Annual Report 2016

BANQUE RAIFFEISEN
AND AFFILIATED CAISSES RAIFFEISEN
4, rue Léon Laval
L-3372 Leudelange

R.C.S. Luxembourg B-20128

Consolidated financial statements at 31 December 2016
and
Independent auditor's report
and
Consolidated management report

In case of discrepancies between the English and the French text, the French version will be binding.

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Approved Auditor's Report

To the Board of Directors of
BANQUE RAIFFEISEN
Société Coopérative (Cooperative Company)
4 rue Léon Laval
L-3372 Leudelange

Report on the consolidated financial statements

In accordance with the mandate granted by the Board of Directors, we have audited Banque Raiffeisen et des Caisses Raiffeisen affiliées' consolidated financial statements, annexed hereto, comprising the consolidated statement of financial position as at 31 December 2016 and the consolidated income statement for the period ended on that date, together with a summary of the principal accounting methods and other explanatory notes.

Responsibility of the Board of Directors in the preparation and presentation of the consolidated financial statements

The Board of Directors is responsible for the accurate preparation and presentation of the consolidated financial statements, in accordance with the statutory and regulatory obligations on preparing and presenting consolidated financial statements in force in Luxembourg, and for carrying out the internal controls that it deems necessary to enable the consolidated financial statements to be prepared and presented without material misstatement, either as a result of fraud or error.

Responsibility of the Approved Auditor

It is our responsibility to express an opinion on these consolidated financial statements based on our audit. We have carried out our audit in accordance with the International Auditing Standards adopted in Luxembourg by the *Commission de Surveillance du Secteur Financier*. These standards require us to comply with its rules of conduct and to plan and carry out the audit in such a way that we are reasonably certain that the consolidated financial statements are free from material misstatement.

An audit consists of implementing procedures with a view to gathering documentary evidence in respect of the figures and information contained in the consolidated financial statements. The choice of procedures falls to the judgement of the Approved Auditor, as does the assessment of the risk that the consolidated financial statements contain material misstatements, either as a result of fraud or error. In carrying out this assessment, the statutory auditor takes account of the internal controls used by the entity to prepare and faithfully present the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, not with a view to expressing an opinion on the effectiveness of the group's internal control procedures. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

Responsibility of the Approved Auditor (cont.)

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

Opinion

In our opinion, these consolidated financial statements give a true and fair view of the consolidated financial position of Banque Raiffeisen et des Caisses Raiffeisen affiliées at 31 December 2016 and the results of its business for the year then ended, in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of consolidated financial statements.

Report on other legal or regulatory obligations

The management report, which falls under the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Public limited company
Approved auditor

Sylvie Testa

Luxembourg, 29 March 2017

BANQUE RAIFFEISEN ET CAISSES RAIFFEISEN AFFILIEES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2016
(in EUR)

ASSETS	***NOTES***	***2016***	***2015***
Cash, credit balances with central banks and post office cheque accounts	4.1	545,757,819.23	500,969,532.52
Receivables due from credit institutions:			
a) on demand		62,024,295.46	72,963,803.12
b) other receivables		177,476,546.13	238,982,825.08
	4.1	239,500,841.59	311,946,628.20
Loans and advances to customers	4.1, 4.10, 4.12, 4.32	5,418,996,772.81	5,181,126,755.10
Leasing operations	4.1, 4.2, 4.32	98,039,553.68	88,781,871.27
Bonds and other fixed income securities:			
a) from public issuers		460,882,757.05	426,924,267.49
b) from other issuers		613,168,810.75	576,364,481.88
	4.1, 4.3, 4.4, 4.8, 4.13	1,074,051,567.80	1,003,288,749.37
Shares and other variable-yield securities:	4.3, 4.5	11,084,117.18	19,421,557.64
Equity Investments	4.3, 4.5, 4.8	1,364,538.78	1,388,139.88
Shares in affiliated businesses	4.3, 4.6, 4.8	25,198,914.71	25,198,914.71
Intangible assets	4.8	12,278,858.08	12,651,788.67
Property, plant and equipment	4.8, 4.9	47,455,281.87	49,655,186.85
Other assets	4.7	13,014,431.24	9,416,168.73
Accruals accounts	4.4	14,272,286.92	18,695,208.47
TOTAL ASSETS		7,501,014,983.89	7,222,540,501.41

BANQUE RAIFFEISEN ET CAISSES RAIFFEISEN AFFILIEES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2016
(in EUR)

LIABILITIES	***NOTES***	***2016***	***2015***
Amounts owed to credit institutions:			
a) on demand		26,134,805.98	55,721,559.57
b) with agreed maturity dates or notice periods		358,184,525.00	269,223,356.44
	4.14	384,319,330.98	324,944,916.01
Amounts owed to customers:			
a) savings deposits		1,267,298,463.38	1,150,672,840.50
b) other liabilities		5,044,644,184.34	4,906,674,445.25
ba) on demand		*3,904,158,862.89*	*3,905,750,395.52*
bb) with agreed maturity dates or notice periods		*1,140,485,321.45*	*1,000,924,049.73*
	4.14, 4.22	6,311,942,647.72	6,057,347,285.75
Debts represented by a security:			
- debt securities in issue	4.14	159,618,911.12	244,182,837.79
Other liabilities	4.15	28,273,897.83	23,639,522.82
Accruals accounts	4.4	29,648,020.15	29,573,281.86
Provisions:			
a) provisions for taxes		18,439,383.15	14,907,443.57
b) other provisions		78,788,166.42	83,608,343.80
	4.17, 4.31, 4.36	97,227,549.57	98,515,787.37
Subordinated liabilities	4.14, 4.16	90,000,000.00	90,000,000.00
Special items with a share in reserves	4.18	27,674,023.56	26,438,587.03
Fund for general banking risks (FGBR)		10,641,220.90	10,641,220.90
Shares issued	4.19	499,046.00	430,670.75
Reserves	4.19	344,603,918.66	299,273,082.47
Profit (loss) for the period	4.19, 4.20	16,566,417.40	17,553,308.66
TOTAL LIABILITIES		7,501,014,983.89	7,222,540,501.41

BANQUE RAIFFEISEN ET CAISSES RAIFFEISEN AFFILIEES
CONSOLIDATED OFF-BALANCE SHEET ITEMS
31 December 2016
(in EUR)

OFF BALANCE SHEET	***NOTES***	***2016***	***2015***
Contingent liabilities	4.24	289,099,056.44	201,560,338.86
Of which: guarantees and assets given as security		*93,629,702.10*	*81,175,911.43*
Commitments	4.25, 4.32	602,783,792.12	768,794,015.52

BANQUE RAIFFEISEN ET CAISSES RAIFFEISEN AFFILIEES
CONSOLIDATED INCOME STATEMENT
31 December 2016
(in EUR)

EXPENSES	***NOTES***	***2016***	***2015***
Interest and similar expenses	4.16	36,883,620.21	41,149,611.66
Paid commission		1,502,366.76	1,537,687.03
Administrative overheads			
a) staff costs	4.33, 4.34	51,756,859.11	49,793,892.40
of which:			
- wages and salaries		*42,505,772.76*	*41,164,329.16*
- social security expenses		*7,000,703.17*	*6,943,159.55*
of which:			
social security expenses relating to pensions		*4,831,647.76*	*4,714,284.93*
b) other administrative expenses	4.35	27,853,756.53	27,663,879.32
		79,610,615.64	77,457,771.72
Value adjustments on intangible and tangible assets		9,099,585.11	9,225,550.02
Other operating expenses	4.30	1,634,560.10	2,428,933.66
Value adjustments on loans and advances and provisions for liabilities and commitments		14,383,150.90	18,542,304.11
Value adjustments on securities held as financial assets, on equity interests and on shares in affiliated businesses		23,926.87	24,027.97
Allocations to special items with a share in reserves	4.18	1,429,484.63	1,715,861.54
Tax on profits from ordinary and extraordinary transactions	4.31	6,745,837.58	6,798,523.18
Other taxes not included in the items above		760,985.70	372,525.91
Profit (loss) for the period	4.19, 4.20	16,566,417.40	17,553,308.66
TOTAL EXPENSES		168,640,550.90	176,806,105.46

BANQUE RAIFFEISEN ET CAISSES RAIFFEISEN AFFILIEES
CONSOLIDATED INCOME STATEMENT (CONT.)
31 December 2016
(in EUR)

INCOME	***NOTES***	***2016***	***2015***
Interest and similar income		129,192,868.96	133,425,102.24
of which: from fixed income securities		*10,461,403.67*	*12,750,402.72*
Income from securities:			
a) income from investments		1,155,110.59	1,070,178.91
Commission received		21,860,819.35	21,751,230.23
Profit from financial transactions		912,261.75	1,831,421.48
Value re-adjustments on loans and provisions for contingent liabilities and commitments		9,934,278.54	12,144,086.58
Value re-adjustments on securities held as financial assets, on equity interests and on shares in affiliated businesses		0.00	2,153.37
Other operating income	4.29	5,391,163.61	6,380,805.21
Income from the elimination of special items with a share in reserves	4.18	194,048.10	201,127.44
TOTAL INCOME		168,640,550.90	176,806,105.46

NOTE 1 - GENERAL PROVISIONS

Constitution and administration

Banque Raiffeisen was established by private deed on 9 February 1926 under the name “Raiffeisenzentrale des Grossherzogtums Luxemburg” (Caisse Centrale des Associations Agricoles Luxembourgeoises).

The Bank’s name has been changed twice, to “Caisse Centrale Raiffeisen” by the Extraordinary General Meeting of 30 December 1982, and to “Banque Raiffeisen” by the Extraordinary General Meeting of 14 June 2001.

Banque Raiffeisen (the “Bank”) is established as a cooperative company so that it may carry on the business of a credit institution.

Banque Raiffeisen carries on all its activities in Luxembourg and all its employees are located there.

The Bank was incorporated for an indefinite period.

The Bank’s employees are grouped into three divisions currently comprising the following:

- Division A, which covers affiliated savings and lending banks (Raiffeisen Local Banks) which together hold 45% of the share capital.
- Division B, which covers legal entities in the agricultural, vinicultural and horticultural sectors and a limited number of natural persons who were members of the *Caisse Centrale des Associations Agricoles Luxembourgeoises* at 30 December 1982. These employees hold 45% of the share capital.
- Division C, finally, whose shares are held solely by *Entreprise des Postes et Télécommunications* (“Post Luxembourg”), represents 10% of the share capital.

The Bank’s articles of association allow this corporate structure to be expanded.

The Board of Directors manages the Bank’s affairs, sets its commercial strategy and determines the Bank’s valuation principles in accordance with the law and its articles of association. It takes, and determines the conditions of, all measures necessary to promote the Bank’s development and advancement and its services and any measures which, in general terms, fall within the Bank’s objectives. It ensures that the affiliated Banks operate properly.

The Bank’s Board of Directors contains five representatives from Division A, five representatives from Division B, two representatives from Division C and three independent members including the Chair of the Board of Directors and two members of the Executive Committee.

Pursuant to Article 12 of the Law of 5 April 1993 on the financial sector, as amended, the unit formed by Banque Raiffeisen and by affiliated Raiffeisen Local Banks is considered to be a credit institution. Affiliation within the meaning of that article means the holding or one or more shares in the Bank’s share capital.

The undertakings entered into by the Bank and the affiliated Raiffeisen Local Banks are joint and several undertakings.

The day-to-day management of the Bank’s business and the management representation of the Bank are delegated to the Executive Committee.

One or more commissioners is responsible for oversight of each Raiffeisen Local Bank. Single entity financial statements are not audited in accordance with international auditing standards. Pursuant to Article 1 of the Law of 17 June 1992 on the annual financial statements and consolidated financial statements of Luxembourg credit institutions, as amended, the unit formed by Banque Raiffeisen and by affiliated Raiffeisen local banks is covered by the consolidated financial statements.

