (2016: 19 per cent) and long term loans of 19 per cent of the Bank's loan portfolio in 2017 (2016: 18 per cent).

Loans for the year end 2017
(in '000 LEK)



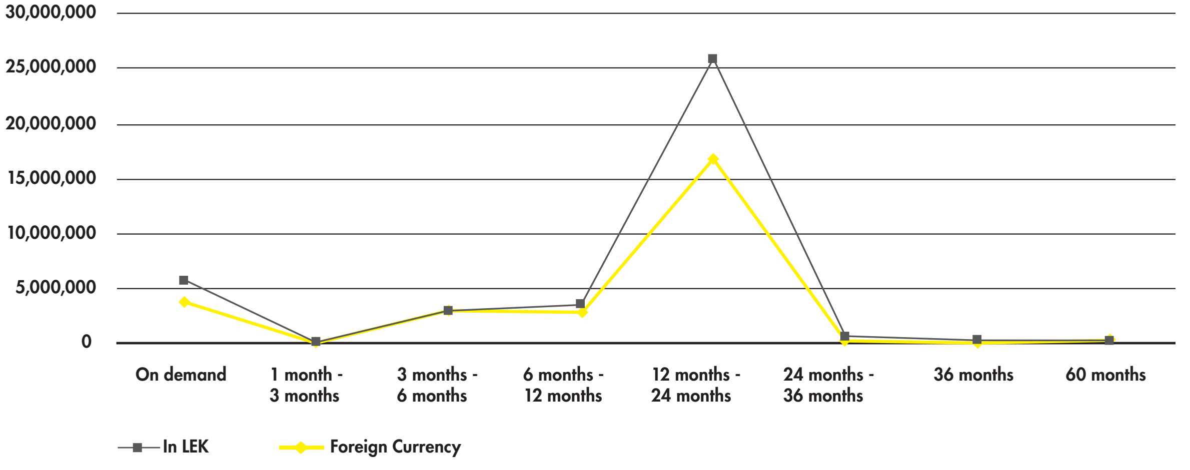
The total liabilities at the end of 2017 were ALL 220,121 million (2016: ALL 244,939 million). In 2017, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 93 per cent (2016: 94 per cent) of the Bank's total liabilities.

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

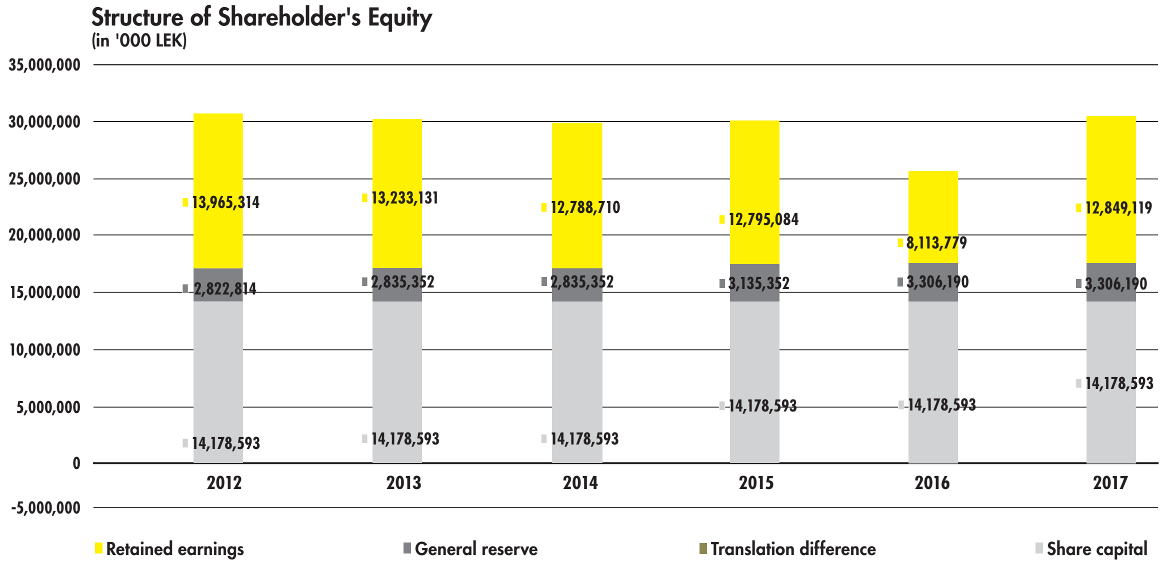


Like in 2016, the profile of customer deposits in 2017 shows a movement away from shorter term deposits. In order to take advantage of higher rates available the customers are extending their deposits in longer maturities. Total term customer deposits at the end of 2017 were ALL 64,537 million (2016: ALL 77,730 million).

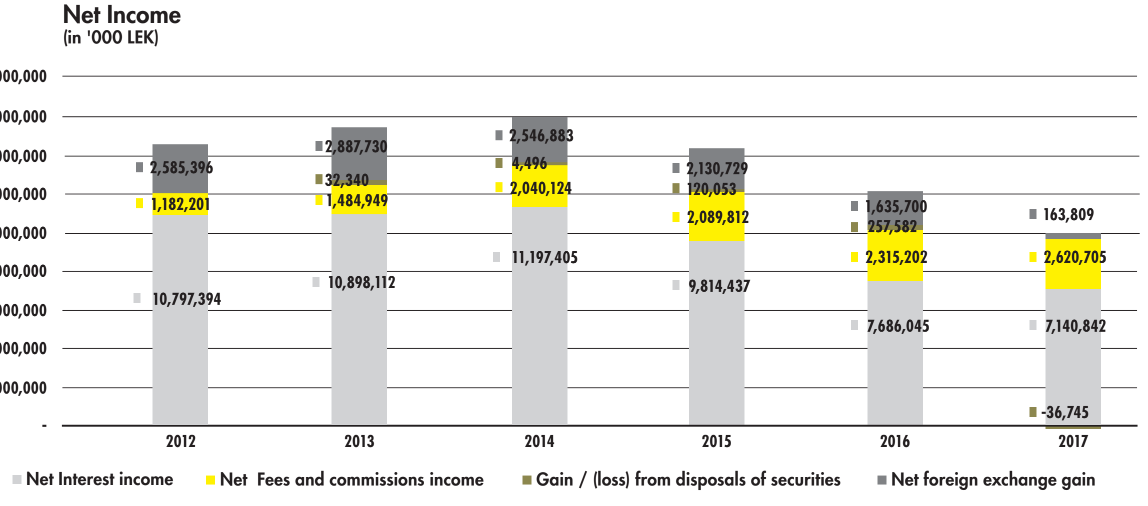
Deposits Structure
(in '000 LEK)



2017 showed a 213 per cent increase in net profit after tax over 2016 to ALL 4,735 million (2016: ALL -4,204 million) changing the Bank's return on equity ratio from 0 per cent in 2016 to 17.71 per cent in 2017. There is no dividend declared and paid in 2017 (2016: ALL 281 million).

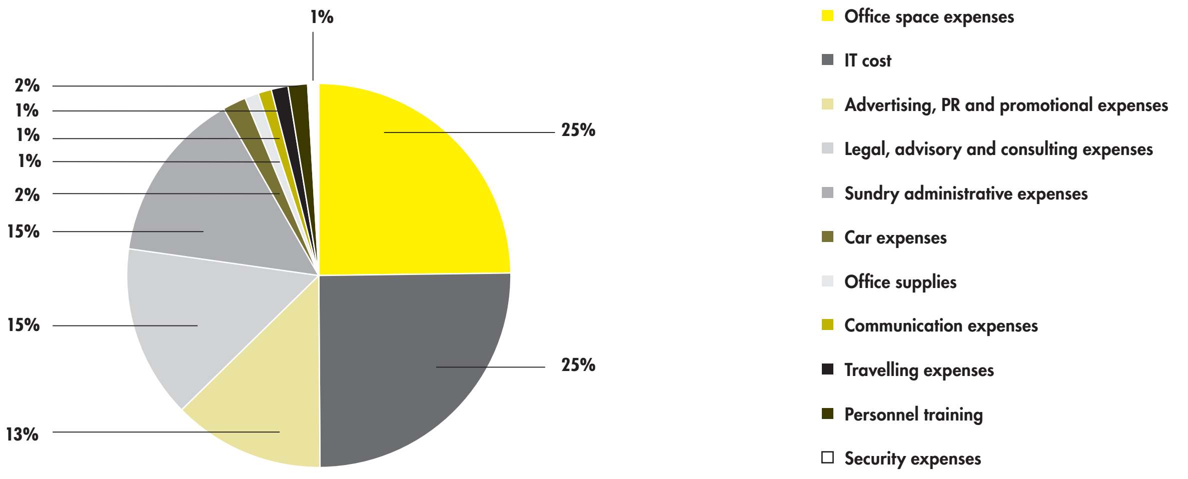


The Bank's Net interest income decreased by 7 per cent, or ALL 7,686 million in 2016 to ALL 7,141 million in 2017. This decrease together with the decrease in the Bank's total balance sheet, which came to 7.4 per cent, result in no change in the net interest margin (calculated in relation to average balance sheet – total) which is 2.74 per cent in 2017 and 2016.

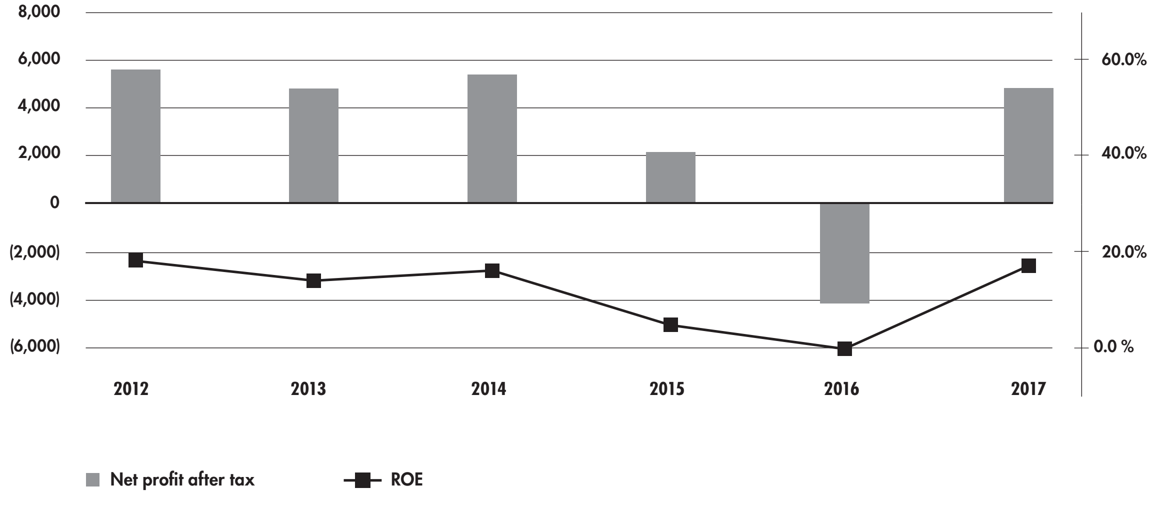


Total general administrative expenses during 2017 were ALL 2,357 million (2016: ALL 2,725 million). The Bank's operating efficiency – the cost/income ratio changed – from 60.45 per cent to 58.65 per cent. The staff expenses decreased by 8.41 per cent or ALL 2,355 million in 2017 to ALL 2,571 million in 2016.

General Administrative Expenses 2017



Profit & ROE
(in '000,000 ALL)



Progress

Segment Reports

Corporate Segment

The corporate segment focus as the previous year was to serve the relationship customers.

The vast range of products, personalized services offered to relationship customers and the new businesses, have marked year after year the business growth and relationship consolidation with the segment's customers. Lending in targeted and strategic industries aiming at the economic development of the country has been one of corporate segment priorities.

Portfolio quality continued to be one of the main drivers in corporate segment through careful analysis for mitigating the risk undertaken. The main focus of the corporate segment during last year was profitability, optimization through diversification and enhancement of the products utilized by the customers.

Special attention is paid to development and improvement of internal tools to facilitate and improve the sales process, bringing an overall increase of efficiency and productivity.

Following the previous years' positive experience, even during 2017 special focus has been given to specialized financing products, like trade finance products. We have continued to maintain our market share in trade finance products during 2017, achieving this through a dedicated team that closely supports our customers in better understanding and structuring their needs for such products in order to mitigate their risk in international trade. Trade finance products record a continuous increasing contribution in gross income. As of year-end 2017 result the contribution from such products is increased 8 per cent year on year.

During March 2017, Raiffeisen Bank launched the most innovative, interactive and secure solution in Albania for business customers. Raiffeisen ON is a simple, effective and secure online banking solution for business customers, which considers user's need to communicate with the bank through all available channels like web and mobile banking.

This state of the art technology and the full dedication of our product and relationship managers made possible a smooth migration from the previous platform to the new one in the shortest time possible while the utilization of the digital platform reached outstanding levels with 65 per cent increase year on year.

The end year 2017 net result for corporate segment records a value of € 17 million. This result reflects a careful management of all above mentioned initiatives and also our objective to be a leading bank in introducing new and innovative solution to the market and continuously improve the service for our customers;

Corporate Division serves to the following customer categories:

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

Raiffeisen Bank, as the main financial partner of the Albanian Government sustains an important role in supporting public projects through specific strategies, dedicated solutions for banking products and services and communication systems. This close collaboration has led to an increasingly improved, more transparent and efficient operation of public funds, year by year. Presently Raiffeisen Bank facilitates the payrolls for most of the Public sector employees and manages almost one third of the public expenditures.

Small Enterprises Segment (SE)

Small Enterprises represent a strategic potential for Raiffeisen Bank and we aim to sustain their growth by providing to such businesses a customized approach, based on their size, profile, transactional and financial needs.

SE lending portfolio maintained a stable growth during year 2017 with a total volume of € 28 million of new volume of assets being disbursed, 22 per cent higher compared with year 2016.

In May 2017 Raiffeisen Bank Albania in cooperation with European Investments Fund (EIF) launched the initiative which allowed SE clients to benefit from finance solutions with less stringent collateral requirements and affordable pricing. This guarantee scheme had a great impact in increasing the assets volume and easing access to financing to a lot of SE customers all over Albania.

Assets and customer base growth, has been only one of the many dimensions of our relationship with the customers. A strong focus has been given to innovation in technology. Raiffeisen ON platform was launched on March 2017 and the results were beyond expectations. The payment volume channeled through the platform reached 54 per cent by the end of December 2017 compared to 28 per cent in December 2016. This is a remarkable achievement for the SE segment, which not only decreases the transactions costs, but it increased customer satisfaction as well.

