

Fondi i Pensionit Vullnetar Sigal
Financial Statements
for the year ended 31 December 2017
(with Independent auditors' report thereon)

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Independent Auditors' Report

To the Shareholders of Shoqëria Administruese e Fondit të Pensioneve Sigal Life Uniqa Group Austria Sh.a.

Opinion

We have audited the financial statements of Fondi Vullnetar i Pensionit Sigal. ("the Fund"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in net assets attributable to the unit holders and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with Institute of Authorized Chartered Auditors of Albania Code of Ethics (IEKA Code), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and IEKA Code.

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



Other Matter

The financial statements of the Fund for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those financial statements on 31 May 2017.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Fatos Beqja
Statutory Auditor
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Tirana, Albania

Tirana, 30 April 2018

Fondi i Pensionit Vullnetar "SIGAL"

(all amounts are expressed in Lek, unless otherwise stated)

Statement of financial position

	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	8	44,143,683	28,598,591
Investment securities	9	833,332,165	645,779,458
TOTAL ASSETS		877,475,848	674,378,049
LIABILITIES			
Liabilities to management company		(2,196,446)	(1,687,891)
LIABILITIES (excluding net assets attributable to the unit holders)		(2,196,446)	(1,687,891)
NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS		875,279,402	672,690,158
Number of accounting units		648,164.1806	518,677.8642
Value of net assets per accounting unit		1,350.3977	1,296.9325

These financial statements of the Voluntary Pension Fund "SIGAL" have been approved by the management of the Fund's Administration Company, Shoqëria Administruese e Fondit të Pensioneve Sigal Life UNIQA Group Austria Sh.a., on 30 April 2018 and signed on its behalf by:


Naim Hasa
Administrator




Junida Zavalani
Finance Manager

The notes on pages 5 to 20 are an integral part of these financial statements.

Fondi i Pensionit Vullnetar “SIGAL”*(all amounts are expressed in Lek, unless otherwise stated)***Statement of comprehensive income**

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	10	53,463,235	40,443,837
Total revenues		53,463,235	40,443,837
Administration fee expense		(22,764,634)	(16,804,094)
Net foreign exchange loss		(113,453)	(64,656)
Total expenses		(22,878,087)	(16,868,750)
Increase in net assets from operations attributable to the unit holders from operations		30,585,148	23,575,087

The notes on pages 5 to 20 are an integral part of these financial statements.

Fondi i Pensionit Vullnetar "SIGAL"*(all amounts are expressed in Lek, unless otherwise stated)***Statement of changes in net assets attributable to the unit holders**

	Year ended 31 December 2017	Year ended 31 December 2016
Net profit from investments	30,585,148	23,575,087
Increase in net assets from operations attributable to the unit holders	30,585,148	23,575,087
Cash inflow from the fund's members	197,306,467	192,802,376
Outflows on the basis of changing the pension fund	(122,923)	(975,716)
Outflows on the basis of pension payments or early withdrawals	(25,179,448)	(11,183,651)
Net increase in net assets from transactions with unit holders	172,004,096	180,643,009
Total increase in net assets	202,589,244	204,218,096
Net Assets		
At the beginning of period	672,690,158	468,472,062
At the end of period	875,279,402	672,690,158
Number of accounting units at the beginning of period	518,678	376,886
Issued accounting units on the basis of contribution	148,545	151,344
Withdrawn accounting units on the basis of the change of pension fund	(92)	(769)
Withdrawn accounting units on the basis of pension or early withdrawals	(18,967)	(8,783)
Number of accounting units at the end of period	648,164	518,678

The notes on pages 5 to 20 are an integral part of these financial statements.

Fondi i Pensionit Vullnetar “SIGAL”*(all amounts are expressed in Lek, unless otherwise stated)***Statement of cash flows**

	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Increase of net assets from operations	30,585,148	23,575,087
<i>Adjustment for :</i>		
Change in accrued income from investments	(2,763,960)	(4,006,642)
<i>Changes in operating assets and liabilities:</i>		
Cash inflow from the unit holders	197,306,467	192,802,376
Outflows on the basis of changing the pension fund	(122,923)	(11,183,651)
Outflows on the basis of pension payments or early withdrawals	(25,179,447)	(975,716)
Increase in other liabilities	508,555	1,687,891
Net cash from operating activities	200,333,840	201,899,345
Cash flows from investing activities		
Redemption of investment securities	-	13,300,000
Acquisition of investment securities	(184,788,748)	(232,896,160)
Net cash used in investing activities	(184,788,748)	(219,596,160)
Net increase in cash and cash equivalents	15,545,092	(17,696,815)
Cash and cash equivalents at the beginning of the period	28,598,591	46,295,406
Cash and cash equivalents at the end of year	44,143,683	28,598,591

The notes on pages 5 to 20 are an integral part of these financial statements.