NOTE 1 - GENERAL PROVISIONS (CONT.)

Nature of activities

The Bank's objects are to operate a profit-making, banking financial institution, in the form of a savings and credit institution within the meaning of the law on the financial sector, whose principal transactions comprise banking and financial transactions, accepting deposits and other repayable funds from the public, granting loans and credits, managing and administering portfolios and business activities on behalf of third parties, assisting the affiliated Raiffeisen Local Banks and carrying out all transactions that are necessary or useful in complying with its corporate objects.

The Bank aims to satisfy the financial needs of its shareholders and its customers by providing them with the best service at the lowest possible costs in accordance with the principles established by F.W. Raiffeisen.

Its objectives include the promotion of the interests of agricultural and vinicultural enterprises, their professional cooperatives and bodies and shareholders in other economic sectors, and taking any steps that are necessary and useful to the operations and development of the cooperative savings and lending organisation.

In terms of the affiliated Raiffeisen Local Banks, the Bank's specific objective is to represent them collectively and individually in enforcing their common or specific rights and interests, to encourage their smooth functioning and to organise and exercise administrative, technical and financial control over their structures and management.

All liquid funds held by an affiliated savings and credit institution, save for those required for day-to-day operations, are required to be deposited with the Bank, which guarantees the Local Banks an appropriate interest rate on their liquid funds.

Consolidated financial statements

The company's financial year coincides with the calendar year.

NOTE 2 – PRINCIPAL ACCOUNTING METHODS

The Bank's consolidated financial statements are prepared in accordance with prevailing statutory and regulatory provisions in the Grand Duchy of Luxembourg.

The principal accounting methods applied are as follows:

1. Presentation of consolidated financial statements

The consolidated financial statements are prepared in accordance with the Law of 17 June 1992 on annual financial statements and consolidated financial statements of Luxembourg credit institutions, as amended (the “Law on Banks' Financial Statements”).

2. Scope of consolidation

In accordance with applicable legal requirements, the unit comprising the Bank and the affiliated Raiffeisen Local Banks falls within the scope of the consolidated financial statements. At 31 December 2016, full consolidation was used in respect of the 13 affiliated Raiffeisen Local Banks that each hold shares in the Bank's share capital.

All consolidated companies have the same financial year.

	Registered office	***Shareholding 31/12/16***	***Shareholding 31/12/15***
Shares in affiliated businesses:			
Immobilière Raiffeisen Luxembourg S.A.	Luxembourg	100.0%	100.0%
Raiffeisen Luxembourg Ré S.A.	Luxembourg	100.0%	100.0%
Raiffeisen Vie S.A.	Luxembourg	50.0%	50.0%
Raiffeisen Finance S.A.	Luxembourg	100.0%	100.0%
Equity investments:			
Société Luxembourgeoise de Capital-Développement pour les PME S.A.	Luxembourg	10.0%	10.0%
Europay S.C.	Luxembourg	4.44%	4.44%
Visalux S.C.	Luxembourg	8.25%	8.25%
Luxtrust S.A.	Luxembourg	0.54%	0.54%
Agroenergie S.à r.l.	Luxembourg	16.66%	16.66%
Luxfund Advisory S.A.	Luxembourg	7.76%	7.76%
FS/B Actions	Luxembourg	6.53%	6.53%
FS/T Actions	Luxembourg	6.53%	6.53%

NOTE 2 – PRINCIPAL ACCOUNTING POLICIES (CONT.)

3. Consolidation methods

The full consolidation method is used.

Assets, liabilities, off-balance sheet items and the income and expenses of the consolidated companies are fully recognised in the consolidated financial statements.

All significant inter-company transactions and balances are eliminated when the consolidated financial statements are drawn up.

4. Valuation

1. General principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and with prevailing laws and regulations in the Grand Duchy of Luxembourg. The valuation rules applied by the Bank are based on Chapter 7 of the Law on Banks' Financial Statements.

2. Conversion of items in foreign currencies

The Bank uses the multi-currency accounting method, which involves keeping entries for assets and liabilities in their original currencies. Assets and liabilities in foreign currencies are converted into euros at the exchange rates applicable on the date on which the statement of financial position was prepared.

The exchange profits and losses that are either realised or not realised on the reevaluation are recognised in the income statement for the financial year, except those in asset and liability entries that are specifically hedged by swaps (and foreign exchange forwards that hedge interest entries). The reevaluation of these transactions does not affect the profit (loss) for the current financial year.

The profits derived from foreign exchange forwards hedging against items on the statement of financial position are prorated and recognised in accordance with the principle of the separation of financial years in interest received or bonus interest entries.

Unhedged forward transactions are individually valued on the basis of forward prices on the date on which the statement of financial position was prepared. Capital gains are ignored; provisions for capital losses are recognised as liabilities in the statement of financial position under the "Provisions: other provisions" entry.

Income and expenses expressed in foreign currencies are converted into euros at the exchange rates applicable on the date on which they are recognised.

3. Derivatives

Any commitments of the Bank which derive from derivative instruments such as interest rate swaps, forward rate agreements, financial futures and options are recognised in off-balance sheet commitments on their transaction date.

On the date on which the statement of financial position was prepared, a provision is recognised, if necessary, for unrealised capital losses on the individual valuation at market prices of transactions that have not yet been closed out. This provision is recognised as a liability in the statement of financial position under the "Provisions: other provisions" entry.

NOTE 2 – PRINCIPAL ACCOUNTING POLICIES (CONT.)

Where the financial instrument covers an individual asset or liability or a portfolio of assets or liabilities and economic unity is established, and where financial instruments are hedged by an offsetting transaction to fully close the position, no provision is made.

4. Specific value adjustments for doubtful debts and irrecoverable debts

The Bank’s policy involves recognising value adjustments for all doubtful debts and irrecoverable debts. The amount of the value adjustment is equal to the difference between the book value of the debts and the estimated recoverable value. The Bank regularly, and at the end of each period, reexamines all its assets and assesses whether there is any indication that a debt may have depreciated.

These value adjustments are deducted from the relevant assets.

5. Fixed provision for assets and off-balance items at risk

The Bank's policy is to set up, in accordance with the provisions of Luxembourg tax legislation, a fixed provision for off-balance sheet assets that are at risk within the meaning of prudential banking regulations. The purpose of this provision is to cover risks that are likely but not yet identified at the moment at which the annual financial statements are prepared.

In accordance with the instructions of the *Directeur des Contributions* (Luxembourg Tax Director) of 16 December 1997, the maximum rate of the tax-free provision is 1.25% of assets at risk.

The fixed provision for assets and off-balance items at risk is broken down proportionately between the elements of the tax base used to calculate the provision, as follows:

- a value adjustment, which is deducted from the assets comprising the assets at risk; and
- a provision, which is attributable to the credit risk affecting the off-balance sheet items, the exchange rate risk and the market risks, which is included in the “Provisions: other provisions” entry of the liability side of the statement of financial position.

6. Fund for general banking risks (FGBR)

The Bank’s policy is to create a fund for covering general banking risks, in line with Article 63 of the Law on Bank Accounts. This fund is recorded separately on the liability side of the consolidated statement of financial position.

Allocations to the fund for general banking risks are not deductible for tax purposes.

NOTE 2 – PRINCIPAL ACCOUNTING POLICIES (CONT.)

7. Securities

The Bank has divided its fixed-income securities portfolio into three categories with the following characteristics:

- a portfolio of non-current financial assets which includes securities intended to be held in the long term as part of the Bank's business;
- a trading portfolio which includes securities acquired for resale in the short term;
- an investment portfolio which includes securities acquired to generate a return and to build up an asset base.

Fixed income securities are valued as follows:

Non-current financial assets

Fixed income securities are valued at their acquisition cost.

In the event of the lasting impairment of a debt security, a value adjustment corresponding to the difference between the acquisition price and the estimated recoverable value is recognised. The Bank regularly, and at the end of each period, reexamines this asset category and assesses whether there is any indication that a debt security may have depreciated.

The positive and negative differences between the acquisition price and the redemption value are depreciated using the straight-line basis.

Investment portfolio

Fixed income securities included in the investment portfolio are valued using the lower of cost or market method. Under this method, securities are valued at the lower of their acquisition cost and market value. Market value is generally determined using stock market prices.

Trading portfolio

Securities included in the trading portfolio are valued using the mark-to-market method.

8. Shares and other variable-yield securities:

Shares and other variable-yield securities are valued using the lower of cost or market method on the date on which the consolidated statement of financial position was prepared.

9. Investments and shares in affiliated businesses

Investments and shares in affiliated businesses held as fixed assets are recognised in their original currency at their acquisition price on the date on which the consolidated statement of financial position was prepared.

NOTE 2 – PRINCIPAL ACCOUNTING POLICIES (CONT.)

In the event of lasting impairment, a value adjustment corresponding to the difference between the acquisition price and the estimated value is recognised. The Bank regularly, and at the end of each period, reexamines this asset category and assesses whether there is any indication that an investment or share in a business may have depreciated.

10. “Beibehaltungsprinzip”

The Bank’s policy is to maintain previously established value adjustments for certain assets where the relevant assets are no longer in a loss-making position pursuant to Articles 56(2)(f) and 58(2)(e) of the amended law of 17 June 1992 on Banks’ Financial Statements.

11. Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are registered at their acquisition price.

The value of intangible assets and property, plant and equipment with limited useful economic lives is reduced by value adjustments calculated with a view to systematically writing off the value of these items over their useful life. Land, works of art and advance payments are not amortised.

The amortisation rates used for the most significant entries are as follows:

i)	Intangible assets:	from 10% to 33%
ii)	Buildings, technical facilities and fittings:	from 1.5% to 25%
iii)	IT systems	from 10% to 33%
iv)	Office equipment and furniture	from 10% to 25%

12. Special items with a share in reserves

Special items with a share in reserves include amounts that may be exempt from tax. Tax exemptions under Article 54 of the Luxembourg income tax law, applies in particular to capital gains generated on the sale of investments, properties and land.

13. Tax liabilities

Tax liabilities are recognised using the principal of the separation of financial years and not during the financial year in which they are paid.

14. Comparability of financial years

Certain figures at 31 December 2015 were reclassified to allow for better comparison between the financial years.