Capital light products have continued to be a main focus for us. We were ahead of budget for trade finance volumes, payment number and the respective gross income generated from these products.

Our dedication in always improving the quality of service and products offered to our SE customers, is considered our main competitive advantage. In this regard during 2017 we undertook several initiatives, some still running, aiming to simplify the access to our products and services as much as possible, while being closer to our customers with appropriate offers.

In terms of portfolio quality, our continuous focus, cautious and permanent work in tight monitoring of our portfolio, has impacted in further reduction of non-performing loans ratio in 10 per cent as of December 2017 compared to 12.8 per cent a year before. Our intentions for the future are to continue working in this way in order to further reduce the non-performing loan ratio.

Corporate and SE products Division

Trade Finance and Short Term Financing products

Trade Finance and Short Term Financing unit, through a specialized staff, offers to its customers advising services, related to the proper use of the Trade Finance transactions such as Bank Guarantees, Letters of Credit and Documentary Collections, aiming to reduce the risk of trading relations with relative international and domestic partners. Raiffeisen Bank works with a worldwide range of correspondent banks, which act as partners and support in achieving a successful performance in concluding any Trade Finance transaction.

Raiffeisen Bank supports its customers 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). 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 have continued to highly contribute in the increase of awareness and usage of such products from the customers of Corporate and SE segment. The work of Trade Finance and Short Term Financing unit in cooperation with sales staff has contributed in maintaining also during the year 2017 a high level of business volumes in this area.

The Trade Finance and Short Term Financing unit, also supports the corporate customers in recognizing and considering the product of Factoring as an alternative method of financing and effectively managing their liquidity needs.

During 2017 the bank has continued to preserve its competitive advantage in the trade finance field in the local market, by having a high level of expertise, which is continuously improving through constant training of the specialists, valuable support from Raiffeisen Bank International Group and cooperation with other network banks, making use of well-balanced structures and wide distribution channels.

Project Finance

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

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

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

Cash Management Products

During 2017, product team has been focused in the digitalization of Cash Management products and services. 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.

It is worth mentioning the following developments:

Electronic Channels Development

Digital Platform 'Raiffeisen ON', digital banking platform.
Our new Online Banking platform is a web and mobile solution with a new system which is safe and secure, easy to use, while offering full range of online banking services that make your life easier.
The platform was designed specifically to save time, effort and money for the customer in managing their business finances.

It's 24/7 and balance updates and payment executions are in real time. What is most important, payment commissions are preferential, no competing product in the local market comes close in terms of features, ease of use and price. You can access and use Raiffeisen ON from your smartphone, tablet, laptop or desktop computer as our new solution is made for all of your devices.

Corporate and Small Business Development

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

To guarantee a high performance and professionalism in serving our clients, continuous trainings and coaching from our unit have been undertaken. In addition, we have improved 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.

Leadership

Retail Banking

Customer Segment Development

Mass Private Individuals Customers

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

Retail managed to increase the salary customers' base mainly due to further formalization of private sector economy, showing our bank is well regarded in the market. As such, Raiffeisen Bank managed to increase in this sector by 7 per cent, in a challenging and competitive environment. Also there has been a slight increase in the salary customers' base of the public sector, where our bank already has a leadership position. The PI Mass customers also increased day-to-day activity with the bank, which helped grew fee revenues, improving the fee/income ratio to 26 per cent from 20 per cent in the previous year. 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 categories. Brokerage activity for Raiffeisen Bank will be conducted through employees licensed as private brokers. Further utilizing the existing branch network and sales staff, the insurance brokerage activity increased retail fee income by 10 per cent during 2017.

Part of our bank's innovation during 2017 was the integration of biometric technology in 10 branches. Biometric identification was first presented in January 2016 as a pilot project in "Abdyl Frasheri" branch in Tirana and then expanded in other 10 branches across the country. This innovative project uses the finger print technology being incorporated in the new ID cards as a unique identification verifying feature. Biometric identification ensures correct customer identification and prevents illegal actions and ID fraud in banking transactions.

Customer Relation Management (CRM) is a cornerstone activity in retail where the bank aims to develop a more productive and beneficial relationship with our customers. Processing advanced data analytics allows for more relevant and targeted offers to be made to our customers, providing them more meaningful options and boosting their use of our bank's products and services.

The launch of Raiffeisen ON, the bank's new digital banking platform, was a major success in terms of customer adoption and use. CRM was used to understand individual subscriber usage behavior which allows to contact and assist new subscribers with tailored assistance to help them get more benefit out of the advanced digital banking features.

Premium Segment

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

Currently there are over 13'250 customers in the Premium Banking segment with varying banking needs from basic service to more advice-based banking. There are two levels of Premium Banking:

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

Club Premium customers are served in more private areas of the branch by Premium Relationship Managers.

Premium Relationship Managers are located in the bigger cities at 15 main branches and they not only provide highly personalized services, but are trained to offer financial advisory services as well.
Premium Segment's strategy is that the growth of lending and transactional business to continue increasing contribution into retail revenues. Last year, the Premium Banking Asset Portfolio increased by 14 per cent.

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

Micro Segment

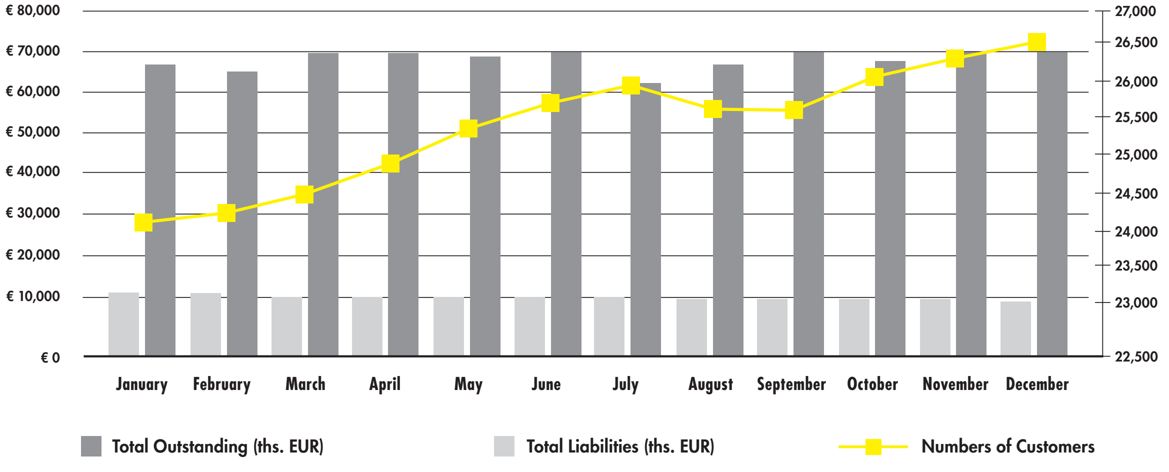
Raiffeisen Bank Albania now has eight years' experience in serving Micro businesses, delivering a full line of professional services for this segment. This segment has been focused on customer acquisition through special programs and offering Micro customers a line of three value added packages to provide them with product and services adapted to their company's needs.

Segment's 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. Micro segment will continue to invest in the development of dedicated sales force in offering banking services to this customer segment in main branches within bigger cities across Albania.

In 2017, approx. 5,300 new customers were acquired, which helped to increase our Micro customer base to 26,500. Micro Assets portfolio by end of 2017 was € 9 million, while the liability portfolio reached € 70 million.

In 2018, the Micro business segment will continue to focus on increasing market share by acquiring new active customers, increasing primary customer relationships, and high quality relationship based lending.

Total Outstanding, Liability Vol. and Number of Clients
January - December 2017



Product Management Division

Term Deposits and Savings Products

During 2017 retail deposits remained the largest funder of the bank balance sheet.

Market Rates hit record lows in 2017 due to excess liquidity in the banking system. Consequently, Term Deposits rates continued to drop significantly. Raiffeisen Bank was able to offer clients alternative wealth management options through our subsidiary asset management company, Raiffeisen Invest – the leading company offering investment funds to the public. The vast majority of bank's clients continued to place their trust in our bank by keeping their deposits with us despite low interest rates. But a significant portion of our customer base opted for Raiffeisen Invest Funds, where good annualized returns, well above the Term Deposits market rates, were achieved.

Raiffeisen Funds, offered throughout our branch 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 manage their savings.

Individual Loans

During 2017 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 € 204 million, the highest score achieved in 11 years of lending. This way Raiffeisen Bank presence has increased by reaching 18 per cent of the loan market for individuals.

Consumer Loans were the main driver of growth in the PI loan portfolio in 2017, 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 11 per cent during 2017 by reaching a portfolio of € 104 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 introducing a special mortgage program with Tirana Municipality. During the last quarter of 2017 Raiffeisen Bank successfully started the Tirana Municipality Mortgage program. The program had a very good performance in only 3 months resulting in 27 per cent of new mortgage disbursements during 2017 and increasing the presence in the PI Mortgage market to 10 per cent.

2018 is expected to be another important and successful year. Raiffeisen Bank is looking forward to a very successful year during 2018. 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.

Transfers

With the introduction of the new digital banking platform Raiffeisen On, the commissions for payments and cash transactions were revised to reflect the addition of the new e-channel and expectations of in-branch payment activity. Further improvements were also made in payments/cash transaction processing in branch and head office.

As a result, Raiffeisen On usage increased steadily with individuals and micro customers making respectively 64 per cent and 20 per cent of their payments online via mobile or internet banking. The retail commission income increased by 21 per cent compared to the previous year and cash deposit volume decreased by 8 per cent.

Cards Business and E-Banking Division

Cards

Card figures showed a steady growth during 2017. The number of new credit card customers grew by over 22 per cent comparing to 2016. At the same time the credit card holders performed more transactions plus 27 per cent reflecting a trend of growing electronic payments and decreasing cash transactions. This was mainly driven by our efforts to expand customer education and awareness efforts and the cash-back campaign performed during 2017.

Raiffeisen Bank saw considerable growth of its debit card usage 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 58 per cent versus 2016 confirming that the market is embracing electronic payments more and more each day.

POS Network

Raiffeisen Bank is an efficient and qualitative competitive POS acquirer in Albanian market with a strong presence on the main merchant categories as hypermarkets and the largest shopping malls, hotels, travel agencies, shops, restaurants, petrol stations etc.

In 2017 Raiffeisen Bank continued its measures to improve the profitability of its POS network and this is easily confirmed through the increase by 21 per cent on the number of transactions performed through our POS network.

Internet Acquiring

Raiffeisen Bank was the market leader for E-commerce service in the Albanian market in 2017 and this service was expanded to some different merchant types such as non-governmental organizations (NGO) and other foundations.

The 3-D Secure Technology offered the most advanced standard of payment security for the business selling process. This is reflected on the increased number of transactions by 25 per cent during 2017 and the significant decrease of number of claimed transactions through our E-commerce service.

ATM Network

With focus on increasing the cost effectiveness of the ATM Network, Raiffeisen Bank maintained its strategy of network optimization by relocating its ATMs to higher traffic locations, and retiring older and less used ATMs. ATM service is offered to all the cards issued globally under VISA, VISA Electron, PLUS, MasterCard, Maestro and Cirrus brands.

The Bank has decreased the number of ATM's across the country that provides cash in Euro currency from 44 to only 8 ATMs with locations on the tourist areas, shopping malls and key areas of the major cities. This action is in line with the initiative of the Central Bank of Albania and the government to counter the strong euroization tendency of our market and economy.

The bank introduced a new functionality of cash-in through the ATM locations. There are now 28 ATMs that provide the cash-in deposits for all Raiffeisen Bank card holders. Cash-in was received very well by our customers as a very useful alternative to in-branch deposits resulting in quick growth of the cash in transactions. Such service is offered as part of Raiffeisen overall strategy of increasing the availability and use electronic banking channels resulting in 24/7 accessibility and convenience in our Self-Service Centers.

Electronic Banking

Raiffeisen Bank prides itself as a market leader in innovation and has taken important steps towards increasing the number of products and services that can be provided on its digital banking channels. In line with its digitalization strategy, in March 2017 Raiffeisen Bank launched a modern digital banking platform, Raiffeisen ON, to serve all its customer segments (Retail, SE and Corporate) enabling them to transact seamlessly across all devices. This platform is part of a wider digital banking ecosystem that will transform the way our customers do their banking. This ecosystem will significantly increase customers' convenience and facilitate access to all electronic banking channels while lowering operating costs for the bank.

During 2017 the number of customers that subscribed to Raiffeisen ON exceeded 10 per cent penetration of active individual banking customers and 19 per cent of active micro businesses. Not only were subscriptions growing strongly with good customer penetration achieved in first nine months, but each month about ¾ of these subscribers are actively signing in to view their account and transact online.

Raiffeisen ON offers variety of services from online self-enrollment and service activation for individuals, to a detailed history of all transactions, statement downloading rights for all accounts, etc. As well, customers can make utility, taxes, credit card and third party payments online, both domestic and international with real-time processing and updating of account balances. The digital banking service is backed by 24/7 access and support, and protected by the latest technology of account security.

Payments

The number of Payments and Transfers made by Individual, Affluent and Micro customers during 2017 increased by plus nine per cent compared to the previous year. Payments initiated via electronic channels reached to 41 per cent and with strong growth trends, will increase further in 2018.

Distribution Channels

Sales & Distribution Channels Division, in line with the new Digital Platform introduced in 2017, focused on self-serve centers and capabilities in larger locations to complement in-branch service. Five new locations were added with cash-in ATMs to provide customers with faster, more convenient options to make deposits 24/7, while easing traffic in branches for better service overall. In early 2018, self-serve digital kiosks will be added, allowing clients to access digital banking with their Debit Card and existing PIN in order to view accounts and make payments and transfers anytime and any day. This will give more clients opportunities to understand the advantages of Raiffeisen ON digital banking and to sign up for mobile or internet banking.

In Tirana, we opened a pilot location for a new quick service daily banking center called Zona Express. As well, some large branches were expanded and updated to maintain superior branch experience. Shkodra branch, the biggest branch in the North District, was almost doubled in size with the addition of a second floor and an overall refurbishment. In Tirana, we relocated a branch to the fast developing neighborhood of Unaza e Re.

These development projects are part of a branch network transformation that will continue in 2018. The aim is to modernize Albanian banking by providing leading edge digital services and superior branch service for more complex banking transactions and needs.
Network optimization continued throughout 2017, reducing the network by three outlets to improve cost effectiveness while still maintaining the largest branch network in the country with 76 locations.
In Sales and Service Management, there were two main achievements in 2017.

- Training of managers. Branch and agency managers successfully passed the professional level of our international Branch Management Academy (BMA) training program, upgrading their leadership and management skills.
- Lean in branches, an end-to-end program to make procedures and activities more efficient and effective, implemented many changes and improvements identified by the lean team and branch staff. A more efficient operation in branches allows for better customer service.