NOTE 3 - RISK MANAGEMENT

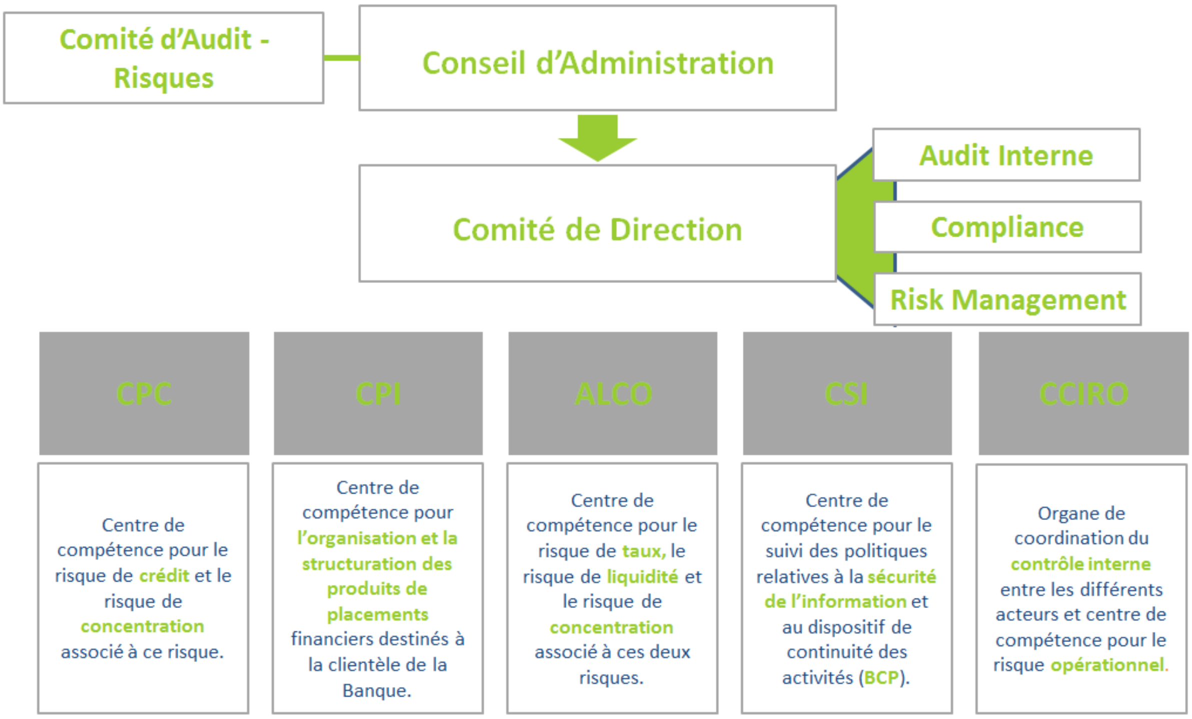
In view of its risk profile and its activity profile, and in order to properly carry out its duties, the Bank's growth in its business activities is balanced by control structures and procedures that guarantee the values and the long-term interests of members and the Bank's long-term success.

The Bank has established internal governance and risk management structures that are consistent with its profit-making objectives and that are at the centre of the monitoring of its activities. The Bank's profits depend on its ability to anticipate, identify, assess, evaluate and manage the risks inherent in its business activities and to predict the levels of capital required and to ensure that the Bank maintains a healthy liquidity position.

In 2016, in a highly competitive environment, marked by sustained levels of historically low interest rates and constantly changing banking regulations, the Bank continued to develop and consolidate the internal structures and procedures required to ensure that it complied with banking regulations and properly managed all risks inherent to its business activities.

1. Structure of risk management

With a view to managing its risks safely and effectively, the Bank has established a variety of specific operational bodies and committees which provide support to the Executive Committee. Each of these units develops guidelines and regularly monitors the banking risks for which it is responsible.



Board of Directors

The Board of Directors determines the risk strategy, risk appetite and the structure of risk management and the resulting roles and responsibilities for the various bodies. It determines the guiding principles and objectives governing risk-taking by the Bank and the amount and limits of economic capital, within which all business activities must develop. It delegates day-to-day management to the Executive Committee, which provides regular updates on the current overall levels of risk and on emerging risks.

NOTE 3 - RISK MANAGEMENT (CONT.)

Audit/Risk Committee

The Board of Directors is assisted by a committee that specialises in auditing, risks and compliance. It provides the Board of Directors with assessments on the structure and operations of the Bank in the aforementioned areas so that the members of the Board of Directors may effectively monitor the Bank's activities and meet its obligations.

Executive Committee

The Executive Committee implements the strategy determined by the Board of Directors, set down in the various risk policies. These policies define a set of limits and risk indicators to ensure a permanent level of economic capital that it considers appropriate to cover the nature and level of risks to which the Bank is or may be exposed. They are documented in the Risk Manual which serves as the Bank's reference.
The Executive Committee relies on five operational committees in monitoring risks (see below), which are each chaired by a member of the Executive Committee. These committees are the Bank's centres of expertise for all questions concerning specific risks.

ALCO - Assets/Liabilities Management Committee

The ALCO is the centre of expertise appointed by the Executive Committee to provide assistance in the management of interest rate and liquidity risks and the associated concentration risks.

It is chaired by a member of the Executive Committee and includes two other members of the Executive Committee and the heads of the Finance and Control, Financial Markets and Treasury, Marketing and Communications, Lending and Legal departments and the Risk Management function.

It sets the general guidelines for the management of structural risks within a set of limits determined by the Executive Committee, with day-to-day management delegated to the Bank's Financial Markets and Treasury department. The ALCO manages the Bank's overall level of exposure to interest rate risk and is authorised, where appropriate, to take strategic positions in line with the various indicators defined by the Executive Committee.

The ALCO is required to provide its opinion on the structure and pricing of each new interest rate product affecting the determination of transfer rates and, therefore, interest margins.

As part of its duties, the ALCO also seeks to manage the Bank's liquidity position in a sound and viable manner. To that end, the ALCO monitors and ensures compliance with the Contingency Funding Plan Liquidity (CFPL) indicators.

Lastly, the ALCO is responsible for monitoring concentrations with the risk categories.

CPC - Credit Policy Committee

As the centre of expertise for credit risk, the CPC implements the policies for managing this risk and ensures that the security and provisioning procedures are properly applied. It is chaired by a member of the Executive Committee and includes three other members of the Executive Committee, the heads of the Lending and Legal, Commercial Banking, Finance and Control and Marketing and Communications departments and the Risk Management function.

The CPC approves commercial lending transactions.

NOTE 3 - RISK MANAGEMENT (CONT.)

It principally monitors changes:

- in the structure of the lending portfolio;
- in concentrations identified within this portfolio;
- in late payments/unpaid amounts;
- in files in default or in recovery;
- in provisions;
- in the composition of the Bank's own portfolio.

ICORC - Internal Control and Operational Risks Committee

The Internal Control and Operational Risks Committee is the body that coordinates internal control between the various functions. It is chaired by a member of the Executive Committee and comprises the Head of Internal Control, heads of the Organisation, Operational Support, Lending and Legal, Facility Management, IT, Commercial Banking departments and of the Risk Management and Compliance functions.

Its roles and responsibilities are:

- Promoting an internal control culture that is in consistent with the guidelines of prevailing regulations;
- Sharing and exchanging experiences and best practices in relation to internal control;
- Carrying out regular analysis of the level of deployment of the internal control mechanism with the various business lines/functions;
- Assessing the level of control over operational risks through the validation of risk-mapping and control plans;
- Monitoring developments in the real and potential financial impacts of incidents;
- Overseeing the implementation of agreed actions as part of incident management;
- Approving action plans resulting from risk self-assessment exercises, prioritising them based on available resources and monitoring them.

ISC - Information Security Committee

The Information Security Committee is responsible for determining, implementing, controlling and monitoring the policies on information security and the business continuity plan (BCP).

It is chaired by a member of the Executive Committee and comprises the Chief Information Security Officer (CISO), the coordinator of Internal Control and the Data Protection Officer (DPO), the heads of the Facility Management, IT, Human Resources and Commercial Banking departments and the head of the Risk Management function.

This committee covers the following areas:

- the business continuity plan (BCP);
- management of information security risks;
- raising awareness of information security matters among employees;
- classifying and protecting sensitive information;
- managing access to the applications used by the Bank's employees;
- physical and software security of IT equipment;
- management of information security events;
- statutory and regulatory compliance of information security.

NOTE 3 - RISK MANAGEMENT (CONT.)

IPC - Investment Products Committee

The IPC is responsible for organising and structuring the financial investment activities directed at the Bank's customers. It is chaired by a member of the Executive Committee and brings together the Commercial Banking, Marketing and Communications, and Financial Markets and Treasury departments, and the Risk Management function.

The committee ensures compliance with internal procedures on the launch of new business activities or new products.

Risk Management

The Risk Management function is an independent function. Risk Management monitors and controls risks with the support of the five operational committees in which it participates.

As such, the Risk Management functions comprise:

- the development and improvement of the Bank's risk management methods and principles;
- the development of the "risk culture" of employees in various business lines;
- monitoring of the Bank's risk profile and its risk-taking strategy;
- risk reporting;
- the development of a coordinated risk control policy;
- providing advice on the appropriateness of risk-taking, with financial and human resources and systems in line with the profit-making objectives;
- updating a robust stress testing programme, including sensitivity analyses and scenario analyses.

Risk Management assists the Executive Committee in drawing up reports and giving presentations to the Board of Directors and the Audit/Risks Committee on all risk-management related subjects.

The Risk Management function, under the responsibility of the Chief Information Security Officer (CISO), also organises and manages information security through the implementation of a security policy that applies to the whole business.

It also monitors all business activity connected to insurance policies taken out by the Bank to protect its employees and its assets, and monitors the operations of the subsidiaries Raiffeisen Vie and Raiffeisen Luxembourg Ré.

Compliance

The Compliance function is an independent function. Its principal mission is to protect the Bank against Compliance risks (such as the risk of sanctions, the risk of disputes, reputational risks, the risk of breaching ethical rules, etc.) associated with breaches and non-compliance with prevailing statutory and regulatory frameworks. The Compliance function assists the Bank's Executives in anticipating, detecting, assessing, managing and controlling these risks. Compliance is principally involved in conduct rules, investor protection, the integrity of the financial markets and anti-money laundering and terrorist financing measures.

It also plays a role, as an integral part of third level internal controls, in the Bank correctly applying conduct rules that apply to the financial sector. The contributions it makes to the Bank's operations improve the quality of customer service and control over non-compliance risks. The Compliance function ensures compliance by the bank with regulations and centralises and processes complaints made by customers.

NOTE 3 - RISK MANAGEMENT (CONT.)

Internal Audit

Internal Audit is an independent and objective function within the Bank, whose role is to provide assurance on the level of control over its transactions and offer advice on improving those transactions and contribute to creating added value. It helps the Bank to achieve its objectives by using a systematic and methodical approach to assessing its risk management, control and governance processes, and by making proposals to improve their effectiveness. In general terms, Internal Audit considers and determines whether the central administration, internal governance and risk management mechanisms designed and implemented by Management are adequate and operate effectively. Internal Audit's role, position, powers and responsibilities and its procedure for intervening in the Bank's activities are set out in the internal audit charter based on the International Professional Practices Framework (IPPF) of Internal Auditing and prevailing regulations.

2. Risk management strategy

Basel III

The Basel III norms constitute prudential regulations that seek to better identify banking risks, especially credit and counterparty risks and the coverage requirements for these risks through own funds.

Basel III has four distinct objectives:

- increasing the sensitivity of capital requirements to risks;
- strengthening the role of banking auditors and financial transparency;
- identifying all risks to which banks may be exposed;
- promoting the solidity of the international financial system and ensuring a level playing field.

The initiative includes three complementary and interdependent pillars:

- Pillar 1, which sets out minimum capital requirements;
- Pillar 2, which introduces the concept of structured dialogue between credit institutions and supervisory bodies;
- and Pillar 3, which is focused on transparency and market discipline.

In terms of the second pillar, the Internal Capital Adequacy Assessment Process (ICAAP) has been developed and is continually monitored in accordance with prevailing regulations and the economic environment and the Bank's internal and external developments.

ICAAP (Internal Capital Adequacy Assessment Process)

The ICAAP requires banks to identify and assess all current and future risks to which they may be exposed, to maintain sufficient economic capital and to use appropriate techniques to monitor and manage those risks. The ICAAP is a continuous process and an important tool in monitoring recent developments in the financial and regulatory environment.

The ICAAP has two principal aspects:

- a process for detecting, measuring, managing, controlling, declaring and reporting risks;
- an internal process for planning and managing the economic capital that the Bank considers appropriate to cover the nature and level of risks to which it is or may be exposed.

NOTE 3 - RISK MANAGEMENT (CONT.)

To roll out these two processes, each bank must introduce a management framework that has the following four essential features:

- it must be internal and specific in order to meet the establishment's own needs;
- it must be a high-quality internal governance procedure, both in terms of involving management and the effectiveness of internal controls and the documentation in place;
- it must have a clear organisational structure with a well-defined, transparent and consistent division of responsibilities;
- it must exhaustively cover risks, including all proven risks and all risks to which the institution may potentially be exposed.