2017 was a good year in terms of development of sales activities outside the branches. Overall contribution of Direct Sales and Retail Sales Finance share of total unsecured loans grew to 26 per cent. Retail Sales Finance continues to contribute to revenues with good margins and excellent portfolio quality. Sales have sustainably grown by 20 per cent year over year.
The innovative mobile app "Shtepia Ime" (My Home), which supports home buyers to find properties for sale online, continues to position our bank as more than a financer for home purchases, but as an advisor and supporter for clients during this important time in their lives. In 2018 the app will be further expanded to support customers in the end-to-end home buying process and experience. The relationships from this approach are contributing more and more to mortgage loan sales.

In the Micro Business, relationship managers continue to work with the larger customer base that was expanded by 70 per cent in past three years. Revenues grew strongly in 2017. Premium Banking, a unique high quality relationship management program for our affluent customers was enhanced with new relationship management software.

Plans in 2018 include the continued branch network transformation as digital banking functionality expands, with more high convenience self-serve and express centers, enhanced in-branch experience and advisory support, and continued training of our staff in order to provide clients increasingly excellent customer experience.

Team Work

Treasury and Investment Banking

Fixed Income

The investment portfolio has been almost in the same level as the previous year, well-structured with a focus on the Treasury Bonds, especially two years' maturity. During 2017 our portfolio was diversified with Euro denominated investment grade bonds with relative higher rates compared to the money market. These investments have produced and will further generate in the coming years a very good interest income.

Our investment strategy, especially in the Albanian Government papers has continually been 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.

The main purpose has been to keep stable the investment level by being always in line with every local and European regulator.

The year 2017 has been a challenging one, with increased interest rates but anyway lower than our expectations and forecast, impacting directly our new investment during these months.

The Fixed Income unit has been mainly focused in Held to Maturity investments, managing the limits and the requirements as well. The HTM portfolio has produced a relative high interest income, but on the other side the rise of the primary market yields compared to 2016, have also impacted the market value of the trading portfolios.

Throughout the whole year we continued to be very active in the secondary and retail market and the turnover of the transactions in secondary and retail market has been relative high, generating a very plausible profit from sale. Our intention has been to increase and diversify the investment alternatives for our clients, offering them different maturities in T-bills and T-bonds. We can proudly state that we are one of the main contributors in the secondary and retail market trading in every branch of our bank in the whole country. Raiffeisen Bank continued 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 2017, 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 2017 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 2017, 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, as in regards of ongoing low-interest-rate.

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

2017 has been characterized by an upward trend of EUR/USD driven mostly by FED monetary policy and other US economic data which have sent safe haven flows into the Euro. Euro has been appreciated by 16 per cent versus USD reaching 1.20 level.

Foreign Exchange Unit has carefully managed the bank FX open position and FX risk associated with it based on a very professional analysis on financial markets and closed the year with a very good result.

Domestic currency has continued its upward trend versus European currency and US dollar especially during summer season and year end, reaching 131.98. The strength of ALL has been driven by the excess of EURO liquidity in the Albanian market from Foring Direct Investmetn (FDI) and supply- demand effects.

Bank of Albania has organized frequently FX purchase auction in order to increase foreign reserve and Raiffeisen Bank has participated and has succeeded in most of the cases.

US dollar followed the same trend as in international market and has been depreciated by 17 per cent versus local currency. It reached the minimum level of 110.43

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 2017 Treasury Sales Sector performed very well its trading activity by offering very competitive treasury products to the clients and close the year with a high result.

Their focus remains always on the fulfillment of client needs in compliance with bank internal procedures and strategy. The good result was achieved due to a dedicated staff and in collaboration with all business channels in Raiffeisen Bank.

Treasury Sales continued to be a leader in Albanian financial market, offering the most competitive prices in treasury products.

Strategy

Corporate Social Responsibility

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

In this regard the contribution of Raiffeisen Bank on the education sector has been considerable and consistent throughout the year, and it supported educational projects for high schools in the country as well as for the universities. This has been done through equipping them with computers as well as the support given for various activities, aiming the improvement and development of students' knowledge and to increase efficiency in the learning process. A significant project has been "Open Day" with the University of Philology and the Finance Conference, organized by the Faculty of Economics etc.

Also, other important projects which we gladly supported were the reconstruction of the surrounding area of Bilishti school and the equipment of Ballet school in Tirana with security cameras. This year we continued to support the project "The city of readers" in cooperation with the municipalities of Lushnje and Divjaka, aiming to enrich these cities' libraries. This project has had a positive impact because through the support of Raiffeisen Bank the number of readers in these cities has grown significantly.

Raiffeisen Bank in Albania has continued to support the health sector as a crucial sector which impacts directly the improvement of the community's life. This year we have supported various hospitals and public health institutions, with the most prominent contribution being for the reconstruction of the Cardiology Ward in the University Medical Center of Tirana "Mother Teresa".

Raiffeisen Bank has given also its contribution for the projects with social impact. A good tradition has now become the support given to organizations that are focused on Autism and Down Syndrome.
"Albanian Gymnastrada" once again continued with its important mission to support children's education through art and sport as well as the integration into the society of children in need making them part of these educational activities.

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.

Culture is another socially sensitive subject, and we at Raiffeisen Banks are determined to support the increase of the impact of art and culture in society. Therefore, numerable projects were carried out in this field. We have supported 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.

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 1’277 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 2017, staff recruitment and selection process aimed to ensure the selection of qualified, experienced personnel, with professional skills at all levels of service at the bank, in order to support the business needs in all the areas where it operates. In order to evaluate and select the best candidates and the most qualified people in the market, a structured recruitment process is applied, which consists 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.

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

In order to meet the needs for staff in entry level positions, and not only, 72 new employees were hired during 2017, and the main source of filling these vacancies where internship, leased staff and Direct Sales Agents - DSA program students.

Internship Program

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

Direct Sales Agents Student Program

In 2017, DSA Student Program consolidated the cooperation with many universities in the country. The focus of this program, initiated by Direct and Relationship Sales department, is to increase business sales of various products in the branches. 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 on the bank products and processes and are qualified for vacant positions in the bank. In addition to growing the business in the branches, this program is a very good source of staff recruitment.

Employees with leased contract

Even during 2017 we continued our cooperation with an outsourced company, hiring temporary contract staff, according to the staff needs the in head office and network branches.

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

Training

In addition to the approach to attract and select the best candidates in the market, Raiffeisen Bank is also committed to staff development and enhancement of their knowledge and professional skills. Training and development programs are a strategic investment for the achievement of the business objectives. Raiffeisen Bank offers an Orientation Training Package to facilitate the onboarding of new hired staff. This training is highly important as it introduces them to the new tasks that they will perform and it facilitates a smooth integration in the workplace.

During their employment, many opportunities for development and qualifications are offered to them. The bank provided a wide range of training programs and initiatives of professional development, which were organized through the internal sources of expertise or outsourced experts. During 2017, 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, 4792 days of classroom training were held and over 95 per cent of the staff attended at least one training session.

In addition to the classroom training, the bank staff was given the opportunity to attend electronic training on e-learning platform, which serves as a tool for knowledge and information management. The 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 2017 aimed to strengthen the competencies and behaviors the bank managers should reflect in order to lead their teams towards continuous success.

The rotation programs were another tool provided for the development of the key staff. These programs were offered locally and group-wide. The aim of these initiatives is to exchange experience, knowledge and best practices through visits to colleagues in related departments in and outside the bank.

Raiffeisen Bank Remuneration Policy

In Raiffeisen Bank the remuneration policy is designed by Human Resources and approved by Management Board and Supervisory Board. It is applied to all bank employees and Raiffeisen Bank subsidiaries.
The scope of the Remuneration Policy is the fulfilment of international standards for an objective, transparent and fair compensation structure in compliance with current regulatory requirements. The remuneration policy of Raiffeisen Bank is consistent 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 Raiffeisen International Group and Raiffeisen Bank and incorporates measures to avoid conflicts of interest.
The bank on annual basis identifies the functions / employees with material impact on bank's risk profile. These employees are defined as "Identified Staff" and their selection process is based on the Group Directive requirements.

The categories of Identified Staff are as follows:

1.Material or Fully Affected Identified Staff. This category has a direct material risk impact on the bank's risk profile because the amount of risk which can be taken individually or collectively can have significant impact on the bank's results & balance sheet. The number of staff who falls under this category is 40 and includes Supervisory Board members, CEO, Board Members, Audit Committee Members, Head of Divisions, Head of Departments and Team Leaders.

2.Less Material or Partially Affected Identified Staff. This category has an influence on the bank's risk profile but not necessarily in a direct way. The number of staff who falls under this category is 39 and includes Head of Divisions, Head of Departments, SE Area Managers, District Managers and Team Leaders.

The salary and other employee benefits are defined by the bank, with the aim of establishing satisfactory and competitive levels. The policy followed by the bank in defining the salary system and structure aims to guarantee the achievement of five 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), whereas for the managerial positions, it should be in the highest level in the market, between 75 per cent and 100 per cent.
- Motivation of employees through differentiated remuneration (salary) for differentiated responsibility, job positions and professional skills;
- The extra benefits shall be competitive, but not leaders in the market;
- The salary expenses in the total cost of personnel and the bank budget in general, shall be in acceptable parameters.

For the middle management and sale staff positions, the salary is composed of two components:

- Base Pay (Salary)
- Variable Pay

The Structure of Base Salary:

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

Variable Pay (Bonus and Incentive Schemes):

- is closely related to the RBI Group / Bank / individual's performance results;
- is capped in order to ensure budget management within reasonable parameters, without compromising the principle of rewarding high performance;
- shall be up to:
  - – 16 per cent of monthly/yearly base salary for business functions
  - – 12 per cent of monthly/yearly base salary for business enabling functions
- can be paid in cash, in kind or in other instruments as per the decision of the Supervisory Board;
- In case of Identified Staff, a special bonus pay-out model is applied if their total variable compensation is over € 30'000.

Forms and elements of remuneration for the Steering Council *(every year end)*

(in 000/ ALL)

Forms and elements of temuneration for Steering Council (in 000/ ALL)	Immediate/for the actual period Year 2017	Deferred Year 2016
Fixed remuneration	10,695	10,856
Cash/bonus	10,695	10,856
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 2017	Deferred Year 2016
Fixed remuneration	209,669	200,790
Cash/bonus	179,227	181,961
Shares		
Other	30,442	18,829
Variable remuneration	51,836	14,421
Cash/bonus	44,420	4,072
Shares	7,416	10,349
Other		

Motivation

RAIFFEISEN BANK GROUP

International Financial Reporting Standards
Consolidated Financial Statements and Independent
Auditor's Report
As at and for the year ended December 31, 2017

Contents

General Information

Directors and Management as of 31 December 2017 and 31 December 2016

Board of Directors (Supervisory Board)

Peter Lennkh	Chairman
Heinz Hodl	Member
Ferenc Berszan	Member
Harald Kreuzmair	Member
Andreas Engels	Member

Audit Committee

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Benoit	Member

Management Board

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

Registered office

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Facsimile +355 4 2275 599

Auditor

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Facsimile: +355 (4) 451 7990

Independent Auditor's Report

Deloitte.

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Tirana, Albania

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VAT (NUIS) No: L41709002H

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

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank sh.a. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"s).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report prepared by Management of the Bank in accordance with Article 53 of Law no. 9662, dated 18 December 2006 "On Banks in the Republic of Albania", amended, but does not include the consolidated financial statements and the auditor's report thereon. The Annual Report it is expected to be made available to us after the date of this auditors' report. Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 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 skepticism throughout the audit. We also:

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

Deloitte Audit Albania shpk

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Tirana, Albania
Identification number (NUIS): L41709002H

DELOITTE AUDIT ALBANIA
NIPT L 41709002 H TIRANA - ALBANIA

Enida Cara
Statutory Auditor
Engagement Partner

Tirana, Albania
June 14, 2018

Consolidated Statement of Financial Position as at 31 December 2017
(amounts in Lek'000)

	Note	31 December 2017	31 December 2015
Assets			
Cash and cash equivalents	7	51,071,193	57,046,334
Restricted balances	8	19,467,731	21,628,345
Investments held for trading	9.1	7,826,094	14,198,975
Held-to-maturity investment securities	9.2	72,768,827	77,833,482
Other securities designated at fair value	9.3	2,485,514	2,528,780
Loans and advances to customers, net	10	90,081,549	90,591,932
Current income tax prepayment		1,217,819	746,741
Deferred income tax asset	11	20,140	28,039
Goodwill	12	92,783	92,783
Intangible assets	13	1,460,951	1,557,194
Premises and equipment	14	1,482,584	1,603,016
Other assets	15	2,479,727	2,681,832
Total assets		**250,454,912**	**270,537,453**
Liabilities			
Due to financial institutions	16	4,502,268	4,329,408
Due to customers	17	204,626,518	229,179,129
Other liabilities	18	2,171,372	2,464,777
Subordinated debt	19	8,820,852	8,965,577
Total liabilities		**220,121,010**	**244,938,891**
Equity			
Share capital	20	14,178,593	14,178,593
Retained earnings		12,849,119	8,113,779
Other reserves	21	3,306,190	3,306,190
Net assets attributable to the Bank owners		**30,333,902**	**25,598,562**
Total liabilities and equity		**250,454,912**	**270,537,453**

These consolidated financial statements have been approved by the Management Board of the Raiffeisen Group on June 6, 2018 and signed on its behalf by:

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 112.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

(amounts in LEK'000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	23	7,428,699	8,133,956
Interest expense	24	(287,858)	(447,911)
Net interest income		**7,140,841**	**7,686,045**
Provision for impairment of loans to customers	10,18	447,691	(8,940,259)
Net interest income/(expense) after provision for loan impairment		**7,588,532**	**(1,254,214)**
Fee and commission income	25	3,303,163	2,852,797
Fee and commission expense	26	(682,457)	(537,595)
Net fee and commission income		**2,620,706**	**2,315,202**
Net income from investments	9.3	(36,745)	257,582
Net trading income	27	163,809	1,635,700
Net other operating income	28	521,756	(351,464)
		648,820	**1,541,818**
Deposit insurance premium	29	(627,567)	(665,358)
Personnel expenses	30	(2,355,190)	(2,571,417)
Depreciation and amortisation	13,14	(639,277)	(696,369)
General and administrative expenses	31	(2,356,561)	(2,725,721)
		(5,978,595)	**(6,658,865**
(Loss)/Profit before income tax		**4,879,463**	**(4,056,059)**
Income tax	32	(144,123)	(147,688)
(Loss)/Profit for the year		**4,735,340**	**(4,203,747)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments: - Gains less losses arising during the year - Gains less losses reclassified to profit or loss upon disposal or impairment		-	-
Other comprehensive income for the year		**-**	**-**
		-	**-**
Total comprehensive (expense)/income for the year		**4,735,340**	**(4,203,747)**

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

(amounts in LEK'000)

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

	Year ended 31 December 2017	Year ended 31 December 2016
(Loss)/Profit is attributable to:		
- Owners of the Bank	4,735,340	(4,224,514)
- Non-controlling interest	-	20,767
(Loss)/Profit for the year	**4,735,340**	**(4,203,747)**
Total comprehensive income/(expense) is attributable to:		
- Owners of the Bank	4,735,340	(4,203,747)
- Non-controlling interest	-	-
Total comprehensive income/(expense) for the year	**4,735,340**	**(4,203,747)**
Earnings per share for (loss)/profit attributable to the owners of the Bank, basic and diluted (expressed in LEK per share)	**676,477**	**(603,502)**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 112.

Consolidated Statement of Changes in Equity for the year ended 31 December 2017
(amounts in Lek'000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Bank						
	Share Capital	General Reserves	Revaluation reserve	Retained Earnings	Total	Non-controlling interest	Total equity
Balance as at 31 December 2015	**14,178,593**	**3,135,352**	**-**	**12,795,084**	**30,109,029**	**101,969**	**30,210,998**
Loss for the year	-	-	-	(4,224,514)	(4,224,514)	20,767	(4,203,747)
Other comprehensive income	-	-	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**(4,224,514)**	**(4,224,514)**	**20,767**	**(4,203,747)**
Transfer to General Reserves	-	170,838	-	(170,838)	-	-	-
Dividend payment	-	-	-	(266,073)	(266,073)	(15,309)	(281,382)
NCI sale	-	-	-	(19,880)	(19,880)	(107,427)	(127,307)
Balance as at 31 December 2016	**14,178,593**	**3,306,190**	**-**	**8,113,779**	**25,598,562**	**-**	**25,598,562**
Profit for the year	-	-	-	4,735,340	4,735,340	-	4,735,340
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**4,735,340**	**4,735,340**	**-**	**4,735,340**
Balance as at 31 December 2017	**14,178,593**	**3,306,190**	**-**	**12,849,119**	**30,333,902**	**-**	**30,333,902**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 112.

Consolidated Statement of Cash Flows for the year ended 31 December 2017

(amounts in Lek'000)

		Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit/(Loss) for the year before taxation		**4,879,462**	**(4,056,059)**
Non-cash items in the statement of comprehensive income			
Depreciation and amortization	**13,14**	639,277	696,369
Profit/(Loss) from sale of fixed assets	**28**	(27,767)	33,350
Net (reversal)/impairment loss on financial assets		(447,691)	8,940,259
Net interest income		(8,069,017)	(8,594,354)
Net loss/(income) from revaluation of trading securities		425,808	(417,853)
Net (loss)/income from revaluation of other securties designated at fair value through profit or loss		23,770	(174,876)
Changes in provision for other debtors		105,425	(131,912)
Changes in provision for litigation		2,266	(739,697)
Revaluation effect of cash and cash equivalents		484,557	70,657
Operating cash flows before changes in working capital		**(1,983,909)**	**(4,374,116)**
Decrease in restricted balances		2,160,614	7,003,973
Decrease in loans and advances to customers		1,182,113	1,830,698
Decrease in trading securities		5,947,073	7,216,921
Net decrease in other securities designated at fair value through profit or loss		19,376	1,069,954
(Increase)/Decrease in other assets		(374,217)	16,915
(Decrease)/Increase in due to financial institutions		(86,629)	1,561,934
Decrease in due to customers		(24,524,799)	(17,378,127)
(Decrease)/Increase in other liabilities		(270,977)	1,084,187
Operating cash flows after changes in working capital		**(17,931,355)**	**(1,967,661)**
Interest received		8,759,026	8,611,589
Interest paid		(511,924)	(867,253)
Corporate income tax paid		(132,221)	(383,781)
Net cash (used in) /generated from operating activities		**(9,816,474)**	**5,392,894**
Cash flows from investing activities			
Acquisition of subsidiary		-	(127,307)
Purchases of premises and equipment	**14**	(267,421)	(551,712)
Purchases of intangible assets	**13**	(225,002)	(213,512)
Proceeds from sale of fixed assets		97,358	64,468
Proceeds from matured financial assets held-to-maturity		51,442,722	59,239,397
Purchase of financial assets held-to-maturity		(46,721,767)	(84,462,329)
Net cash generated from/(used in) investing activities		**4,325,890**	**(26,050,995)**
Cash flows from financing activities			
Dividends paid		-	(281,383)
Net cash generated from / (used in) financing activities		**-**	**(281,383)**
Decrease in cash and cash equivalents during the year		**(5,490,584)**	**(20,939,484)**
Cash and cash equivalents at the beginning of the year	***7***	**57,046,334**	**78,056,475**
Revaluation effect of cash and cash equivalents		(484,557)	(70,657)
Cash and cash equivalents at the end of the year	***7***	**51,071,193**	**57,046,334**

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 50 to 112.

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for Raiffiesen Bank sh.a. (the "Bank") 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. (the "Bank") is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies", and Law 9662, dated 18 December 2006 "On Banks in the Republic of Albania", as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen Bank International AG, Austria, which is the ultimate controlling party.

Principal activity.
The Group's principal business activities are retail banking operations, providing finance leasing to companies and individuals and collection and investment of voluntary pension funds, within the Republic of Albania. The Bank operates through a banking network of 76 service points, as of 31 December 2017 (31 December 2016: 79 service points) throughout Albania, which are managed through 6 Districts and has no overseas operations.

The consolidated financial statements for the year ended 31 December 2017 were authorized for issue by the Management Board on June 6, 2018. Approval of the consolidated financial statements by the Shareholders will take place in the Annual General Meeting of the Shareholders.

2. BASIS OF PREPARATION

a) Statement of compliance

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Consolidated financial statements

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

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

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.

b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.
The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.
The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2017 and 31 December 2016, according to Bank of Albania were as below:

	31 December 2017		31 December 2016	
	Period end	*Average*	*Year end*	*Average*
United States dollar (USD)	111.10	119.08	128.17	124.61
European Union currency unit (EUR)	132.95	134.15	135.23	137.35

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Interest

Interest income and expense are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.
The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.
Interest income and expense presented as profit or loss in the consolidated statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

d Fees and commission

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

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

e) Net trading income

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

f) Operating lease and other operating expenses

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

g) Employee benefits

- *Defined contribution plans*

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

- *Paid annual leave*

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

- *Short-term benefits*

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

- *Termination benefits*

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Income tax expense

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

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

i) Financial instruments - key measurement terms

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

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

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

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

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

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

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

j) Cash and cash equivalents

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

k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of the portfolio that is managed together for the short-term profit or position taking.
Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of the trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

l) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(l) Derivative financial instruments (continued)

does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

m) Loans and advances to customers

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

n) Impairment of financial assets carried at amortised cost

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Finance lease receivables

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

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

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

p) Investment securities

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

(i) Held-to-maturity

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

(ii) Fair value through profit or loss

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

(iii) Available-for-sale

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Goodwill

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

r) Premises and equipment

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(iii) Depreciation

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

	2017 *(in years)*	**2016 (in years)**
Premises	*20*	*20*
Vehicles	*7*	*5*
Computers and IT equipment	*4 to 7*	*4*
Software and Licenses	*8*	*8*
Machineries and systems	*7*	*5*
Office Equipment's and Furniture	*5 to 7*	*5*
Leasehold improvements	*1 to 10*	*1 to 10*

Useful lives and residual values are reassessed each reporting date.

s) Intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Repossessed property

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

u) Voluntary pension fund and Investment Funds

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

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

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

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

As at 31 December 2017, the net assets value of Raiffeisen voluntary pension fund amount to LEK 506,975 thousand (2016: LEK 412,208 thousand), Raiffeisen Prestige amount LEK 57,088,241 thousand (2016: LEK 51,667,310 thousand) and Raiffeisen Invest Euro amount LEK 14,713,442 thousand (2016: LEK 13,606,435 thousand).

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

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

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

As at 31 December 2017 and 2016 the investment portfolio of the Funds includes government bonds and treasury bills, short term deposits in the second tier Banks operating in Albania and other cash and cash equivalents. First Investment Bank Albania sh.a. acts as the custodian bank of all the Funds.

Net value of assets

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

The value of pension fund unit

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

Interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The fee to the Management Company

Each Fund should pay to the Management Company a fee which differs for each Fund. Raiffeisen Invest Prestige Fund pays a fee of 1.25% (annually) of net assets value (2016: 1.25%) to the Management Company. Raiffeisen Invest Euro Fund pays a fee of 1.5% of net assets value (2016: 1.5%). Raiffeisen Voluntary Pension Fund pays a fee of 1.5 % on net assets value (2016: 1.5%).

Realized gain / losses and unrealized gain / losses

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

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension funds and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2017 consolidated financial statements.

w) Deposits and other financial liabilities

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

x) Sale and repurchase agreements and lending of securities

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

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

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

y) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z) Provisions

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

Loan loss provisions for contingent liabilities and commitments

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

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

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

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

(aa) Credit related commitments.

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

(bb) Offsetting

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

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

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

(dd) Comparability

All amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Impairment losses on loans and advances

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the financial position of the Bank and its subsidiaries and, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, these consolidated financial statements were prepared on the going concern basis.

(ii) Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in a decrease in loan impairment losses of LEK 308,740 thousand (2016: LEK 615,221 thousand) or an increase in loan impairment losses of LEK 312,301 thousand (2016: LEK 67,441 thousand) respectively.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- ***Amendments to IAS 7 "Statement of Cash Flows" -*** Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- ***Amendments to IAS 12 "Income Taxes" -*** Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- ***Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)"*** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

6. NEW ACCOUNTING PRONOUNCEMENTS

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018).

  The Group anticipates that applying IFRS 9 in the future may have an impact on the amounts recognised in respect of the Group's financial assets and financial liabilities. It is anticipated that IFRS 9 will increase the overall level of provisions for liabilities and provisions for assets. The estimate is based on a requirement to recognise provisions in the estimated amount of default loans.

  The Group will apply IFRS 9 as issued in July 2014 for the first time on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

  On 27 December 2017, The European Parliament issued Regulation (EU) 2017/2395 on transition requirements for the implementation of IFRS 9. The regulation allows a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

  1. Phasing in the full impact on a straight-line basis over a five-year period; or
  2. Recognizing the full impact on the day of adoption.

  The Group has decided to adopt the second approach.

Classification and Measurement General

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

The Group will apply three classification categories for financial assets:

- Financial assets measured at amortized cost (AC)
- Financial assets measured at fair value through other comprehensive income (FVOCI) and,
- Financial assets measured at fair value through profit or loss (FVTPL)

The existing IAS 39 categories of the held-to-maturity, loans and receivables and available for sale will be eliminated.

Financial assets will be measured at amortized cost 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 principal and interest on the principal amount outstanding.

A business model's objective may be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur.

A financial asset is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets and 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 held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment–by–investment basis for each investment and 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 amortised cost or FVOCI, are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss. In addition, the 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 accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. A financial asset is classified in one of these categories on initial recognition.

Business Model Assessment

The Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level, as this best reflects the way the business is managed and information is provided to management.

The following was considered as evidence when assessing which business model is relevant:

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)
IFRS 9 "Financial Instruments" (continued)

- 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;
- How 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 compensation is based on the fair value of the assets 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 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.

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 by both collecting contractual cash flows and selling financial assets), it must 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 a 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.

When assessing whether contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group will consider:

- Prepayment, extension terms
- Leverage features
- If a claim is limited to specified assets or cash flows
- Contractually linked instruments

In 2018, IASB issued an IFRS 9 amendment regarding prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract. The Group does not expect a significant volume of negative prepayment features with negative compensation, which must be measured mandatorily at FVTPL.

Modification of Time Value of Money and the Benchmark Test

The time value of money is the element of interest that provides consideration for the passage of time (IFRS 9.B4.1.9A). 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 the money element may be modified (imperfect). This is 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 to determine whether the contractual cash flows still represent solely payments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a perfect benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value. For the following main contractual features that can potentially modify the time value of money a benchmark test will be applied

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

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 9 "Financial Instruments" (continued)

Impact Assessment on Classification and Measurement

IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 of the Group as follows:

Loans and advances to banks and to customers that are classified as loans and receivables measured at amortized cost under IAS 39 will as a rule also be measured at amortized cost under IFRS 9. Only an insignificant portfolio has to be measured mandatory at FVTPL due to failing the SPPI or Benchmark test.

Held-to-maturity financial assets measured at amortized cost under IAS 39 will as a rule also be measured at amortized cost under IFRS 9. Only an insignificant portfolio will be reclassified to the business model "hold and sell" and measured at FVOCI.

Available-for-sale financial instruments measured at fair value through equity under IAS 39 will as a rule also be measured at FVOCI under IFRS 9.

Financial instruments at FVTPL under IAS 39 will as a rule also be measured at FVTPL under IFRS 9.

Group does not expect a significant impact of these changes in Group Equity.

Hedge Accounting

IFRS 9 grants accounting options for hedge accounting. The Group plans to continue to apply the provisions on hedge accounting pursuant to IAS 39, while taking into account the changes in the disclosures in the notes pursuant to IFRS 7.

Impairment General

The calculation of expected credit losses requires the use of accounting estimates which, by definition, will rarely equal the actual results. Management exercises judgement in applying the Group's accounting policies.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

This section provides an overview of the aspects of IFRS 9 that involve a higher degree of judgement or complexity and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next 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 financial statements.

Measurement of 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 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.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are:

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

The credit risk comes from the risk of suffering financial loss, should any of our customers, clients or market counterparties fail to fulfil their contractual obligations to us. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as, financial guarantees, letters of credit, and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

The estimation of credit exposure for risk management purposes is complex and requires the use of models. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 9 "Financial Instruments" (continued)

using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2, but is not deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible in the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. According to IFRS 9, when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets are financial assets that are credit-impaired on initial recognition. Their expected credit loss is measured on a lifetime basis (Stage 3).

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

The Group uses quantitative criteria as the primary indicator of a significant increase in credit risk for all material portfolios. For quantitative staging, the Group compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition, assumptions are made about the structure of the PD curve. For highly rated financial instruments, it is assumed that the PD curve will deteriorate over time. For low rated financial instruments, it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating.

In order to make the two curves comparable the PDs are scaled down to annualized PDs. In general a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250% although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

The Group is not aware of any generally accepted market practice for the level at which a financial instrument should be transferred to Stage 2. From this perspective, it is expected that the increase in PD at the reporting date which is considered significant will develop over a period of time as a result of an iterative process between market participants and supervisors.