The Bank's approach

The risks to which the Bank is exposed derive from the activities it carries out and from its commercial policy. The Bank determines its risk profile based on its activity profile. The risk profile clearly sets out the principal risks to which it is exposed.

In managing its own funds, Banque Raiffeisen ensures that its level of solvency remains consistent with its objectives of:

- maintaining its financial robustness, which is closely linked to the Bank's overall risk profile and its risk appetite;
- retaining its financial independence in financing its internal and external growth;
- ensuring its capital is optimally deployed between its various business lines;
- ensuring the Bank is resilient when confronted with extreme circumstances.

The Bank sets its internal solvency requirements by reference to its "Tier 1" and "Total ratio" regulatory solvency ratios and its ICAAP solvency ratio.

This approach is supplemented by a programme of stress tests that combine sensitivity analysis for individual risks with integrated analysis that assess the impact of scenarios. The sensitivity analysis of risk factors identified as principal risk factors are subject to negative developments. The macro-economic scenarios are representative of the risks incurred and the environment in which the Bank carries out its activities and cover negative developments.

In order to guarantee the Bank's long-term success, the Board of Directors has introduced a prudent concept of economic capital. It sets limits on the exposure based on an aggregation of the various types of risk. The Board of Directors has authorised the Executive Committee to transpose these approaches into the day-to-day management of risks by the Bank, to monitor developments and to report back on a regular basis. The Executive Committee is assisted in this task by the Risk Management function.

3. Types of risk

The Bank's activities principally expose it to the following risks:

a) credit risk: this is the risk of loss, partial or total, due to the inability of customers, sovereign states, institutional customers and others, to meet their financial obligations;

b) concentration risk: this is the risk resulting from a material exposure to the same debtor, a group of connected debtors or the same economic sector with the same risk or across a number of risk categories;

c) market risk: this is the risk of loss resulting from price variations on a market;

NOTE 3 - RISK MANAGEMENT (CONT.)

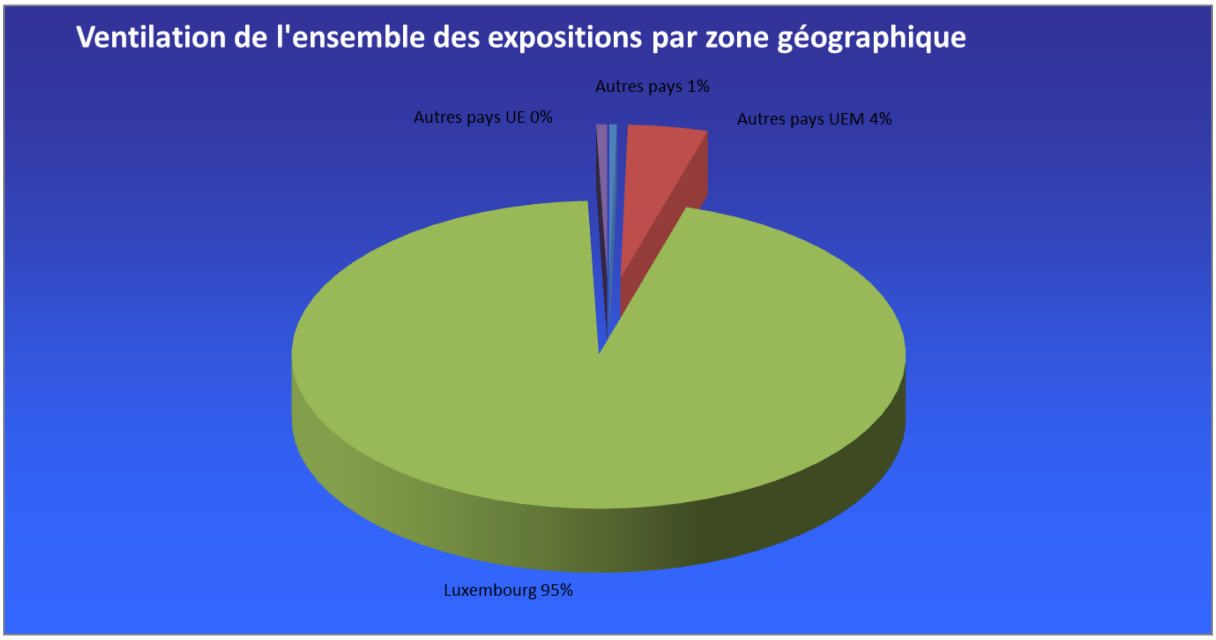
d) liquidity risk: this is the risk associated with the Bank having insufficient available financial resources to meet its obligations;

e) operational risk: this is the risk of direct or indirect losses resulting from a failure attributable to procedures, human error or fault, a systems malfunction or external events.

a) Credit risk

This risk is present in customer lending activity and in financial and capital markets transactions for the Bank's own account.
All the Bank's department and support functions use instruments and follow rules and procedures to manage their credit risk. Business lines act in accordance with the rules and procedures in place, compliance with which is monitored through the internal control mechanism.

Most of the Bank's exposures are represented by loan granted to the Luxembourg economic sector, showing the Bank's strong connections to the national economy. During the course of the 2016 financial year, the Bank principally invested and dealt with OECD countries and established individual limits per country as part of the market activity it carries out on its own account.



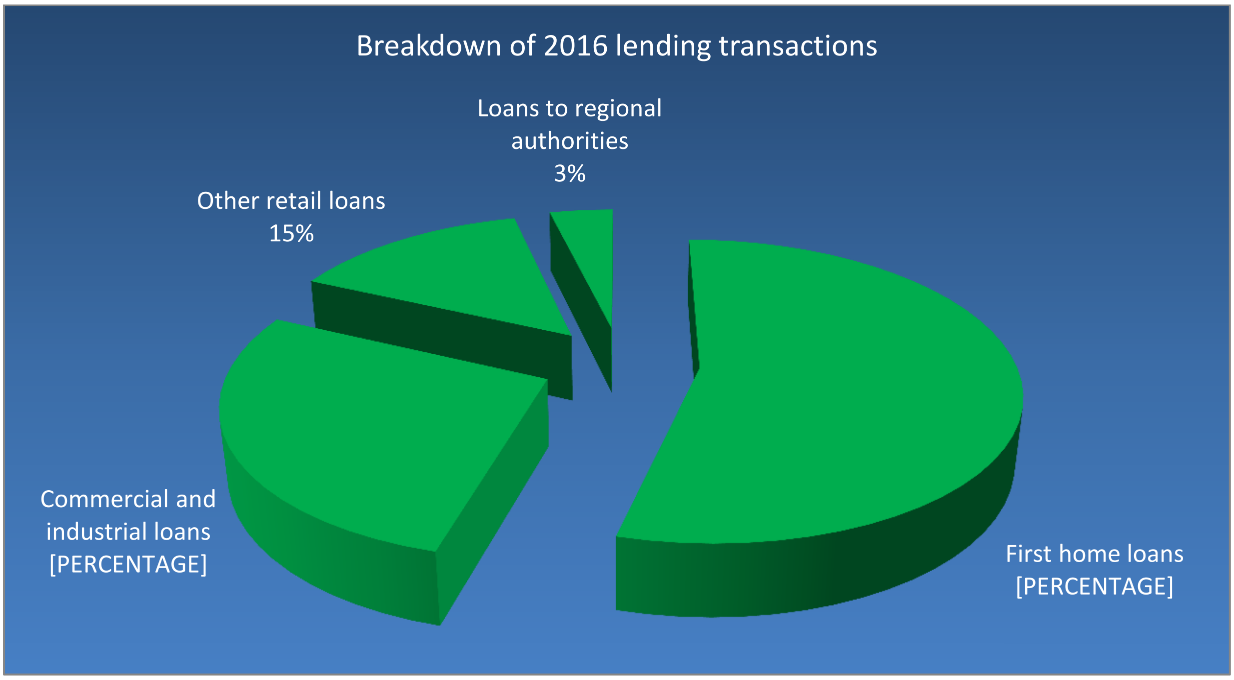
- **Lending to customers**

The Bank has established acceptance criteria for counterparties under its lending risk policy. Approval of a credit exposure requires detailed knowledge of the relevant customer, its financial resources, the types of risk faced by the Bank, the purpose and the structure of the transaction and, where applicable, associated security interests.

The Bank's decision-making structure contains a hierarchy of various credit committees that monitor the overall amount of outstanding loans to debtors. The Bank seeks to limit risks through recourse to property-based security interests (mortgages, security pledges, blocked savings deposits) and personal security (guarantees) while very closely monitoring repayment plans and the use of lines of credit.

NOTE 3 - RISK MANAGEMENT (CONT.)

Type of transaction	Amounts receivable from customers and leasing (gross amounts)	
	2016 in €	2015 in €
First home loans	3,020,797,457	2,897,979,189
Commercial and industrial loans	1,548,563,104	1,479,738,273
Other retail loans	833,100,031	766,911,448
Loans to regional authorities	194,794,615	202,575,667
Total	5,597,255,207	5,347,204,577



Note: Almost two-thirds of loans are granted to individuals with the remaining proportion granted to businesses and municipalities.

Management of overdrawn amounts and alert procedure

The deterioration in the financial position of a counterparty leads to its debts being recorded on a watchlist. Monitoring actions are determined for customers who are late with payments or overdrawn by a central credit risk monitoring committee for the whole organisation.

Detection and monitoring of defaults

The standard Basel III approach used by the Bank requires defaulting loans, as defined below, to be rigorously monitored:

- *The Bank considers it unlikely that the debtor will dully repay its loan without it taking appropriate measures such as enforcing a guarantee;*
- *The debtor's arrears on a loan owed to the Bank exceed 90 days.*

The Bank has developed a definition that complies with Basel III in terms of default identification.

NOTE 3 - RISK MANAGEMENT (CONT.)

The structure of the support service put in place by the Bank allows the lending activity to be monitored as a whole. The commercial business lines remain responsible for the primary monitoring of overdrafts and unpaid amounts. A presentation on late payment files is given to the central credit risk monitoring committee by the date falling 75 days after the date on which customers became overdrawn, and that committee then decides on the measures to be taken in respect of those files.

The Bank has access to the software used by managers and the Lending and Legal departments to detect and manage overdrawn current accounts and late payments on loan accounts.

Provisioning Policy

The risk of losses on identified debts are the subject of specific value adjustments decided by the Provisioning Committee.

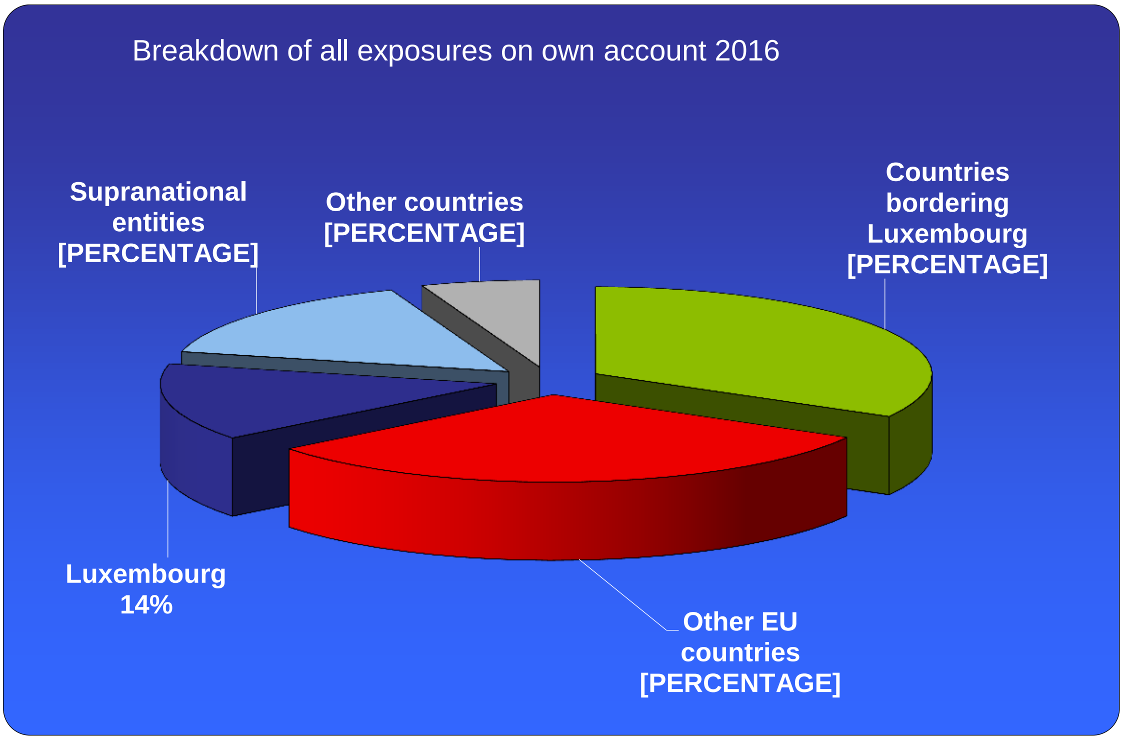
The value adjustment to be applied is calculated using the principles described in Note 2.4.4 (Principal Accounting Methods) above.

- **Market transactions on own account**

The Bank uses the concept of the debtor’s commitment to calculate the credit risk for a counterparty. That means that associated counterparties that belong to the same group are treated as a single counterparty.

The maximum limit for each counterparty is determined by reference to the counterparty’s external ratings and the Bank’s own funds. The Middle Office continuously monitors outstanding amounts against the fixed limits and changes to counterparties’ external ratings and report to the Risk Management function. Outstanding loans are split between short-term exposures (< 12 months - Money Market) and long-term exposures (maximum term of 10 years - Capital Markets).

In 2016, exposures (securities portfolio) by country may be broken down as follows:



NOTE 3 - RISK MANAGEMENT (CONT.)

The Bank's policy is to work with high-quality counterparties, bearing in mind the ratings given by external agencies and the own funds of those counterparties. Each individual limit is determined by the Executive Committee on a proposal put forward by the Financial Markets and Treasury Department and based on an opinion from the Lending and Legal Department and the Risk Management function.

The Financial Markets and Treasury Department has access to IT tools that enable it to check, before entering into a transaction, the amount of the allocated limit and the current outstanding loans of every counterparty.
Fixed-rate and variable-rate bonds purchased by the Bank for its own account had, at 31 December 2016, an average remaining term of 3 years.

The Bank assesses and controls its overall credit risk on its own investments by using the following indicators:

Credit Value at Risk (CVaR)
The credit risk associated with the Bank's own portfolio, comprising bonds, is calculated using a Credit Value at Risk (CVaR) in which the volatility of the premium that an issuer must pay over and above the market standard for the same external rating quality is used as a reference indicator. The CVaR reflects the likely potential losses as a result of the credit rating for a given investment horizon (1 year) and a confidence level of 99%.

Sensitivity analysis
Sensitivity analyses complement the CVaR analysis in monitoring risks in the event of extreme variation. The fundamental parameters of the model are modified to control the Bank's ability to deal with economically extreme situations.

- **Hedging and derivative activities**

The Bank's derivative positions are essentially limited to interest rate swaps (IRSs) entered unto under ISDA (International Swaps and Derivatives Association Inc) master agreements.

Geographic zone	Interest Rate Swaps	
	2016 in EUR	2015 in EUR
Luxembourg	55,980,000	56,166,667
Other EMUM countries*	407,271,579	714,735,300
Total	463,251,579	770,901,967

* other members of the Economic and Monetary Union

The overall replacement cost for IRSs, calculated in accordance with prevailing legislation, is:

Interest Rate Swaps (“Over the counter” contracts (OTC))	Overall replacement cost	
	2016 in EUR	2015 in EUR
Residual maturity of less than 1 year	0	1,948,992
Residual maturity of 1 to 5 years	591,608	2,054,504
Residual maturity of more than 5 years	766,575	795,213
Total	1,358,183	4,798,709

NOTE 3 - RISK MANAGEMENT (CONT.)

b) Concentration risk

Pursuant to prevailing regulations, the Bank pays particular attention to the various types of concentration risks (concentration risk from excessive exposure to particular countries, to associated customers or groups of customers or to an economic sector). To control this risk, the Bank has introduced internal procedures that seek to ensure that this risk is appropriately managed by the Bank.

Credit risk concentration

This table contains details on the sectoral concentration for all the Bank's receivables:

Economic sector	Loans and other balance sheet items*	
	2016	2015
Public and supranational authorities	9.46%	10.22%
Financial and insurance institutions and intermediaries	16.76%	17.92%
Other businesses	18.74%	17.30%
Households and private individuals	55.04%	54.56%
	100.00%	100.00%

The Bank has introduced geographic limits with a view to controlling concentration risk from an excessive exposure to certain countries.

c) Market risk

Market risk relates to the risks of potential losses following unfavourable movements in financial markets as a result of changes in conditions such as the price of securities, interest rates or volatility.

Market risk includes the following categories of risk:

- interest rate risk;
- foreign exchange risk;
- the risk of changes in market prices.

In its market risk management policy, the Bank distinguishes between transformation risk - resulting from the structural difference between the terms of the Bank's assets and liabilities (balance sheet and off-balance sheet) and the risk associated with its business activity and trading transactions. It should be noted that trading transactions are negligible.

All "market" activities are entrusted to the Financial Markets and Treasury department as the "one window to the market". Control is carried out by the Middle Office which ensures that procedures are applied and limits are complied with.

Interest rate risk

The interest rate risk assumed by the holder of a receivable or debt constitutes a general risk linked to changes in market rates.

Appropriate limits have been set by the Bank as part of its management of risks linked to general changes in interest rates. These limits are monitored on a daily basis by the Middle Office.

The Bank assesses and controls its overall interest rate risk by using the following indicators:

NOTE 3 - RISK MANAGEMENT (CONT.)

- **Value at Risk (VaR)**

The Value at Risk (VaR) approach used by the Bank is based on the historical simulation method. The VaR takes into account a holding period of 25 days and a confidence level of 99%. It reflects the maximum risk of loss due to changes in market interest rates, which has only a 1% probability of being exceeded. The Executive Committee has set a maximum authorised loss limit that is monitored on a daily basis by Risk Management. Modelling parameters are regularly reviewed and, where appropriate, adapted. A monthly presentation is given to the ALCO committee on compliance with the limit.

- **Sensitivity analysis**

The Bank uses sensitivity analyses to monitor risks in the event of extreme market variations. It applies various scenarios involving deviations of the interest rate curve for that purpose.
The aim of these scenarios is to ensure that the Bank is able to deal with very difficult economic situations. The scenarios are regularly reviewed to ensure that they correspond to the Bank's actual situation and that they reflect economic developments. The Bank also measures the sensitivity of its interest margin on a quarterly basis using a 200-basis point deviation (up and down) in the interest rate curve.

The Middle Office is responsible for the day-to-day monitoring of compliance with limits and developments in the Bank's exposure in comparison to market risks and for reporting to the Executive Committee.

Foreign exchange risk

The Bank's exchange rate risk principally results from foreign exchange transactions involving customers' activities, transactions that are largely hedged directly in the markets. The residual risk at the level of foreign exchange positions is, therefore, very low.

The Bank has established limits that are monitored on a daily basis.

The risk of changes in market prices

The risk of changes in market prices is a pricing risk associated with changes in stock market prices, on the positions held in respect of a particular financial asset.

This risk is negligible in the context of the Bank's current activities.

d) Liquidity risk

The Bank defines liquidity risk as the risk of being unable to meet all its payment and settlement obligations at any time without realising material losses. As such, liquidity risk may be a direct consequence of another type of risk, such as credit risk, concentration risk, operational risk or market risk.

From a liquidity perspective, the Bank may be characterised as a "depositor" bank, meaning that its lending activities are largely refinanced by customers' deposits. This means that the Bank's use of the financial markets to borrow money is limited. The Bank also applies a very conservative policy on maturity transformation. The Financial Markets and Treasury department is responsible for the day-to-day management of the Bank's liquidity.

The Bank monitors and manages its internal liquidity through two additional mechanisms: daily monitoring by the Financial Markets and Treasury department and monthly monitoring by Risk Management and the ALCO committee. This second monitoring is carried out using a model that the Bank has developed internally, based on projected cash flows, from a liquidity perspective, on all the Bank's transactions.

NOTE 3 - RISK MANAGEMENT (CONT.)

Sensitivity analysis

The Bank uses its internally developed model, with certain parameters modified to reflect very difficult economic circumstances, to monitor risks in the event of extreme market variations.

Determining preventive measures to deal with a potential liquidity crisis

The Bank controls its exposure to liquidity risk by applying various endurance test scenarios that are systematically compared with current economic circumstances. As such, the ALCO may anticipate and, where appropriate, correct certain movements that are unfavourable to the Bank.
The quality, in ratings terms, of the Bank’s securities portfolio and its maturity profile allow the Bank to access additional liquidity on the repurchase agreement market or through participating in monetary policy operations with the Luxembourg Central Bank.

These provisions constitute an integral part of the Bank’s CFPL.

e) Operational risk

Control over operational risk is ensured by detailed rules and procedures and through an internal control system defined and implemented at all levels, and which is monitored by the Bank’s Executive Committee. The Bank’s losses resulting from operational risks are recorded in a database and are regularly monitored, analysed and reported to the ICORC.

The Bank also seeks to reduce operational risk through constantly improving its operating systems and organisational structures.

BCP (Business Continuity Plan)

The BCP takes the form of measures put in place to protect the Bank against the consequences of a major incident. The Bank’s approach defines the operating procedures and measures used to ensure the continuity of current critical business.

The BCP is therefore based on an assessment of the criticality of processes and systems.

The Bank ensures that the various defined steps are carried out to ensure that its critical business activities can resume as soon as possible.

Insurance

The Bank takes out insurance policies against the various risks inherent to its business activities to protect itself as well as possible against potential financial losses.

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS

NOTE 4.1 - PAYMENT SCHEDULE OF PRIMARY FINANCIAL ASSETS

Financial assets are allocated by reference to their residual term, as follows:

At 31 December 2016	***Up to 3 months***	***3-12 months***	***1-5 years***	***More than 5 years***	***Total 2016***
Cash, credit balances with central banks and post office cheque accounts	545,757,819.23	0.00	0.00	0.00	545,757,819.23
Receivables due from credit institutions	239,500,841.59	0.00	0.00	0.00	239,500,841.59
Loans and advances to customers	525,907,015.34	195,690,533.90	644,551,803.27	4,052,847,420.30	5,418,996,772.81
Leasing operations	996,414.30	5,323,796.33	80,488,168.89	11,231,174.16	98,039,553.68
Bonds and other fixed income securities	121,779,399.60	204,267,196.00	624,489,136.15	123,515,836.05	1,074,051,567.80
TOTAL	1,433,941,490.06	405,281,526.23	1,349,529,108.31	4,187,594,430.51	7,376,346,555.11

At 31 December 2015	***Up to 3 months***	***3-12 months***	***1-5 years***	***More than 5 years***	***Total 2015***
Cash, credit balances with central banks and post office cheque accounts	500,969,532.52	0.00	0.00	0.00	500,969,532.52
Receivables due from credit institutions	311,946,628.20	0.00	0.00	0.00	311,946,628.20
Loans and advances to customers	586,778,084.25	159,466,011.42	620,433,452.47	3,814,449,206.96	5,181,126,755.10
Leasing operations	865,603.67	5,722,314.13	77,149,098.42	5,044,855.05	88,781,871.27
Bonds and other fixed income securities	56,504,978.07	122,756,490.67	725,779,389.22	98,247,891.41	1,003,288,749.37
TOTAL	1,457,064,826.71	287,944,816.22	1,423,361,940.11	3,917,741,953.42	7,086,113,536.46

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.2 - LEASING TRANSACTIONS

Leasing transactions were only carried out with non-banking customers.