Qualitative Criteria

The Group uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. Transfer to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:

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

The assessment of a significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at a deal level for all non-retail portfolios held by the Group.

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

- Forbearance
- Expert judgement

The assessment of a significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at a deal level for all retail portfolios held by the Group.

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)
IFRS 9 "Financial Instruments" (continued)

risk if a borrower is more than 30 days past due on its contractual payments. In some limited cases, the presumption that financial assets which are more than 30 days past due should be in Stage 2 is rebutted.

Low Credit Risk Exemption

The Group has not used the low credit risk exemption for any lending business; however, it selectively uses the low credit risk exemption for debt securities.

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, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments no attempt is made to rebut the presumption that financial assets which are more than 90 days past due should be in Stage 3.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The above criteria 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.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of a minimum of 3 months or longer for distressed restructured exposures. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Explanation of Inputs, Assumptions and Estimation Techniques

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

Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation over the next 12 months or over the remaining lifetime of the obligation. As a rule, the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter, various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The profile is based on historical observed data and parametric functions.

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

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 9 "Financial Instruments" (continued)

- Sovereign, local and regional governments, insurance companies and collective investment undertakings the default profile is generated using a transition matrix approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model.
- Corporate customers, project finance and financial institutions the default profile is generated using a parametric survival regression (Weibull) approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model.
- Retail mortgages and other retail lending the default profile is generated using parametric survival regression in competing risk frameworks. Forward looking information is incorporated into the probability of default using satellite models.

In the limited cases where some inputs are not fully available grouping, averaging and benchmarking of inputs are used for the calculation.

Loss Given Default

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. Loss given 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 12-month or lifetime basis, where a 12-month loss given default is the percentage of loss expected to be made if the default occurs in the next 12 months and the lifetime loss given default is the percentage of loss expected 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.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies the loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model.
- Retail mortgages and other retail lending the loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default. Forward looking information is incorporated into the loss given default using various satellite models.
- In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

Exposure at Default

Exposure at default is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-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 adding a credit conversion factor to the current drawn balance, which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited cases where some inputs are not fully available, benchmarking of inputs is used for the calculation.

Discount Factor

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

Calculation

The expected credit loss is the product of PD, LGD and EAD multiplied by the probability of non-default prior to the considered time period. The latter is expressed by the survivorship function S. This calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by a forward looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings - Stage 3 provisions are calculated by workout

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 9 "Financial Instruments" (continued)

managers who discount expected cash flows by the appropriate effective interest rate.

- Retail mortgages - Stage 3 provisions are generated by calculating the discounted collateral realization value.
- Other retail lending - Stage 3 provisions are generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

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.

Forward-looking Information

The assessment of a significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Group has performed historical analysis and identified key economic 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. Expert judgment is applied in this process. Forecasts of economic variables (base economic scenario) are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables for the full remaining lifetime of each instrument, a mean reversion approach is used, which means that economic variables tend to either a long run average rate, or a long run average growth rate until maturity. The impact of economic variables on the probability of default, loss given default and exposure at default is determined using 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 provide a best case and worst case scenario and scenario weightings to ensure non-linearities are captured. The Group has concluded that three scenarios or less appropriately captures non-linearity. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit loss 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 represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries in the Group's different portfolios.

Sensitivity Analysis

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

- Corporate portfolios
  - Gross domestic product
  - Unemployment rate
  - Long term government bond rate
  - Inflation rate

- Retail portfolios
  - Gross domestic product
  - Unemployment rate
  - Real estate prices

Transition

Changes to accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognized in retained earnings as of 1 January 2018.
- The following assessments must be made on the basis of the facts and circumstances that exist at the date of initial 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.

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)
IFRS 9 "Financial Instruments" (continued)

- ***IFRS 15 "Revenue from Contracts with Customers"*** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- ***IFRS 16 "Leases"*** (effective for annual periods beginning on or after 1 January 2019),
- ***IFRS 17 "Insurance Contracts"*** (effective for annual period beginning on on after 1 January 2021),
- ***Amendments to IFRS 2 "Share-based Payment"*** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- ***Amendments to IFRS 4 "Insurance Contracts"*** - Appying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- ***Amendments to IFRS 9 "Financial Instruments" -*** Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- ***Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"*** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- ***Amendments to IAS 28 "Investments in Associates and Joint Ventures" -*** Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- ***Amendments to IAS 40 "Investiment Property"*** - Transfer of Investiment Property (effective for annual periods beginning on or after 1 January 2018),
- ***Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"*** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 And IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- ***Amendments to various standards due to"Improvements to IFRSs (cycle 2015-2017)"*** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- ***IFRIC 22 "Foreign Currency Transactions and Advance Consideration"*** (effective for annual periods beginning on or after 1 January 2018).
- ***IFRIC 23 "Uncertainty over Income Tax Treatments"*** (effective for annual periods beginning on or after 1 January 2019).

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

7. CASH AND CASH EQUIVALENTS

	31 December 2017	**31 December 2016**
Cash on hand	3,621,000	3,331,400
Central Bank		
Current accounts	11,022,418	20,453,888
Deposit accounts	-	6,760,000
Accrued interest in deposit account	-	93
Banks		
Current accounts with resident banks	3,017	4,275
Current accounts with non-resident banks	730,764	2,000,850
Deposits with resident banks of less than three months	1,260,134	2,142,185
Deposits with non-resident banks of less than three months	34,433,860	22,353,643
Total	**51,071,193**	**57,046,334**

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Current accounts with the Bank of Albania bear no interest. The annual interest rates on term deposits with the Bank of Albania as at 31 December 2016 is 0.25%. The annual interest rates on term deposits with resident banks as at 31 December 2017 varies from 1.28% to 1.3% (31 December 2016: 0.7% to 1.25%). The annual interest rates on term deposits with non-resident banks as at 31 December 2017 vary from -0.94% to 1.5% (31 December 2016: -6.00% to 0.41%).

8. RESTRICTED BALANCES

	31 December 2017	31 December 2016
Central Bank		
Obligatory reserves	19,273,090	21,394,739
Banks		
Guarantee accounts	194,641	233,606
Total	**19,467,731**	**21,628,345**

Obligatory reserves with Central Bank are not for everyday use by the Bank and represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 10% of the average amount of deposits for the month owed to banks and customers, and are both in LEK and in foreign currency (USD and EUR).

The credit quality of cash and cash equivalents and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2017:

	2017	2016
A	6,645,592	-
A-1	2,548,844	7,008,228
A-1+	2,658,823	472,677
A-2	19,288,919	7,268,044
A-3	-	15,429
B	1,260,134	25,694
Baa3	1,993,566	-
P-2	-	2,027,427
Unrated	36,143,046	61,857,180
Carrying amount	**70,538,924**	**78,674,679**

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

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

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

	31 December 2017	31 December 2016
Government Bonds	7,825,176	14,109,250
Treasury bills	918	89,725
Total	**7,826,094**	**14,198,975**

9. INVESTMENT IN SECURITIES (CONTINUED)
9.1 Investments held for trading (continued)

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

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

9.2 Held-to-maturity investment securities

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

	31 December 2017	31 December 2016
Treasury Bills (note 9.2.1)	12,974,062	19,688,013
Government Bonds (note 9.2.2)	44,353,306	32,672,165
Covered Bonds (note 9.2.3)	15,441,459	13,674,467
Government bonds non-resident (note 9.2.4)	-	9,822,586
Corporate Bonds (note 9.2.5)	-	1,976,251
Total	**72,768,827**	**77,833,482**

9.2.1 Treasury bills

Treasury bills as at 31 December 2017 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 0.95% to 3.82% per annum (31 December 2016: from 2.3% to 4.5%).

	31 December 2017	31 December 2016
Nominal value of treasury bills	13,088,060	19,782,673
Unamortised discount	(113,998)	(94,660)
Total	**12,974,062**	**19,688,013**

9.2.2 Government bonds

Government bonds as at 31 December 2017 represent 2-year, 3-year, 5-year, 7-year and 10-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 1.5% to 10.85% per annum (31 December 2016: from 1.5% to 10.85%).

	31 December 2017	31 December 2016
Nominal value of bonds	43,926,409	32,292,529
Unamortised discount	13,705	18,726
Accrued interest	413,192	360,910
Total	**44,353,306**	**32,672,165**

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

9.2.3 Covered bonds
Covered bonds as at 31 December 2017 represent 1-year and 3-year bonds denominated in EUR issued by Raiffeisen Bank Czech Republic with coupon rates ranging from 0.47% to 0.75% per annum (31 December 2016: from 0.75% to 0.93% per annum).

	31 December 2017	31 December 2016
Nominal value of bonds	15,382,315	13,523,000
Unamortised premium	29,699	138,891
Accrued interest	29,445	12,576
Total	**15,441,459**	**13,674,467**

9.2.4 Government bonds non-resident
Government bonds as at 31 December 2016 represent bonds denominated in EUR issued by the Government of Germany with coupon rates 3.75% per annum.

	31 December 2017	31 December 2016
Nominal value of bonds	-	9,466,100
Unamortised premium	-	3,452
Accrued interest	-	353,034
Total	**-**	**9,822,586**

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

	31 December 2017	31 December 2016
Nominal value of bonds	-	1,893,220
Unamortised discount	-	9,711
Accrued interest	-	73,320
Total	**-**	**1,976,251**

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

	31 December 2017	31 December 2016
Government bonds	2,485,514	2,528,780
Total	**2,485,514**	**2,528,780**

Government bonds as at 31 December 2017 represent 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 6.62% to 7.85% per annum (31 December 2016: 6.62% to 7.85%).

9. INVESTMENT IN SECURITIES (CONTINUED)

9.3 Other securities designated at fair value through profit or loss (continued)

The credit quality of investment securities may be summarised based on Standard and Poor's ratings as follows at 31 December 2017:

	Investments held for trading		Held-to-maturity investment securities		Other securities designated at fair value through profit or loss	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Neither past due nor impaired						
B+	7,826,094	14,198,975	57,327,368	52,360,178	2,485,514	2,528,780
A1	-	-	-	13,674,467	-	-
A2	-	-	-	702,519	-	-
BBB+	-	-	11,449,897	-	-	-
A-	-	-	-	704,809	-	-
Baa1	-	-	3,991,562	-	-	-
A+	-	-	-	568,923	-	-
Aaau	-	-	-	9,822,586	-	-
Carrying amount	**7,826,094**	**14,198,975**	**72,768,827**	**77,833,482**	**2,485,514**	**2,528,780**

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2017	31 December 2016
Loans and advances to customers	103,374,861	110,382,716
Allowance for loan loss impairment	(13,293,312)	(19,790,784)
Net carrying amount	**90,081,549**	**90,591,932**

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

	2017	2016
Balance at the beginning of the year	19,790,784	13,714,055
Allowance for loan loss impairment	2,579,940	12,363,471
Release for loan loss impairment	(3,006,198)	(3,440,183)
Loans written off	(6,071,214)	(2,846,559)
Balance at the end of the year	**13,293,312**	**19,790,784**

The interest rates of loans and advances to customers vary from 0.03% % to 12.94 % p.a. in foreign currencies and from 1.97% to 14.85 % p.a. in LEK (31 December 2016: from 0.14% % to 12.69% p.a. in foreign currencies and from 1.38% to 14.91 % p.a. in LEK).

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers detailed in business segments as at 31 December 2017 and 2016 are presented in the following tables:

						31 December 2017
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	1,952,758	35,892,146	5,101,970	645,201	77,812	43,669,887
Credit Card	463,271	38,422	60,287	-	53,641	615,621
Loans						
Short term	311,370	1,540,175	171,895	33,024	2,763	2,059,227
Medium term	5,220,757	10,568,814	1,656,540	165,321	144,616	17,756,048
Long term	9,814,710	6,880,158	2,067,317	200,908	453,404	19,416,497
	15,346,837	**18,989,147**	**3,895,752**	**399,253**	**600,783**	**39,231,772**
Mortgage	10,975,308	5,708	1,018,647	141,846	3,749,909	15,891,418
Other	515,049	2,853,342	531,825	433,981	16,649	4,350,846
less Administrative Fee	(236,715)	(101,379)	(39,287)	(7,302)	-	(384,683)
Total	**29,016,508**	**57,677,386**	**10,569,194**	**1,612,979**	**4,498,794**	**103,374,861**

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

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for impairment of loans and advances to customers detailed in business segments as at 31 December 2017 and 31 December 2016 are presented in the following tables:

						31 December 2017
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Balance at the beginning of the year	**2,310,048**	**16,164,864**	**958,192**	**309,343**	**48,337**	**19,790,784**
Allowance for loan loss impairment	392,485	1,833,433	248,646	105,245	131	**2,579,940**
Release for loan loss impairment	(650,767)	(2,077,769)	(177,908)	(76,049)	(23,705)	**(3,006,198)**
Loans written off	(152,328)	(5,525,586)	(321,083)	(72,217)	-	**(6,071,214)**
Balance at the end of the year	**1,899,438**	**10,394,942**	**707,847**	**266,322**	**24,763**	**13,293,312**

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

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

In thousands of LEK	2017		2016	
	Amount	%	Amount	%
Trade, repair of motor vehicles and household items	19,450,163	19%	29,506,661	27%
Households	33,748,583	33%	30,242,930	27%
Production and distribution of electricity, gas and water	23,382,038	23%	21,187,836	19%
Processing industry	6,761,842	6%	8,110,404	7%
Construction	5,306,424	5%	5,361,822	5%
Transportation, Storage and Telecommunications	2,846,495	3%	2,633,084	2%
Monetary and financial intermediation	467,486	0%	1,347,324	1%
Extracting industry	3,867,533	4%	4,169,637	4%
Agriculture and hunting	1,430,470	1%	1,944,124	2%
Collective, social and personal	2,096,267	2%	1,933,269	2%
Health and social work	1,912,380	2%	1,248,098	1%
Other	2,105,180	2%	2,697,527	3%
Total loans and advances to customers (before impairment)	**103,374,861**	**100%**	**110,382,716**	**100%**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

State and public organisations exclude government owned profit orientated businesses.

At 31 December 2017 the Group had 6 borrowers (2016: 13 borrowers) with aggregated loan amounts above LEK 1,000,000 thousand. The total aggregate amount of these loans was LEK 30,035,590 thousand (2016: LEK 39,946,683 thousand) or 29,04% of the gross loan portfolio (2016: 36.15%).