NOTE 4.3 - SECURITIES

Securities recognised in “Bonds and other fixed income securities”, “Shares and other variable-yield securities”, “Equity investments” and “Shares in affiliated businesses” may be broken down as follows, depending on whether they are listed or unlisted:

	Listed securities 2016	*Unlisted securities 2016*	*Total 2016*
Bonds and other fixed income securities	1,074,051,567.80	0.00	1,074,051,567.80
Shares and other variable-yield securities:	11,084,117.18	0.00	11,084,117.18
Equity investments	0.00	1,364,538.78	1,364,538.78
Shares in affiliated businesses	0.00	25,198,914.71	25,198,914.71
TOTAL	1,085,135,684.98	26,563,453.49	1,111,699,138.47

	Listed securities 2015	*Unlisted securities 2015*	*Total 2015*
Bonds and other fixed income securities	1,003,288,749.37	0.00	1,003,288,749.37
Shares and other variable-yield securities:	19,421,557.64	0.00	19,421,557.64
Investments	0.00	1,388,139.88	1,388,139.88
Shares in affiliated businesses	0.00	25,198,914.71	25,198,914.71
TOTAL	1,022,710,307.01	26,587,054.59	1,049,297,361.60

(in EUR)

NOTE 4.4 - BONDS AND OTHER FIXED INCOME SECURITIES

At 31 December 2016, the value of securities recognised in the “Bonds and other fixed income securities” line item maturing in the year following the closing date of the statement of financial position was €326,046,595.60 (at 31 December 2015: €179,261,468.74).

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.4 - BONDS AND OTHER FIXED INCOME SECURITIES (CONT.)

Securities included under the heading “Bonds and other fixed income securities” may be broken as follows:

	2016	***2015***
Financial fixed assets portfolio holdings	448,280,550.87	521,628,243.94
Investment portfolio holdings	625,771,016.93	481,660,505.43
Trading portfolio holdings	0.00	0.00
TOTAL	1,074,051,567.80	1,003,288,749.37

(in EUR)

At 31 December 2016, previously recognised cumulative value adjustments maintained in accordance with the “Beibehaltungsprinzip” amounted to €3,555,985.04 (at 31 December 2015: €3,088,601.25).

At 31 December 2016, the fair value of securities in the financial assets portfolio amounted to €460,001,237.50 (at 31 December 2015: €538,254,718.72).

At the end of the financial year, the net difference between the fair value and the book value of the portfolio of financial assets, excluding cumulative agios (positive differences between the acquisition price and the redemption value) and disagios (negative differences between the acquisition price and the redemption value), amounted to €11,671,164.25 (at 31 December 2015: €16,626,474.78).

At 31 December 2016, the cumulative prorating since the acquisition date of disagios and agios on bonds and other fixed income securities held as financial assets may be broken down as follows:

	2016	***2015***
Disagios	384,738.72	563,918.43
Agios	15,752,069.97	14,089,547.06

(in EUR)

NOTE 4.5 - SHARES AND OTHER VARIABLE-INCOME SECURITIES, EQUITY INTERESTS

At 31 December 2016, previously recognised cumulative value adjustments maintained in accordance with the “Beibehaltungsprinzip” amounted to €98,529.54 (2015: €0).

At 31 December 2015 and 2016, equity interests did not include shares/units in credit institutions.

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.6 - COMPANIES IN WHICH THE BANK HAS A SHAREHOLDING OF AT LEAST 20%

Name and registered office	*Shareholding as %*	*Annual financial statements closed on*	*Currency*	*Shareholders' equity (*)*	*Profit (loss) for the period*
Immobilière Raiffeisen Luxembourg S.A. - Luxembourg	100.00%	31.12.2016	EUR	9,681,687	(122,622)
Raiffeisen Finance S.A. - Luxembourg	100.00%	31.12.2016	EUR	278,068	1,941
Raiffeisen Vie S.A. - Luxembourg	50.00%	31.12.2016	EUR	21,885,595	4,019,960
Raiffeisen Luxembourg Ré S.A. - Luxembourg	100.00%	31.12.2016	EUR	3,500,000	0

* excluding net income for the year

At 31 December 2015 and 2016, shares in affiliated businesses did not include shares/units in credit institutions.

NOTE 4.7 - OTHER ASSETS

The "other assets" line item comprised the following items:

	2016	*2015*
Short-term receivables	296,027.63	227,890.24
Precious metals	1,361.62	1,361.62
Other	12,717,041.99	9,186,916.87
TOTAL	13,014,431.24	9,416,168.73

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.8 - CHANGES IN NON-CURRENT ASSETS

The Bank's non-current assets changed over the financial year as follows:

Items	*Acquisition value at the start of the financial year*	*Inflows*	*Outflows*	*Transfers*	*Acquisition value at the end of the financial year*	*Cumulative value adjustments at the end of the financial year*	*Fixed provision*	*Net value at the end of the financial year*
1. Bonds and other fixed income securities	521,754,127.19	64,756,590.00	(138,180,643.94)	0.00	448,330,073.25	0.00	(49,522.38)	448,280,550.87
2. Investments	1,747,113.79	357.12	0.00	0.00	1,747,470.91	(382,932.13)	0.00	1,364,538.78
3. Shares in affiliated businesses	25,198,914.71	0.00	0.00	0.00	25,198,914.71	0.00	0.00	25,198,914.71
4. Intangible assets	30,089,345.73	3,367,399.37	0.00	(2,340.00)	33,454,405.10	(21,175,547.01)	0.00	12,278,858.09
of which: Licences, patents, trademarks and rights and other similar rights acquired for consideration which did not form part of a business	30,089,345.73	3,367,399.37	0.00	(2,340.00)	33,454,405.10	(21,175,547.01)	0.00	12,278,858.09
5. Property, plant and equipment	105,085,289.68	3,185,773.36	(1,132,430.34)	2,340.00	107,140,972.70	(59,121,573.22)	(564,117.61)	47,455,281.87
of which: a) Land, buildings, technical equipment, machines and fittings	79,492,770.72	1,159,462.61	(1,118,191.31)	3,973,773.48	83,507,815.50	-40,795,551.00	(501,890.60)	42,210,373.90
b) IT systems and company cars	14,578,809.00	1,223,053.70	0.00	10,430.75	15,812,293.45	(13,255,898.72)	(30,038.91)	2,526,355.82
c) Office equipment, furniture and works of art:	7,537,522.26	213,097.75	(14,239.03)	73,037.77	7,809,418.75	(5,070,123.50)	(32,188.10)	2,707,107.15
d) Advance payments and property, plant and equipment in progress	3,476,187.70	590,159.30	0.00	(4,054,902.00)	11,445.00	0.00	0.00	11,445.00

(in EUR)

NOTE 4.9 – TANGIBLE ASSETS

At 31 December 2016, tangible assets amounted to €35,869,554.91 (at 31 December 2015: 36,590,613.25 EUR) and comprised land and buildings used by the Bank in connection with its own business activity.

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.10 - RECEIVABLES FROM AFFILIATED BUSINESSES AND FROM BUSINESSES IN WHICH THE BANK HAS AN EQUITY INVESTMENT

Receivables from affiliated businesses and businesses in which the bank has an equity investment comprise the following amounts (before setting off the fixed provision):

	Affiliated businesses 2016	*Equity investments 2016*
Loans and advances to customers	36,241,118.82	43,728.13

	Affiliated businesses 2015	*Equity investments 2015*
Loans and advances to customers	34,480,910.90	38,302.40

(in EUR)

NOTE 4.11 - ASSETS IN FOREIGN CURRENCIES

At 31 December 2016, the overall amount of assets denominated in foreign currencies, converted into euros, was €163,838,994.72 (at 31 December 2015: €176,109,746.16).

NOTE 4.12 – SUBORDINATED ASSETS

At 31 December 2016, the Bank held the following subordinated assets:

	2016	*2015*
Loans and advances to customers	3,108,774.27	104,449.05

(in EUR)

NOTE 4.13 - ASSETS PROVIDED AS SECURITY BY THE BANK

At 31 December 2016, had a portfolio of assets that may be provided by way of security with an acquisition value of €1,009,502,388.15 (at 31 December 2015: €987,120,459.47). At 31 December 2016, the value of assets actually provided by way of security amounted to €337,104,415.00 (at 31 December 2015: €8,438,515.34).

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.14 - PAYMENT SCHEDULE OF PRIMARY FINANCIAL LIABILITIES

At 31 December 2016	***Up to 3 months***	***3-12 months***	***1-5 years***	***More than 5 years***	***Total 2016***
Amounts owed to credit institutions	70,528,779.18	75,240,823.63	238,081,297.36	468,430.81	384,319,330.98
Amounts owed to customers	5,429,081,656.33	363,753,184.02	483,580,692.75	35,527,114.62	6,311,942,647.72
of which:					
sight savings deposits	*707,104,002.95*	*0.00*	*0.00*	*0.00*	*707,104,002.95*
savings deposits with agreed maturity dates or notice periods	*43,192,320.00*	*179,795,400.00*	*329,183,890.43*	*8,022,850.00*	*560,194,460.43*
other liabilities with agreed maturity dates or notice periods	*774,626,470.49*	*183,957,784.02*	*154,396,802.32*	*27,504,264.62*	*1,140,485,321.45*
Debts represented by a security	28,689,098.01	29,070,799.96	95,053,473.28	6,805,539.87	159,618,911.12
Subordinated liabilities	30,000,000.00	0.00	0.00	60,000,000.00	90,000,000.00
TOTAL	5,558,299,533.52	468,064,807.61	816,715,463.39	102,801,085.30	6,945,880,889.82

At 31 December 2015	***Up to 3 months***	***3-12 months***	***1-5 years***	***More than 5 years***	***Total 2015***
Amounts owed to credit institutions	139,636,922.79	46,320,438.17	138,200,000.52	787,554.53	324,944,916.01
Amounts owed to customers	5,198,475,986.47	348,520,590.74	472,572,625.08	37,778,083.46	6,057,347,285.75
of which:					
sight savings deposits	*549,701,601.57*	*0.00*	*0.00*	*0.00*	*549,701,601.57*
savings deposits with agreed maturity dates or notice periods	*1,381,000.00*	*178,900,450.00*	*414,626,938.93*	*6,062,850.00*	*600,971,238.93*
other liabilities with agreed maturity dates or notice periods	*741,642,989.38*	*169,620,140.74*	*57,945,686.15*	*31,715,233.46*	*1,000,924,049.73*
Debts represented by a security	29,394,702.01	59,331,797.05	147,489,437.71	7,966,901.02	244,182,837.79
Subordinated liabilities	0.00	0.00	30,000,000.00	60,000,000.00	90,000,000.00
TOTAL	5,367,507,611.27	454,172,825.96	788,262,063.31	106,532,539.01	6,716,475,039.55

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.15 - OTHER LIABILITIES

Other liabilities may be broken down as follows:

	2016	***2015***
Items payable in the short term	425,040.19	449,055.69
Preferred creditors	6,707,441.79	6,398,314.45
Miscellaneous creditors	21,141,415.85	16,792,152.68
TOTAL	28,273,897.83	23,639,522.82

(in EUR)

NOTE 4.16 - SUBORDINATED LIABILITIES

Interest expense paid by the Bank during the financial year in respect of subordinated liabilities amounted to €2,948,701.57 (at 31 December 2015: €2,512,602.74).