Information about collateral at 31 December 2017 is as follows:

	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Unsecured loans	17,609,247	7,166,131	1,978,668	339,224	794,170	**27,887,440**
Loans guaranteed by other parties, including credit insurance	3,935,296	27,101,882	54,391	401,094	1,984,579	**33,477,242**
Loans collateralised by:						
- residential real estate	6,391,752	1,117,652	1,660,848	201,239	1,621,203	**10,992,694**
- other real estate	252,728	14,903,591	4,605,824	196,582	59,977	**20,018,702**
- cash deposits	349,128	742,325	54,499	852	2	**1,146,806**
- other assets	36,577	4,878,695	1,691,928	65,733	-	**6,672,933**
- Leased Vehicles- Movable Assets / Equipment	465,294	1,767,109	523,036	408,256	15,349	**3,179,044**
Total loans and advances to customers	**29,040,022**	**57,677,385**	**10,569,194**	**1,612,980**	**4,475,280**	**103,374,861**

Information about collateral at 31 December 2016 is as follows:

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

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

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Corporate	*Small Enteprises*	*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**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Past due but not impaired	Corporate	Small Enteprises	Micro SMEs	Individuals	Employees	Total
- less than 30 days overdue	1,861,788	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**

10. LOANS AND ADVANCES TO CUSTOMERS (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**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

*Detailed analysis by credit quality of Unrated loans outstanding at 31 December 2016 for Micro SMEs, Individuals and Employees are as follows:

	Micro SMEs	Individuals	Employees	Total
Grade 0.5	11,567	-	-	11,567
Grade 1.0	7,316	319,100	71,374	397,790
Grade 1.5	32,066	2,405,507	1,244,444	3,682,017
Grade 2.0	449,285	3,140,995	1,244,349	4,834,629
Grade 2.5	357,255	7,043,723	1,008,649	8,409,627
Grade 3.0	109,299	4,936,874	307,201	5,353,374
Grade 3.5	31,971	2,562,530	132,951	2,727,452
Grade 4.0	19,896	720,999	20,017	760,912
Grade 4.5	42,905	319,169	678	362,752
Grade (unrated)	218,794	1,079,373	76,571	1,374,738
Total	**1,280,354**	**22,528,270**	**4,106,234**	**27,914,858**

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

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

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

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

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2017 restructured loans were LEK 11,214,108 thousand (2016: LEK 15,882,761 thousand).

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

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

As at 31 December 2017 and 2016, the loans and advances to customers with regard to outstanding balance and impairment assessment were as follows:

	Loans and advances to customers	
31 December 2017		
	Gross	**Net**
Individually impaired	16,394,412	5,459,381
Total	**16,394,412**	**5,459,381**
31 December 2016		
	Gross	**Net**
Individually impaired	24,203,041	5,676,434
Total	**24,203,041**	**5,676,434**

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally re-valued annually by both, external and internal evaluators. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2017 and 2016.

31 December 2017	Against individually impaired	Against collectively impaired	Total
Property	19,026,729	93,943,154	112,969,883
Pledge	11,880,488	59,896,469	71,776,957
Cash	418,819	4,696,714	5,115,533
Guarantee	5,630,375	36,924,962	42,555,337
Life insurance	748,603	14,823,437	15,572,040
Total	**37,705,014**	**210,284,736**	**247,989,750**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

The effect of collateral at 31 December 2017:

	Over-collateralised assets		**Under-collateralised assets**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate	31,266,446	163,121,644	22,097,129	19,103,675
Small Enterprises	6,223,227	18,921,435	2,367,298	1,558,550
Micro SMEs	1,048,765	3,405,055	224,991	152,049
Households	14,551,761	41,459,848	560,125	368,622

The effect of collateral at 31 December 2016:

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

11. DEFERRED INCOME TAX ASSETS

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

	31 December 2017	31 December 2016
Balance at the beginning of the year	28,039	33,271
Deferred tax benefit relating to the origination and reversal of temporary differences (note 32)	(7,899)	(5,232)
Balance at the end of the year	**20,140**	**28,039**

Movements in temporary differences during the year are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income.
Deferred tax has been calculated based on the enacted tax rate for 2017 of 15% (2016: 15%). As at 31 December 2017 and 31 December 2016 deferred tax assets and liabilities have been recognised for the following items:

	31 December 2017	31 December 2016
Deferred tax asset		
Accelerated depreciation	2,753	1,741
Deferred lease disbursement fees	17,387	26,298
	20,140	**28,039**
Deferred tax liability		
Allowance for impairment losses	-	-
Net deferred tax assets	**20,140**	**28,039**

12. GOODWILL

During the year 2008, Raiffeisen Bank purchased 100% of the shares of the Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST "), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2016, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2017 (2016: Lek 90 million).

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

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2017, the carrying amount of the subsidiary (the cash generating unit to which goodwill has been allocated), does not exceed its recoverable amount and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017 (2016: nil).

13. INTANGIBLE ASSETS

Movements in intangible assets for the year ended 31 December 2017 and 2016 are detailed as follows:

	Acquired software	Licences	Total
Cost			
At 1 January 2016	2,214,126	525,574	2,739,700
Additions	203,676	9,837	213,513
Disposals	(153,882)	(25,164)	(179,046)
At 31 December 2016	**2,263,920**	**510,247**	**2,774,167**
At 1 January 2017	2,263,920	510,247	2,774,167
Additions	215,216	14,695	229,911
Disposals	(78,028)	(34,726)	(112,754)
At 31 December 2017	**2,401,108**	**490,216**	**2,891,324**
Amortization			
At 1 January 2016	(850,008)	(288,059)	(1,138,067)
Amortization charge	(226,090)	(31,824)	(257,914)
Disposals	153,844	25,164	179,008
At 31 December 2016	**(922,254)**	**(294,719)**	**(1,216,973)**
At 1 January 2017	(922,254)	(294,719)	(1,216,973)
Amortization charge	(245,669)	(39,760)	(285,429)
Disposals	37,598	34,431	72,029
At 31 December 2017	**(1,130,325)**	**(300,048)**	**(1,430,373)**
Net book value			
At 31 December 2016	**1,341,666**	**215,528**	**1,557,194**
At 31 December 2017	**1,270,783**	**190,168**	**1,460,951**

There are no assets pledged as collateral as at 31 December 2017 (2016: none)

14. PREMISES AND EQUIPMENT

Movements in premises and equipment for the year ended 31 December 2017 and 2016 are detailed as follows:

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
At 1 January 2016	1,445,916	2,379,306	343,285	8,900	630,415	4,807,822
Additions	115,912	180,681	67,476	112,530	75,113	551,712
Disposals	(119,478)	(59,999)	(53,342)	-	(97,024)	(329,843)
Transfers	60,143	(753,581)	-	(102,901)	796,339	-
At 31 December 2016	**1,502,493**	**1,746,407**	**357,419**	**18,529**	**1,404,843**	**5,029,691**
At 1 January 2017	1,502,493	1,746,407	357,419	18,529	1,404,843	5,029,691
Additions	388	109,997	9,915	121,124	25,995	267,419
Disposals	(51,062)	(123,524)	(67,199)	-	(147,674)	(389,459)
Transfers	24,224	57,812	-	(104,244)	22,208	-
At 31 December 2017	**1,476,043**	**1,790,692**	**300,135**	**35,409**	**1,305,372**	**4,907,651**
Accumulated depreciation						
At 1 January 2016	(659,654)	(1,817,889)	(235,139)	-	(507,676)	(3,220,358)
Depreciation charge	(69,817)	(214,092)	(43,862)	-	(110,683)	(438,454)
Disposals	30,231	58,739	51,505	-	91,662	232,137
Transfers	-	629,381	-	-	(629,381)	-
At 31 December 2016	**(699,240)**	**(1,343,861)**	**(227,496)**	**-**	**(1,156,078)**	**(3,426,675)**
At 1 January 2017	(699,240)	(1,343,861)	(227,496)	-	(1,156,078)	(3,426,675)
Depreciation charge	(70,525)	(169,137)	(35,139)	-	(79,047)	(353,848)
Disposals	30,201	122,400	59,103	-	143,752	355,456
At 31 December 2017	**(739,564)**	**(1,390,598)**	**(203,532)**	**-**	**(1,091,373)**	**(3,425,067)**
Net Book Value						
At 31 December 2016	**803,253**	**402,546**	**129,923**	**18,529**	**248,765**	**1,603,016**
At 31 December 2017	**736,479**	**400,094**	**96,603**	**35,409**	**213,999**	**1,482,584**

There are no assets pledged as collateral as at 31 December 2017 (2016: none).

15. OTHER ASSETS

	31 December 2017	31 December 2016
Inventories	1,518,310	1,778,755
VAT receivable	340,069	342,379
Sundry debtors, net	349,512	266,280
Prepaid expenses and accruals	263,256	288,178
Money gram	8,580	6,240
Total	**2,479,727**	**2,681,832**

As at December 31, 2017 the Group's repossessed collateral is Lek 1,518,310 thousand (2016: Lek 1,658,418 thousand). Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Sundry debtors comprise the following:

	31 December 2017	31 December 2016
Sundry debtors	498,915	552,718
Provisions for losses from other debtors	(149,403)	(286,438)
Total Sundry debtors, net	**349,512**	**266,280**

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

Movements in the provisions for sundry debtors are as follows:

	2017	2016
Balance at the beginning of the year	286,438	153,336
Allowance for Provisions for losses from other debtors	-	135,768
Reversal of Provisions for losses from other debtors	(128,056)	-
Foreign exchange effect	(8,979)	(2,666)
Balance at the end of the year	**149,403**	**286,438**

16. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Current accounts		
Resident banks and financial institutions	1,620,657	649,979
Non-resident banks and financial institutions	19,988	36,456
	1,640,645	**686,435**
Deposits		
Resident banks and financial institutions	2,861,100	3,638,946
Accrued interest	523	4,027
	2,861,623	**3,642,973**
Total	**4,502,268**	**4,329,408**

The annual interest rates for borrowed funds from financial institutions varied from 0.02% to 1.2% during the year ended 31 December 2017 (2016: -0.9% to 0.2%).

17. DUE TO CUSTOMERS

	31 December 2017	31 December 2016
Current accounts	132,634,834	145,063,233
Deposits	64,546,500	77,767,742
Other accounts	7,445,184	6,348,154
Total	**204,626,518**	**229,179,129**

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2017 were as follows:

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

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

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

17. DUE TO CUSTOMERS (CONTINUED)

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

	31 December 2017			31 December 2016		
	Lek	Foreign currency	Total	Lek	Foreign currency	Total
Current accounts	**63,532,281**	**69,102,553**	**132,634,834**	**66,276,296**	**78,786,937**	**145,063,233**
Deposits						
On demand	5,591,926	3,665,434	9,257,360	5,758,449	5,020,140	10,778,589
1 month - 3 months	-	32,257	32,257	-	49,917	49,917
3 months - 6 months	2,833,899	2,938,993	5,772,892	2,876,192	4,112,349	6,988,541
6 months - 12 months	3,417,077	2,683,854	6,100,931	3,789,957	3,823,274	7,613,231
12 months - 24 months	25,732,640	16,731,919	42,464,559	26,902,889	23,803,319	50,706,208
24 months - 36 months	479,060	125,262	604,322	622,228	346,546	968,774
36 months	132,418	35,123	167,541	117,106	45,145	162,251
60 months	74,319	62,530	136,849	109,921	352,921	462,842
Accrued interest on deposits	7,580	2,209	9,789	20,028	17,361	37,389
	38,268,919	**26,277,581**	**64,546,500**	**40,196,770**	**37,570,972**	**77,767,742**
Other accounts						
Guarantee deposits	2,718,678	3,221,094	5,939,772	2,147,141	2,760,516	4,907,657
Dormant customer accounts	10,117	102	10,219	10,280	109	10,389
Cheques customer accounts	700	16,895	17,595	700	14,885	15,585
Other	1,475,021	2,577	1,477,598	1,369,953	44,570	1,414,523
	4,204,516	**3,240,668**	**7,445,184**	**3,528,074**	**2,820,080**	**6,348,154**
Total	**106,005,716**	**98,620,802**	**204,626,518**	**110,001,140**	**119,177,989**	**229,179,129**

18. OTHER LIABILITIES

	31 December 2017	31 December 2016
Other creditors	248,288	488,189
Accrued expenses	201,125	223,783
Due to employees	231,825	370,862
Withholding tax payable	42,273	38,875
Provision for contingent liabilities	21,140	42,573
Deferred income	62,089	160,686
Due to social insurance	31,225	28,626
Provision for litigation	33,256	63,148
Negative FV derivative - Economic hedge	-	13,576
Suspense accounts	1,276,825	1,001,551
VAT payable	23,326	32,908
Total	**2,171,372**	**2,464,777**

- Included in "Other creditors" is the amount of LEK 24,755 thousand (2016: LEK 34,017 thousand) of unpaid invoices to suppliers.
- Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items. At 31 December 2017, there are many outgoing payments with different settlement date from the payment date.
- Provision for contingent liabilities represents impairment of irrevocable commitments and contingencies. The movements in the provisions for contingent liabilities are as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	42,573	25,602
Provisions expense for the period	925	37,137
Reversal of provisions for the year	(22,358)	(20,166)
Balance at the end of the year	**21,140**	**42,573**

- The Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2017. The details of these claims and legal proceedings are presented in note 28. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims.

The movements in the provisions for litigations are as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	63,148	788,446
Provision expense for the year	12,645	14,399
Reversal of provision for the year	(30,297)	(101)
Usage	(12,240)	(739,596)
Balance at the end of the year	**33,256**	**63,148**

19. SUBORDINATED DEBT

DDuring 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. (2016: 5.43% p.a) and matures on 30 August 2018. The debt ranks after all other creditors in case of liquidation. During 2015, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 15,000 thousand. The debt carries an interest rate of 4.8% p.a. (2016: 4.8% p.a) and matures on 28 June 2020. The debt ranks after all other creditors in case of liquidation.

20. SHARE CAPITAL

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

21. OTHER RESERVES

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

22. NON-CONTROLLING INTEREST

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

As at 31 December 2017 the Group participates with a share of 100% (2016: 100%). The place of business of Raiffeisen Leasing International Gesellschaft m.b.H is Austria. During 2016, the Bank acquired the rest of controlling rights, 25%, from Raiffeisen Leasing International Gesellschaft m.b.H. During 2016, the dividend paid to Raiffeisen Leasing International Gesellschaft m.b.H by Raiffeisen Leasing sh.a. was for an amount of Lek 15,309 thousand.

The summarised financial information of Raifeisen Leasing sh.a. for the year ended 31 December 2017 and 2016 was as follows:

	2017 - Raiffeisen Leasing sh.a.								
	Current assets	**Non-current assets**	**Current liabili-ties**	**Non-current liabilities**	**Equity**	**Revenue**	**Profit**	**Total compre-hensive income**	**Cash flows**
	2017 - Raiffeisen Leasing sh.a.								
	136,470	3,281,012	1,779	2,941,731	473,972	223,127	71,109	71,109	219
Total	**136,470**	**3,281,012**	**1,779**	**2,941,731**	**473,972**	**223,127**	**71,109**	**71,109**	**219**
	2016 - Raiffeisen Leasing sh.a.								
	1,493,277	2,242,921	42,388	3,290,948	402,863	275,074	56,223	56,223	1,426
Total	**1,493,277**	**2,242,921**	**42,388**	**3,290,948**	**402,863**	**275,074**	**56,223**	**56,223**	**1,426**

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

22. NON-CONTROLLING INTEREST (CONTINUED)

	Minimum lease payments		Present value of minimum lease payments	
	31 Dec. 17	**31 Dec.16**	**31 Dec.17**	**31 Dec.16**
Not later than one year	556,503	1,807,955	469,028	1,589,830
Later than one year and not later than five years	2,906,542	1,956,566	2,676,987	1,791,805
Later than five years	38,396	8,583	33,029	8,431
Less unearned finance income	(322,397)	(383,038)	-	-
Present value of minimum lease payments receivable	3,501,441	3,773,104	3,179,044	3,390,066
Allowance for uncollectible lease payments	(277,926)	(344,686)	(277,926)	(344,686)
Total	**2,901,118**	**3,045,380**	**2,901,118**	**3,045,380**

23. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Loans and advances to customers	5,535,039	6,033,526
Investment securities	1,986,512	2,244,406
Bank deposits	(92,852)	(143,976)
Total	**7,428,699**	**8,133,956**

Interest income includes LEK 78,654 thousand (2016: LEK 70,351 thousand) interest income, recognised on impaired loans to customers.

24. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Banks	507,765	522,338
Customers	(219,907)	(74,766)
Repurchase agreement sold	-	339
Total	**287,858**	**447,911**

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Funds transfers	2,036,303	1,662,981
Lending activities	171,137	239,466
Other banking services	1,095,723	950,350
Total	**3,303,163**	**2,852,797**

26. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2017	Year ended 31 December 2016
Payments transfer business	494,015	430,223
Loan and guarantee business	28,235	46,448
Other banking services	160,207	60,924
Total	**682,457**	**537,595**

27. NET TRADING INCOME

	Year ended 31 December 2017	Year ended 31 December 2016
Income from trading securities	33,551	1,577,013
Foreign exchange gains	116,682	58,687
Gains/losses from economic hedge	13,576	-
Total	**163,809**	**1,635,700**

28. OTHER OPERATING INCOME/ EXPENSE

Other revenues comprise income from winning a litigation with tax authorities for an amount of LEK 725,464 thousand. At 31 December 2016, the Bank was involved in litigation proceedings with the General Tax Directorate Albania in relation to a tax assessment performed by the latter during 2013. Total additional liabilities and penalties to be paid by the Bank amount to LEK 673 mln. During February 2016, the Bank paid the whole amount. The additional taxes charged have been challenged from the Bank in the District Court, based on Law no. 9920 "On tax procedures of the Republic of Albania. The case has been sent in Appeal Court and has been won by the Bank through an executable decision no. 3561 (86-2017) dated July 18, 2017.
The rest of other income relates to debtors provision release amounting to 128,056 thousand and income from previous year amounting LEK 16,108 thousand (2016: LEK 2,130 thousand) and income from sale of Bank property for an amount of LEK 97,363 thousand (2016: LEK 63,416 thousand). "Other expenses" include withholding tax amounting LEK 11,299 thousand (2016: LEK 986 thousand) and provision expenses for debtors LEK 12,644 thousand (2016: LEK 135,768 thousand).

29. DEPOSIT INSURANCE PREMIUM

Based on Law no. 53/2014 dated 22.05.2002 on "On Deposit Insurance", amended, Banks are obliged to estimate and pay the deposit insurance premium in quarterly. The quarterly insurance premium is 0.125 percent of the arithmetic average of the amount of secured deposits that are recorded in the bank on the last day of each month of the previous quarter. Deposits are secured and remunerated at 100 percent but in any case not more than LEK 2,500,000 irrespective of the number of their deposits or their currency type. (2016: LEK 2,500,000).

30. PERSONNEL EXPENSES

Personnel expenses are composed as follow:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries	2,082,503	2,280,234
Social insurance	220,985	230,949
Other voluntary social expenses	51,702	60,234
Total	**2,355,190**	**2,571,417**

31. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended 31 December 2017 and 2016 comprise the following expenses:

	Year ended 31 December 2017	Year ended 31 December 2016
IT cost	591,594	649,102
Rent expenses	584,331	647,129
Advertising, public relations and promotional expenses	300,731	381,116
Legal, advisory and consulting expenses	343,311	373,644
Sundry administrative expenses	342,145	438,646
Car expenses	46,752	61,457
Office supplies	27,508	49,564
Communication expenses	26,276	35,512
Travelling expenses	33,427	41,474
Personnel training	38,517	36,290
Security expenses	21,969	11,787
Total	**2,356,561**	**2,725,721**

Consultancy and legal fees include charges for management fees totalling LEK 222,177 thousand in 2017 (2016: LEK 177,464 thousand).

32. INCOME TAX

Income tax in Albania is assessed at the rate of 15% (2016: 15%) of taxable income:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	136,223	142,456
Deferred tax	7,900	5,232
Income tax expense for the year	**144,123**	**147,688**

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

	Year ended 31 December			
	Effective tax rate	2017	Effective tax rate	2016
Profit/(Losse) before taxes		4,879,462		(4,056,059)
Prima facie tax calculated at 15%	1.26%	61,586	15.00%	(608,409)
Non tax deductible expenses at	1.53%	74,637	0.12%	(4,930)
Tax savings by tax-exempted income	0%	-	1.02%	(41,242)
Income tax expense	**2.79%**	**136,223**	**16.14%**	**(654,581)**

Tax expense/income for former periods in 2017 includes reversal of deferred tax expense calculated on loan loss provisions following the changes in legislation.

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

32. INCOME TAX (CONTINUED)

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

33. FINANCIAL RISK MANAGEMENT

a) Overview

The risk management function within the Group is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational risks.
The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and Credit Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

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

b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.
For risk management reporting purposes, the Group considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).
For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

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

- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

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

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

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

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

c) Market risks

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.
Overall authority for market risk is vested in ALCO. Bank Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates

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

on its financial position and cash flows. The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Exposure to foreign exchange risk

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

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

	At 31 December 2017			At 31 December 2016		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Albanian LEK	118,605,621	108,336,416	10,269,205	119,537,347	113,211,407	6,325,940
US Dollars	14,463,880	14,569,075	(105,195)	20,368,136	15,431,666	4,936,470
Euros	102,126,952	87,596,472	14,530,481	116,358,145	106,314,125	10,044,020
Other	7,984,953	7,831,966	152,987	7,610,378	7,522,966	87,412
Total	**243,181,406**	**218,333,929**	**24,847,477**	**263,874,006**	**242,480,164**	**21,393,842**

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

	At 31 December 2017		At 31 December 2016	
In thousands of LEK	Impact on profit or loss	Monetary financial liabilities	Monetary financial assets	Monetary financial liabilities
US Dollar strengthening by 10% (2016: strengthening by 10%)	(9,934)	(9,934)	(2,531)	(2,531)
US Dollar weakening by 10% (2016: weakening by 10%)	9,934	9,934	2,531	2,531
Euro strengthening by 10% (2016: strengthening by 10%)	1,442,943	1,442,943	1,358,478	1,358,478
Euro weakening by 10% (2016: weakening by 10%)	(1,442,943)	(1,442,943)	(1,358,478)	(1,358,478)
Other strengthening by 10% (2016: strengthening by 10%)	22,046	22,046	6,415	6,415
Other weakening by 10% (2016: weakening by 10 %)	(22,046)	(22,046)	(6,415)	(6,415)

Exposure to interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and

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

liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 200 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:
If interest rates shift up by 200 basis points, with all other variables held constant, the earnings at risk (EAR) for the year 2017 are calculated in the amount of LEK (107,612) thousand.
If interest rates shift down by 200 basis points, with all other variables held constant, the earnings at risk (EAR) for the year 2017 are calculated in the amount of LEK (1,979,189) thousand.

2017	**up to 1 Year scenarios**	
	200 bp	200 bp
	Decrease	Increase
Estimated Profit (loss) effect	(107,612)	(1,979,189)

2016	**up to 1 Year scenarios**	
	200 bp	200 bp
	Decrease	Increase
Estimated Profit (loss) effect	1,753,661	(2,223,248)

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

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

At 31 December 2017

	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	51,071,193	-	-	-	-	-	51,071,193
Restricted balances	19,467,731	-	-	-	-	-	19,467,731
Investments held for trading	-	941,392	208	432	6,884,062	-	7,826,094
Held-to-maturity investment securities	1,294,490	1,613,412	14,106,342	13,629,886	42,124,697	-	72,768,827
Other securities designated at fair value through profit or loss	-	-	-	-	2,485,514	-	2,485,514
Loans and advances to customers	12,250,060	11,972,898	18,838,265	47,296,608	5,222,595	(5,498,877)	90,081,549
Total	**84,083,474**	**14,527,702**	**32,944,815**	**60,926,926**	**56,716,868**	**(5,498,877)**	**243,700,908**
Liabilities							
Due to banks and financial institutions	4,502,268	-	-	-	-	-	4,502,268
Due to customers	155,881,624	9,747,842	8,193,432	30,209,834	593,786	-	204,626,518
Other liabilities	2,155,846	8,519	7,007	-	-	-	2,171,372
Subordinated capital	-	-	-	6,774,542	2,046,310	-	8,820,852
Total	**162,539,738**	**9,756,361**	**8,200,439**	**36,984,375**	**2,640,096**	-	**220,121,010**
Gap at 31 December 2017	**(78,456,264)**	**4,771,341**	**24,744,376**	**23,942,550**	**54,076,772**	**(5,498,877)**	**23,579,898**

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

At 31 December 2016

	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	57,046,334	-	-	-	-	-	57,046,334
Restricted balances	21,628,345	-	-	-	-	-	21,628,345
Investments held for trading	30	1,729,254	1,641,805	746,283	10,081,603	-	14,198,975
Held-to-maturity investment securities	16,152,996	4,574,205	11,376,216	17,260,653	28,469,412	-	77,833,482
Other securities designated at fair value through profit or loss	-	-	-	-	2,528,780	-	2,528,780
Loans and advances to customers	17,059,529	16,602,245	19,429,815	39,028,182	5,740,753	(7,268,592)	90,591,932
Total	**111,887,234**	**22,905,704**	**32,447,836**	**57,035,118**	**46,820,548**	**(7,268,592)**	**263,827,848**
Liabilities							
Due to banks and financial institutions	4,329,408	-	-	-	-	-	4,329,408
Due to customers	170,107,106	12,200,230	8,942,118	37,002,521	927,154	-	229,179,129
Other liabilities	2,416,337	10,232	38,208	-	-	-	2,464,777
Subordinated capital	-	-	-	-	8,965,577	-	8,965,577
Total	**176,852,851**	**12,210,462**	**8,980,326**	**37,002,521**	**9,892,731**	**-**	**244,938,891**
Gap at 31 December 2016	**(64,965,617)**	**10,695,242**	**23,467,510**	**20,032,597**	**36,927,817**	**(7,268,592)**	**18,888,957**

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk

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

Management of liquidity risk

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

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

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

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

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

							At 31 December 2017
	Up to 1 month	**1 to 3 Months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	51,071,193	-	-	-	-	-	51,071,193
Restricted balances	19,467,731	-	-	-	-	-	19,467,731
Investments held for trading	-	941,392	208	432	6,884,062	-	7,826,094
Held-to-maturity investment securities	1,294,490	1,613,412	14,106,342	13,629,886	42,124,697	-	72,768,827
Other securities designated at fair value through profit or loss	-	-	-	-	2,485,514	-	2,485,514
Loans and advances to customers	50,523,189	2,381,634	3,145,276	5,793,162	50,193,513	(13,293,312)	98,743,462
Total	**122,356,603**	**4,936,438**	**17,251,826**	**19,423,480**	**101,687,786**	**(13,293,312)**	**252,362,821**
Liabilities							
Due to banks and financial institutions	4,502,268	-	-	-	-	-	4,502,268
Due to customers	155,710,048	9,919,598	8,193,898	30,212,378	595,817	-	204,631,739
Other liabilities	2,155,846	8,519	7,007	-	-	-	2,171,372
Subordinated capital	-	-	-	6,895,437	2,249,234	-	9,144,671
Total	**162,368,162**	**9,928,117**	**8,200,905**	**37,107,815**	**2,845,051**	**-**	**220,450,050**
Guarantees and commitments	1,347,689	5,130,064	2,575,023	3,928,035	8,243,771	-	21,224,582
Liquidity risk at 31 December 2017	**(41,359,248)**	**(10,121,743)**	**6,475,898**	**(21,612,370)**	**90,598,964**	**(13,293,312)**	**10,688,189**
Cumulative	**(41,359,248)**	**(51,480,991)**	**(45,005,093)**	**(66,617,463)**	**23,981,501**	**10,688,189**	**-**

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

							At 31 December 2016
	Up to 1 month	**1 to 3 Months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	57,046,334	-	-	-	-	-	57,046,334
Restricted balances	21,628,345	-	-	-	-	-	21,628,345
Investments held for trading	30	1,729,254	1,641,805	746,283	10,081,603	-	14,198,975
Held-to-maturity investment securities	16,152,996	4,574,205	11,376,216	17,260,653	28,469,412	-	77,833,482
Other securities designated at fair value through profit or loss	-	-	-	-	2,528,780	-	2,528,780
Loans and advances to customers	58,242,269	2,088,886	3,372,212	5,752,750	49,929,588	(19,790,784)	99,594,921
Total	**153,069,974**	**8,392,345**	**16,390,233**	**23,759,686**	**91,009,383**	**(19,790,784)**	**272,830,837**
Liabilities							
Due to banks and financial institutions	4,329,408	-	-	-	-	-	4,329,408
Due to customers	170,154,752	12,200,230	8,942,118	37,002,521	927,154	-	229,226,775
Other liabilities	2,416,337	10,232	38,208	-	-	-	2,464,777
Subordinated capital	-	-	-	461,202	9,287,323	-	9,748,525
Total	**176,900,497**	**12,210,462**	**8,980,326**	**37,463,723**	**10,214,477**	**-**	**245,769,485**
Guarantees and commitments	533,087	3,705,018	2,599,321	5,456,213	8,728,289	-	21,021,928
Liquidity risk at 31 December 2016	**(24,363,610)**	**(7,523,135)**	**4,810,586**	**(19,160,250)**	**72,066,617**	**(19,790,784)**	**6,039,424**
Cumulative	**(24,363,610)**	**(31,886,745)**	**(27,076,159)**	**(46,236,409)**	**25,830,208**	**6,039,424**	**-**

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Operational risk

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

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

34. CAPITAL MANAGEMENT

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

Regulatory capital

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

Capital Adequacy Ratio

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

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

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.