The details of subordinated bond issues in progress on 31 December 2016 are set out below:

Amount of the issue (EUR)	***interest rate***	***issue date***	***maturity date***
30,000,000	5.00%	26.03.2010	26.03.2017
60,000,000	2.75%	22.05.2015	22.05.2025

The subscription agreements provide for specific circumstances that allow for early repayment, subject to the approval of the *Commission de Surveillance du Secteur Financier.*

NOTE 4.17 - PROVISIONS

At 31 December 2016, the "Other Provisions" line item may be broken down as follows:

	2016	***2015***
AGDL/FGDL/Resolution fund provision	57,176,565.78	65,081,589.78
Provisions for disputes	5,837,982.84	4,466,749.66
Fixed provision in respect of off-balance sheet items	2,969,491.40	2,843,991.40
Provisions for charges	12,767,126.40	11,177,884.72
Other provisions	37,000.00	38,128.24
TOTAL	78,788,166.42	83,608,343.80

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.18 - SPECIAL ITEMS WITH A SHARE IN RESERVES

The amount recognised in "Special items with a share in reserves" solely comprises reinvestment gains amounting to €27,674,023.56 resulting from the application of Article 54 of the Income Tax Law (at 31 December 2015: €26,438,587.03).

NOTE 4.19 - SHARES ISSUED (SHARE CAPITAL), RESERVES, PROFIT (LOSS) FOR THE PERIOD AND RETAINED EARNINGS

The Bank's share capital comprises three categories of share:

- class A shares are exclusively held by the savings and lending banks structured in the form of cooperative companies or agricultural association within the meaning of Article 12(1) of the Law on the Financial Sector and by the new legal entity incorporated in 2014: Raiffeisen Members S.C.

- class B shares are held by the other shareholders as at 1 September 2005, natural persons and legal entities in the agricultural and vinicultural sectors.

- class C shares have, since 22 February 2016, been held by Post Luxembourg.

The nominal value of the shares in €0.25.

At 31 December 2016, the value of the shares issued by the Bank was €499,046 (31 December 2015: €430,670.75). The share capital of Banque Raiffeisen, which, at 31 December 2016, amounted to €2,502.00 (2015: €2,251.75) and which is made up of 4,525 class A shares, 4,482 class B shares and 1,001 class C shares, is eliminated as to €1,131.00, the amount representing the shares held by the affiliated Raiffeisen Local Banks included in the scope of consolidation.

Dividends may be distributed out of Banque Raiffeisen's available profits, but they must be separated into three parts in proportion to the participation of each category of shares in the share capital.

An amount of cash that does not exceed the maximum interest rate on 10-year savings deposits offered by the Bank, plus two per cent applied to the nominal value of the class A shares, may be allocated to the class A shares. The balance of the class A dividend is distributed to holders of class A shares in the form of class A shares newly issued by the Bank for that purpose. In the event of fractional entitlements, the balance that is unable to be distributed in the form of new class A shares is allocated to a special class A reserve fund that is to be used to issue new class A shares as soon as the special class A reserve fund has reached the necessary amount.

An amount of cash that does not exceed the maximum interest rate on 10-year savings deposits offered by the Bank, plus two per cent applied to the nominal value of the class B shares, may be allocated to the class B shares. The balance of the class B dividend is distributed to holders of class B shares in the form of class B shares newly issued by the Bank for that purpose. In the event of fractional entitlements, the balance that is unable to be distributed in the form of new class B shares is allocated to a special class B reserve fund that is to be used to issue new class B shares as soon as the special class B reserve fund has reached the necessary amount.

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.19 - SHARES ISSUED (SHARE CAPITAL), RESERVES, PROFIT (LOSS) FOR THE PERIOD AND RETAINED EARNINGS (CONT.)

In respect of the class C dividends, holders of class C shares may be offered a cash payment or the equivalent of the amount of the proposed dividend in the form of new class C shares issued by the Bank for that purpose. If such an offer is made, each holder of class C shares may separately decide whether it wishes to receive all or part of its dividend in cash or in shares. In the event of fractional entitlements, the balance that is unable to be distributed in the form of class C shares is allocated to a special class C reserve fund that is to be used to issue new class C shares as soon as the special class C reserve fund has reached the necessary amount.

The balance of the undistributed profit is allocated to other reserves or to retained earnings.

In accordance with the Luxembourg law on cooperative companies, at least 5% of net profits is allocated to a statutory reserve on an annual basis until that reserve reaches an amount equal to 10% of share capital. This allocation is carried out in the following financial year. The statutory reserve may not be distributed.

Changes in issued share capital, reserves and retained earnings may be detailed as follows:

	Shares issued (share capital)	***Reserves***	***Retained earnings***
Balance on 1 January 2016	430,670.75	299,273,082.47	0.00
Increase of share capital	0.00	0.00	0.00
New shareholders	80,156.15	27,777,527.53	0.00
Departing shareholders	(11,780.90)	0.00	0.00
Profit (loss) for the period ended on 31/12/15	0.00	0.00	17,553,308.66
Appropriation of profit			
- Transfer to reserves	0.00	17,553,308.66	(17,553,308.66)
- Dividends on shares	0.00	0.00	0.00
Balance at 31 December 2016	499,046.00	344,603,918.66	0.00

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.20 - CONSOLIDATED PROFIT (LOSS) FOR THE FINANCIAL YEAR

The profit (loss) in the consolidated financial statements may be reconciled as follows:

	2016	*2015*
BANQUE RAIFFEISEN	7,374,094.02	8,087,861.63
Affiliated Raiffeisen Local Banks, aggregated accounts	9,192,323.38	9,465,447.03
TOTAL	16,566,417.40	17,553,308.66

(in EUR)

NOTE 4.21 - MINORITY INTERESTS

There are no minority interests in the Bank's equity.

NOTE 4.22 - LIABILITIES TO AFFILIATED BUSINESSES AND BUSINESSES IN WHICH THE BANK HAS AN EQUITY INVESTMENT

Liabilities to affiliated businesses and businesses with which the bank has a shareholding relationship comprise the following amounts:

	Affiliated businesses 2016	*Equity investments 2016*
Amounts owed to customers	16,637,944.44	217,538.15

	Affiliated businesses 2015	*Equity investments 2015*
Amounts owed to customers	24,073,756.88	11,706,829.06

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.23 - LIABILITIES IN FOREIGN CURRENCIES

At 31 December 2016, the overall amount of foreign currency-denominated (i.e. non-euro) liabilities converted into euros was €165,694,787.59 (at 31 December 2015: €177,274,780.98).

NOTE 4.24 - CONTINGENT LIABILITIES

The Bank’s contingent liabilities may be broken down as follows:

	2016	*2015*
Guarantees and other direct credit substitutes	93,629,702.10	81,175,911.43
Counter-guarantees	195,469,354.34	120,384,427.43
TOTAL	289,099,056.44	201,560,338.86

(in EUR)

At 31 December 2016 and 2015, contingent liabilities do not include any amounts in respect of affiliated businesses or equity interests.

NOTE 4.25 - COMMITMENTS

The Bank’s commitments may be broken down as follows:

	2016	*2015*
Confirmed but unused credit	602,783,792.12	768,794,015.52

(in EUR)

At 31 December 2016 and 2015, the commitments do not include any amounts in respect of affiliated businesses or equity interests.

There are commitments that are neither included on the consolidated statement of financial position or on the consolidated off-balance sheet, relating to commitments to make fixed rental payments in the future for rented buildings or for rented assets.

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.26 - TRANSACTIONS IN CONNECTION WITH EXCHANGE RATES, INTEREST RATES, AND OTHER MARKET RATES

Transactions in connection with exchange rates, interest rates and other market rates that were not closed out at 31 December 2016 and 2015 solely concerned interest rate swaps. The hedge against the effects of fluctuations in interest rates in respect of assets and liabilities and may be broken down as follows, by reference to their residual maturity:

	2016	***2015***
	(in notional value)	(in notional value)
Interest Rate Swaps ("Over the counter" contracts (OTC))		
Up to 3 months	25,400,000.00	76,275,000.00
3-12 months	264,679,999.97	77,107,142.87
1-5 years	120,371,578.94	564,719,824.54
more than 5 years	52,800,000.00	52,800,000.00
TOTAL	463,251,578.91	770,901,967.41

	2016	***2015***
	(in market value)	(in market value)
Interest Rate Swaps ("Over the counter" contracts (OTC))		
Up to 3 months	(843,851.70)	1,843,318.68
3-12 months	(3,134,475.87)	(2,632,981.62)
1-5 years	(12,214,973.83)	(22,279,287.54)
more than 5 years	(7,154,272.99)	(6,171,696.16)
TOTAL	(23,347,574.39)	(29,240,646.64)

(in EUR)

NOTE 4.27 - MANAGEMENT AND REPRESENTATIVE SERVICES

The Bank offers management and underwriting services under which it may be held to be negligent or liable for breaching its obligations.

Management and representative services comprise:

- wealth management;
- fiduciary operations;
- holding third-party assets;
- underwriting.

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.28 - BREAKDOWN OF INCOME BY GEOGRAPHIC MARKET

The Bank carries out its activities primarily on the internal market of the European Union and has a significant share of the Luxembourg market.

NOTE 4.29 - OTHER OPERATING INCOME

This item may be broken down as follows:

	2016	***2015***
Rental income	1,465,733.34	1,388,449.65
Reimbursement of AGDL claims	587,011.28	1,105,065.48
Gain on sales of real property	1,445,152.39	1,754,774.16
Income in respect of prior periods	1,778,345.19	1,619,699.33
Other	114,921.41	512,816.59
TOTAL	5,391,163.61	6,380,805.21

(in EUR)

NOTE 4.30 - OTHER OPERATING EXPENSES

The amount of “Other operating expenses” recorded in the income statement comprises the following items:

	2016	***2015***
Costs in respect of prior periods	119,544.48	596,315.13
Provisions	1,373,283.18	1,605,065.48
Other	141,732.44	227,553.05
TOTAL	1,634,560.10	2,428,933.66

(in EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.31 - TAX ON PROFITS FROM ORDINARY AND EXTRAORDINARY ACTIVITIES

Tax on profits relates solely to income from ordinary activities.