34. CAPITAL MANAGEMENT (CONTINUED)

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

	31 December 2017	31 December 2016
Total risk weighted assets	114,853,776	132,853,009
Regulatory capital	23,668,639	22,570,748
Capital adequacy ratio	**20.61 %**	**16.99 %**

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.
The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

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

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Management Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capital, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased beyond a limit of Lek 1,250,000 thousand. As at 31 December 2017 and 2016, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2017 and 2016, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

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

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

35. UNCONSOLIDATED STRUCTURED ENTITIES

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension fund and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2017 consolidated financial statements. Information about unconsolidated structured entities is as follows:

35. UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

	Year ended 31 December 2017	At 31 December 2017		
	Income from the structured entity for the year	**Carrying amount of assets of the structured entity**	**Carrying amount of liabilities of structured entity**	**Net assets of the structured entity**
In thousands of LEK				
Prestige Fund	2,136,313	57,259,184	170,943	57,088,241
Pension Fund	25,874	509,190	2,215	506,975
Euro Fund	229,298	14,745,379	31,937	14,713,442
Total	**2,391,485**	**72,513,753**	**205,095**	**72,308,658**

36. CONTINGENCIES AND COMMITMENTS

			31 December 2016	31 December 2015
	LEK	**Foreign currency**	**Total**	**Total**
Contingent liabilities				
Bank Guarantees issued	1,614,960	6,533,217	8,148,177	8,043,303
Letters of Credit	-	1,576,604	1,576,604	1,906,145
Unused credit lines	4,148,703	7,351,098	11,499,801	11,072,480
Total	**5,763,663**	**15,460,919**	**21,224,582**	**21,021,928**

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

Operating lease commitments

The Bank has entered into non-cancellable operating lease commitments for the Head Office and the branches. Such commitments as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Not later than 1 year	205,282	336,286
Later than 1 year and not later than 5 years	622,532	769,681
Total	**827,814**	**1,105,967**

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Level 3 inputs includes information derived through extrapolation or interpolation that cannot be

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

directly corroborated by observable market data. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2017 are as follows:

	2017			
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Loans to banks	-	28,699,610	7,922,807	**36,622,417**
Loans to customers	-	-	90,081,549	**90,081,549**
Trading Assets	-	7,826,094	-	**7,826,094**
Financial Investments	-	73,085,558	-	**73,085,558**
Other securities designated at fair value through profit or loss	-	2,485,514	-	**2,485,514**
Due to banks and financial institutions	-	6,167	4,496,101	**4,502,268**
Due to customers	-	-	204,610,355	**204,610,355**
Subordinated Debt	-	8,820,852	-	**8,820,852**
Guarantees and commitments	-	2,676,015	18,548,567	**21,224,582**

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

	2016			
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Loans to banks	-	15,298,756	18,195,896	**33,494,652**
Loans to customers	-	-	90,591,932	**90,591,932**
Trading Assets	-	14,198,975	-	**14,198,975**
Financial Investments	-	78,111,054	-	**78,111,054**
Other securities designated at fair value through profit or loss	-	2,528,780	-	**2,528,780**
Due to banks and financial institutions	-	22,616	4,306,792	**4,329,408**
Due to customers	-	-	229,165,584	**229,165,584**
Subordinated Debt	-	8,965,577	-	**8,965,577**
Guarantees and commitments	-	131,824	20,890,104	**21,021,928**

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

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

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

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

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

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

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017 was as follows:

In thousands of LEK	**Fair value**	**Valuation technique**	**Inputs used**
FINANCIAL Assets at Fair Value			
Trading securities			
Albanian treasury bills	918	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")
Albanian government bonds	7,825,176	DCF	Government bonds yield curve("TBonds")
Other securities designated at fair value through profit or loss			
Albanian government bonds	2,485,514	DCF	Tbonds

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

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

38. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease
receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	51,071,193	-	-	-	51,071,193
Restricted balances	19,467,731	-	-	-	19,467,731
Investments held for trading	-	-	7,826,094	-	7,826,094
Other securities designated at fair value through profit or loss	-	2,485,514	-	-	2,485,514
Held-to-maturity investment securities	-	-	-	72,768,827	72,768,827
Loans and advances to customers	90,081,549	-	-	-	90,081,549
Total financial assets	**160,620,473**	**2,485,514**	**7,826,094**	**72,768,827**	**243,700,908**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2016:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	57,046,334	-	-	-	57,046,334
Restricted balances	21,628,345	-	-	-	21,628,345
Investments held for trading	-	-	14,198,975	-	14,198,975
Other securities designated at fair value through profit or loss	-	2,528,780	-	-	2,528,780
Held-to-maturity investment securities	-	-	-	77,833,482	77,833,482
Loans and advances to customers	90,591,932	-	-	-	90,591,932
Total financial assets	**169,266,611**	**2,528,780**	**14,198,975**	**77,833,482**	**263,827,848**

As of 31 December 2017 and 31 December 2016, all of the Group's financial liabilities except for derivatives were carried at amortised cost.

39. RELATED PARTIES

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

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

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

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

	31 December 2017	**31 December 2016**
Amounts due from:		
Immediate parent company	6,561,087	6,756,474
Other related parties	11,468,932	13,698,919
Assets total	**18,030,019**	**20,455,393**
Amounts due to:		
Immediate parent company	(8,884,123)	(9,059,028)
Other related parties	(26)	-
Liabilities total	**(8,884,149)**	**(9,059,028)**

	Year ended 31 December 2017	**Year ended 31 December 2016**
Net interest expense		
Immediate parent company	(456,859)	(531,564)
Other related parties	42,499	10,930
Total net interest expenses	**(414,360)**	**(520,634)**
Net fee and commission expense		
Immediate parent company	(40,101)	(52,718)
Other related parties	(117,650)	(128,520)
Total net fee and commission expense	**(157,751)**	**(181,238)**
Operating expenses		
Immediate parent company	(428,725)	(469,300)
Other related parties	(307)	(3,349)
Total operating expenses	**(429,032)**	**(472,649)**
Grand Total	**(1,001,143)**	**(1,174,521)**

Included in amounts due to Immediate parent is the Subordinated debt, which is detailed in note 19.
The aggregate value of the contingent liabilities of the Bank to the affiliated companies as at 31 December 2017 was LEK 2,676,015 thousand (31 December 2016: LEK 2,003,508 thousand) and represents Bank Guarantees, Letters of Credit and Commitments issued.

39. RELATED PARTIES (CONTINUED)

Key management personel

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

	2017	2016
Statement of financial position		
Amounts due from	156,079	158,415
Amounts due to	(117,010)	(112,043)
Net balances due (to)/from	**39,069**	**46,372**

Statement of comprehensive income		
Wages, salaries and bonuses	(271,325)	(262,512)
Total	**(271,325)**	**(262,512)**

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

Vision

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 2017, 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 2017 amounted to € 12 million, an increase of more than 24 per cent from previous year, of which € 10,8 million were used for vehicle financing, and € 1,2 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.

The main new business is from corporate customers 48 percent, from SE customers 14 per cent, and from Micro customers 17 per cent of the business, and the rest, 22 per cent is from individual customers

Our goal was mainly focused 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.

2017 was another year of challenges for the Albanian automotive market, where the number of new vehicles sold slightly surpassed 3,200 units, which represents only six per cent 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 2017, 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 2017, 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 2017 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 2018 as well.

Prospect 2018

Thanks to our high professional standards and expertise of the group which proved to be very strong even in difficult times, Raiffeisen Leasing sh.a will be in the position to actively support the business and investment plans of its clients in 2018 as well, by offering financing of vehicles and equipment. We will stay fully committed to further development of long-lasting cooperation with our clients and dealers and will continue to proactively respond to their needs by developing our range of products and services.

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

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

Goals

Raiffeisen INVEST Sh.a

About Raiffeisen INVEST Sh.a

During 2017, Raiffeisen INVEST Sh.a remained the leading asset management company in the Albanian financial market with a clear focus on investor care and implementation of best asset management practices. The strategic objective of Raiffeisen INVEST is the promotion of the funds for the broad mass of investors, oriented toward sustainable growth and the development of the investment funds and voluntary pension funds market in general. Raiffeisen INVEST aims to offer the highest level of transparency to its investors and public education on capital markets in Albania.

Also during 2017, the Financial Supervisory Authority licensed a third asset management company for investment funds, effectively adding another positive step towards the further consolidation of the investment funds market.

The assets under management of Raiffeisen INVEST recognized a slight decrease compared to the previous year but nevertheless exceeded the value of € 544 million, while the number of those who trusted our company to manage their assets was 30,900 investors for investment funds and 2,800 investors for the Voluntary Pension Fund. Both investment funds recorded an increase in assets of 10 per cent compared to the previous year. In a financial environment with very low interest rates, domestic investors continued to show interest in investment funds, which offer to the public the opportunity to invest their savings in Lek and Euro in a profitable way, and at the same time opportunities for diversifying the financial portfolio out of the spectrum of banking products. Investment funds are also an investment option that is carried out through a simple and comfortable process for anyone and provide liquidity at all times, as well as professional financial management.

Voluntary Pension Fund assets increased by 23 per cent and the company added efforts to promote the Pension Fund in the form of individual and professional pension plans

Fund Performance

During 2017 our funds generated the following net performance (after management fee is deducted):

- Raiffeisen Voluntary Pension Fund: 5.86 per cent,
- Raiffeisen Prestige Fund: 3.87 per cent
- Raiffeisen Invest Euro Fund: 2.72 per cent

Despite a low interest rates environment in 2017, in both domestic and international markets, Raiffeisen INVEST managed to provide strong performance for all funds under management.

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

Social Responsibility

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

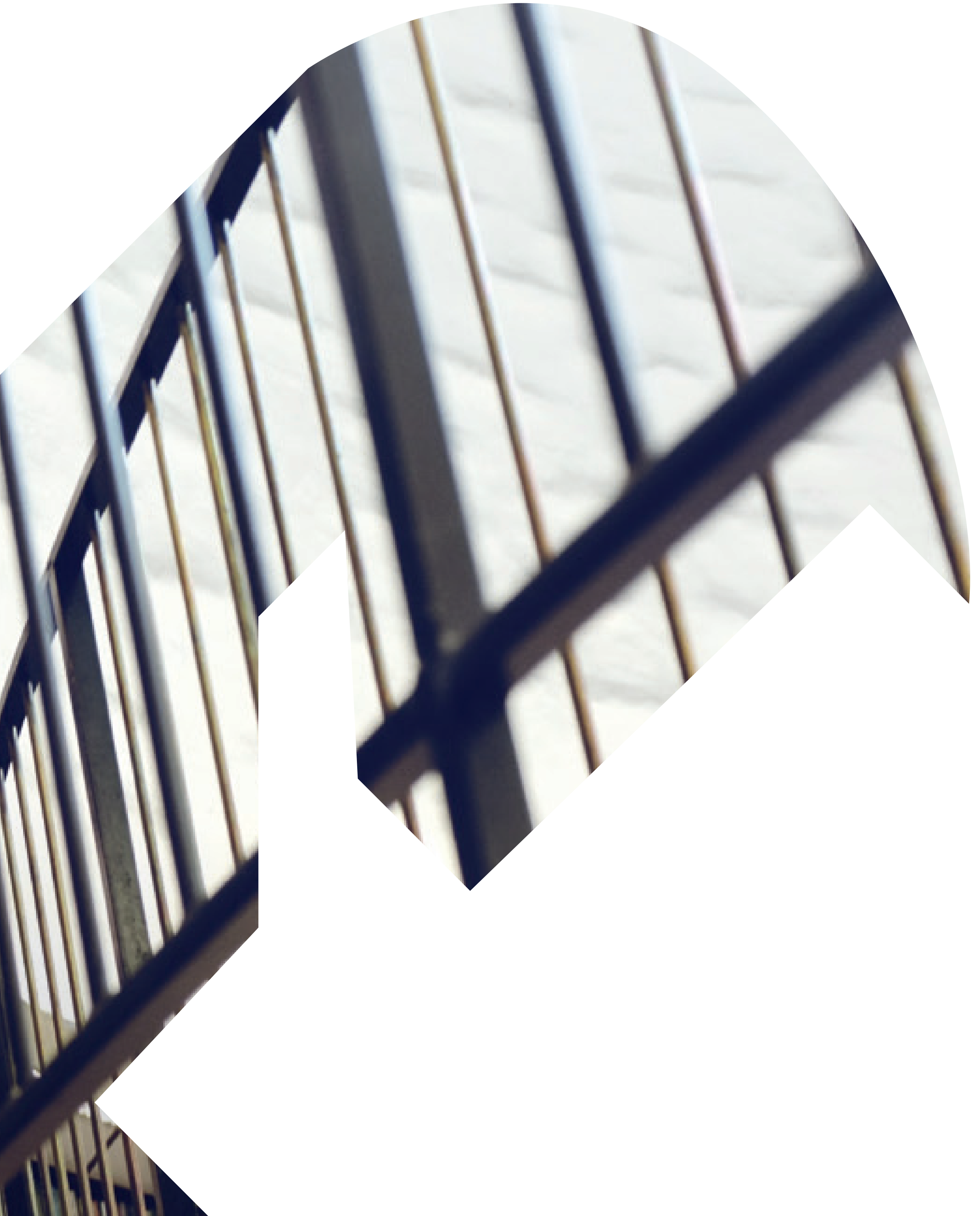
2018 Outlook

2018 will be another challenging year for the Albanian economy and the financial market as a whole. Despite the marginal increase in interest rates, they remain at historical low levels. The later, as well as the high level of liquidity in the domestic financial market, will continue to contribute to the decrease of the cost of financing and debt service, thus improving the financial conditions of the economy, although it may be conditioned by political developments in the country.

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

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

Development



Raiffeisen Bank International at a glance

Raiffeisen Bank International AG 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 14 markets across the CEE region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, nearly 50,000 employees serve RBI's 16.5 million customers in more than 2,400 business outlets, primarily in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2017, RBI's total assets stood at € 135 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.

Following the merger in March 2017 with Raiffeisen Zentralbank Österreich AG (RZB AG), its former majority shareholder, RBI AG assumed all rights, obligations and functions of the transferring company RZB AG in their entirety, in particular, the role of central institution for the Austrian Raiffeisen Banking Group.

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