NOTE 4.32 - ADVANCES AND LOANS TO THE MEMBERS OF THE BANK'S VARIOUS EXECUTIVE BODIES AND MANAGERIAL STRUCTURE

The amount of the advances and loans granted by the Bank to members of the executive and supervisory bodies and to members of the managerial structure, together with commitments made on behalf of those persons under guarantees was as follows:

	Advances and loans at 31/12/2016	***Commitments at 31/12/2016***
Members of the management and supervisory bodies	40,501	2,074
Members of the managerial structure (49 persons)	13,382	397
Total	53,883	2,471

	Advances and loans at 31/12/2015	***Commitments at 31/12/2015***
Members of the management and supervisory bodies	43,094	4,279
Members of the managerial structure (47 persons)	12,184	769
Total	55,278	5,048

(in thousands of EUR)

NOTE 4.33 - NUMBER OF EMPLOYEES

During financial year 2016, the Bank's average number of employees may be broken down as follows:

	Number in 2016	***Number in 2015***
Executive Committee	5	5
General Management	44	42
Other executives and employees	562	549
TOTAL	611	596

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.34 - REMUNERATION OF THE MEMBERS OF THE BANK'S VARIOUS EXECUTIVE BODIES AND MANAGERIAL STRUCTURE

The amount of the compensation granted in the financial year to members of the administrative and supervisory bodies and to members of the managerial structure in consideration for their duties, and the commitments arising or entered into with members of the aforementioned bodies in respect of pensions is as follows:

	Emoluments 2016	***Pensions 2016***
Members of the management and supervisory bodies	224	0
Members of the managerial structure (49 persons)	7,673	781
TOTAL	7,897	781

	Emoluments 2015	***Pensions 2015***
Members of the management and supervisory bodies	225	0
Members of the managerial structure (47 persons)	7561	695
TOTAL	7,786	695

(in thousands of EUR)

NOTE 4.35 - AUDITORS' FEES

The total amount, excluding VAT, of the fees paid during the financial year to the auditors may be broken down as follows:

	2016	***2015***
Statutory audit of accounts:	199	194
Tax advisory activities	0	0
Other services	37	7
TOTAL	236	201

(in thousands of EUR)

NOTE 4 - NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4.36 - DEPOSIT GUARANTEES AND RESOLUTION FUNDS

The law on resolution, recovery and liquidation measures of credit institutions and certain investment firms, and on deposit guarantee schemes and the indemnification of investors (the “Law”), transposing directive 2014/59/EU, which provides a framework for the recovery and resolution of credit institutions, and directive 2014/49/EU, on deposit guarantee schemes and the indemnification of investors, into Luxembourg law, was passed on 18 December 2015.

The previous deposit guarantee and investor indemnification scheme, implemented by the *Association pour le Garantie des Dépôts Luxembourg* (AGDL), has been replaced by a new contributory deposit guarantee and investor indemnification scheme. The new scheme will guarantee all eligible deposits held by the same depositor up to an amount of €100,000, with investments guaranteed up to €20,000. The Law also provides that deposits resulting from specific transactions, or with a social purpose or associated with particular life events, will be protected above the €100,000 threshold for a period of 12 months.

Provisions made in previous years’ annual accounts in order to meet obligations, if any, towards the AGDL shall be used to make contributions to the Luxembourg Resolution Fund (FRL) and to the Luxembourg Deposit Guarantee Fund (FGDL), respectively.

By the beginning of 2024, the FRL’s financial resources are required to reach at least 1% of the amount of guaranteed deposits, as defined in paragraph 36 of Article 1 of the Law, held at all approved credit establishments in all participating Member States. This amount will be collected from credit establishments through annual contributions from 2015 to 2023.

The FGDL’s targeted level of financial resources is set at an amount equal to 0.8% of guaranteed deposits, as defined in paragraph 8 of Article 153 of the Law, held by participating establishments, and the FGDL is required to reach that target by the end of 2018. Contributions will be payable annually between 2016 and 2018.

When the level of 0.8% is reached, Luxembourg credit establishments will continue to contribute for another eight years in order to build up an additional safety cushion of 0.8% of guaranteed deposits, as set out in paragraph 8 of Article 153 of the Law.

At 31 December 2016, the FGDL/FRL provision amounted to €57,176,565.78 (at 31 December 2015: €65,081,589.78).

The amount paid in 2016 in respect of the FGDL amounted to €6,913,027.00 (at 31 December 2015: €0) and, in respect of the FRL, amounted to €991,997.00 (at 31 December 2015: €359,973.98).

Consolidated Management Report

The scope of consolidation comprises Banque Raiffeisen and its affiliated Local Banks within the meaning of Article 12 of the amended law of 5 April 1993 on the financial sector. In the rest of this report, the term Bank shall refer to the unit comprising the Bank and its Local Banks.

It is very tempting to say that, in terms of geopolitical and socioeconomic analyses, the 2016 financial year was a repeat of 2015.

At the geopolitical level, despite the intensification of the actions of the international coalition to counter the threat of terrorism, that threat continued to grow and affected a number of countries worldwide, thereby contributing to people's feelings of insecurity and increasing the tendency towards nationalistic attitudes with the consequences that are, in general, adverse for the economy.

The number of migrants displaced due to the various worldwide conflicts does not seem to be slowing down despite the agreement between Turkey and the European Union that seeks to reduce numbers by channeling them through the Greek islands.

These factors - among others - certainly favoured unexpected political results (Brexit, the US elections and the Italian referendum), reflecting a certain shift in opinion towards extremism, isolationism and populism. History can only confirm the economic impacts caused by the emergence of such trends.

Against this difficult background, however, certain diplomatic advances gave grounds for hope, in particular President Obama's visit to Cuba, the end of Colombia's longest civil war and the nuclear agreement reached with Iran.

At an economic level, 2016 was full of contrasts, with a catastrophic beginning caused by the resurgence of fears over China and the solidity of the banking system, before ending in an atmosphere of stock market euphoria, particularly on Wall Street, bolstered by the feeling that the result of the presidential elections would lead to the introduction of a very pro-business policy.

Prices of raw materials experienced the same end-of-year upswing as the price of oil following the agreement reached by the OPEC countries in November and five years of falling prices. These movements directly influenced the economies of countries that are highly dependent on the prices of these resources. Of these countries, Russia saw inflation reach its lowest level since the fall of the USSR 25 years ago (5.4% in 2016 compared to 12.9% in 2015).

For China, after the roller-coaster ride of 2015, 2016 saw the Chinese stock markets fall sharply (Shanghai fell 12%, while Shenzhen fell 14.7%). Despite huge levels of government intervention on the markets, it was impossible to curb the decline and restore confidence among small individual shareholders, who comprise 90% of investors on Chinese stock markets, a fact that explains their high volatility; they moved instead towards real estate or niche raw materials, the prices of which rose dramatically. The Yuan also fell by 7% against the dollar, leading investors to turn towards more assets offering higher returns abroad.

The US economy continued to report sluggish growth, suffering in 2016 from the slowdown in emerging markets, particularly China. It was penalised by the high level of the dollar, which weighed on US competitiveness. The unemployment rate nevertheless fell below 5%. It is also difficult to ignore Donald Trump's victory, which led to the anticipation that a pro-business policy would be introduced, leading to high expectations (lower tax rates, large infrastructure projects, repeal of the Dodd-Frank law on the regulation of financial institutions, etc.).

At the end of 2016, the yield on 10-year bonds was 2.6% in the United States. This increase in bond yields reflected both an improvement in economic activity and the quarter-point increase in the base rate introduced in December.

The Standard & Poor's 500 index flourished at the end of the year, rising by approximately 6%, with growth occurring after the election of Donald Trump.

The subsequent political shocks (Brexit, Trump's victory, the Italian referendum) were finally absorbed, without too much damage, by the financial markets: London reached its highest point at the end of the year and, in New York, the Dow Jones was close to the mythical barrier of 20,000 points.

In Europe, the ECB continued with its monetary policy, by reducing its base interest rate in March 2016 and by continuing its asset purchase programme. Forecasts for GDP growth in 2017 were 1.7%.

The average yield on European 10-year government securities has, like in the United States, increased, reaching 0.36% at the end of 2016.

The Euro Stoxx 50 was up by 6.6% in the eurozone.

2016 was also marked by a number of scandals (Panama Papers, LuxLeaks, impeachments in Brazil and South Korea) creating a rich breeding ground for both populist and extremist movements that advocate isolation and inward-looking policies with all the associated economic consequences.

In Luxembourg, GDP growth forecasts approached 4.5% while the unemployment rate reached 6.2%, its lowest level since November 2012, reflecting a 3.6% fall over the year, although the increasing number of severance programmes in recent months should be noted, particularly in the banking sector.

Against this difficult and uncertain background, the Bank continued to develop, as shown by the growth in customer deposits and, consequently, the sustained increase in loans granted by the Bank to both private individuals and local businesses. The increase in new members (up 23% in 2016), particularly as a result of the "Opéra" programme, confirms the Bank's willingness to strengthen its policy of establishing close, lasting relationships with customers.

The modernisation and adaptation of the branch network continued to best serve our customers' needs while ensuring their security. In parallel, significant investments were made in digital banking to satisfy new customer needs.

Finally, we should mention the launch of our partnership with Post Luxembourg at the end of the first quarter of 2016. Its commercial performance only confirms the relevance of this association.

Statement of financial position

At 31 December 2016, the statement of financial position showed an increase of 3.9% compared to the end of the previous financial year, at €7,501 million.

On the liability side of the statement of financial position, the funds provided by non-banking customers (debts to customers and debts represented by a security) increased by €170 million. All commercial business lines contributed to this growth, both in relation to resident private customers and businesses.

The 34.6% fall in debts represented by a security reflects the change in behaviour of our customers, who are more inclined, in their investment policies, to shift towards more traditional products, which recorded growth of almost 9%.
The 13.5% increase in equity is principally due to the investment by Post Luxembourg made in connection with the partnership.

On the assets side of the statement of financial position, receivables from customers and leasing transactions reported growth of 4.7% over the position at 31 December 2015. The 5.3% growth in housing loans was particularly noteworthy.

The continued growth in loans to both private and business customers is a good reflection of the Bank's aim to contribute to the financing of the local economy.

The increase in the "Bonds and other fixed income securities" line item is the result of the reemployment of deposits in liabilities in accordance with allocated risk levels.

Income statement

In a context of historically low interest rates and competitive pressure on margins, the increase in new business volumes coupled with an appropriate commercial policy have enabled the Bank to post interest income that is stable in comparison to the previous financial year.

The income from net fees recorded a slight increase of almost 1%. This growth is principally the direct result of the aforementioned growth in our lending activity to individuals and businesses.

Net banking income (the sum of the interest margin, net fees, income from securities and the profit from financial transactions) fell by 0.6% primarily as a result of provisions for capital losses in respect of various securities in the Bank's own portfolio realised in 2016.

The Bank's operating costs increased by 2.3% compared with the 2015 financial year. The increase in staff costs was the main cause, with other administrative costs (which increased by 0.7%) and value adjustments on tangible and intangible assets (which fell by 1.4%) remaining under control.

The 3.9% increase in staff costs is principally the result of the increase of more than 2% in the Bank's number of employees together with salary and scale increases.

Control over the level of operating expenses has enabled additional marketing costs and other expenses associated with the launch of the partnership with Post Luxembourg to be absorbed and has resulted in only a slight increase compared with the previous financial year (0.7%).

The application of a strict prudence policy in managing the risks of the Bank's lending portfolio led to a net allocation to value adjustments of €4.5 million, down 30% on the previous financial year. All credit risks identified during the course of the year were hedged by the Bank.

In light of the information above and after deducting tax charges, the Bank recorded profit of €16.6 million in 2016, down 5.6% on 2015.

This profit, coupled with the modernisation of infrastructure, the strengthened partnership with Post Luxembourg and the appropriate roll-out of the branch network and digital banking, will provide the Bank, in future years, against the background of a fast-moving economic, competitive, geopolitical and regulatory environment, with the necessary resources to maintain its growth and ensure its long-term independence, while continuing its privileged relationships with its customers.

The return on assets, as defined in Article 38.4 of the amended law of 5 April 1993 was 0.22%.

As stated in Note 4.20, Banque Raiffeisen's net profit (unconsolidated), on the allocation of which the Ordinary General Meeting is called to vote, amounted to €7,374,094.02 and represented approximately 45% of the consolidated profit.

Proposed allocation of Banque Raiffeisen's net profit at 31 December 2016:

Net profit for the period: €7,374,094.02

- Class A reserve fund:
  €3,334,110.26 (including wealth tax deductions reserve: €2,411,536.08)

- Class B reserve fund:

€3,302,427.00 (including wealth tax deductions reserve: €2,388,619.83)

- Class C reserve fund:
  €737,556.76 (including wealth tax deductions reserve: €533,469.10)

Since the accounts were closed on 31 December 2016, no material event that may call the proper functioning of the business into question has occurred and the Bank's activities continue to develop in a positive manner.