Fondi i Pensionit Vullnetar “SIGAL”

Notes to the financial statements for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

1. General information

Fondi i Pensionit Vullnetar “SIGAL” (“the Fund”) is a defined contribution fund authorized with decision of the Board of the Albanian Financial Supervisory Authority (“AFSA”) No. 51, dated 30 March 2011.

Principal Activity

The Fund’s objective is to generate medium and long-term capital growth by trading a portfolio of debt securities mainly issued by the Albanian Government.

The Fund is under the administration of “Shoqëria Administruese e Fondit të Pensionit Sigal Life UNIQA Group Austria sh.a.” (the “Administration Company”) which was licensed by the AFSA on 30 March 2011.

The pension fund is owned by all contributors of the Fund in a shared ownership which is represented in accounting units or quotas of the pension fund. Each quota represents the proportional ownership over of the assets of the pension fund.

The Albanian Financial Supervisory Authority has approved Tirana Bank sh.a. as Depositary of the Fund. The Management Company and the Depositary are required to maintain the assets, operations and records of the Pension Fund separated from their own assets, operations and records. Therefore, the accounting records and financial statements of the Pension Fund and the Management Company are separately maintained and reported.

Registered address

The Fund’s Administration Company registered office is in “Bulevardi Zogu I” street, No. 1, Tirana, Albania.

2. Basis of Accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Details of the Fund’s accounting policies are included in Note 4.

3. Functional and presentation currency

These financial statements are presented in Albanian Lek (LEK), which is the Fund’s functional currency.

4. Significant accounting policies

(a) Basis of preparation

These financial statements have been prepared on the historical cost basis

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

4. Significant accounting policies (continued)

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and may be revised based on the contractual terms. The effective interest rate for financial liabilities is established on initial recognition and is revised subsequently based on the contractual terms.

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

Interest income and expense presented in profit or loss include interest on financial assets and liabilities at amortized cost on an effective interest rate basis.

(d) Fees and commission

Fee and commission income arises on financial services provided by the Fund. Fees and commission expenses are recognized in statement of comprehensive income as the related services are received being the Company administration fee. Fees and commission expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

(e) Lease payments

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

(f) Income tax expense

Under the current system of taxation in Albania, the Fund is exempt from paying income taxes. However, amounts withdrawn by the Fund members are subject to withholding tax.

The Fund has determined that interest and penalties related to income taxes do not meet the definition of an income tax. They are therefore accounted for under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*.

4. Significant accounting policies (continued)

(g) Financial Instruments

The Fund classifies non-derivative financial assets into loans and receivables and held to maturity assets and non-derivative financial liabilities into other financial liabilities.

(i) Non-derivative financial assets and financial liabilities – Recognition and de recognition

The Fund initially recognizes receivables on the date when they are originated.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Fund is recognized as a separate asset or liability. The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – Measurement

Loans and receivables and Held-to-maturity financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

(iii) Non-derivative financial liabilities – Measurement

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Fund’s activity.

4. Significant accounting policy (continued)

(g) Financial Instruments (continued)

(i) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(ii) Identification and measurement of impairment

At each reporting date the Fund assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advances on terms that the Fund would not otherwise consider, indication that the borrower will enter in bankruptcy or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or economic conditions that correlate with defaults in the group.

The Fund considers evidence of impairment at both collective and specific levels. Receivables at the collective level are assessed for impairment by grouping together exposures with similar credit characteristics. Receivables at the specific level are identified based on objective evidence of a risk level that exceeds the historical risk level of the exposure such as default, restructuring, deteriorated economic conditions and delinquency. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Fondi i Pensionit Vullnetar “SIGAL”

Notes to the financial statements for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

4. Significant accounting policy (continued)

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at amortised cost using the effective interest method. Term deposits with original maturities of more than three months from the date of acquisition are classified as term deposits with banks as a sub-category of loans and receivable financial assets.

(i) Term Deposits

Term deposits are stated in the statement of financial position at the amount of principal outstanding and are classified as those with initial maturities more than three months. Interest is accrued using the effective interest method and interest receivable is reflected in other receivables.

(j) Investment securities

Investment securities are debt investments that the Fund has the intent and ability to hold to maturity and are classified as held-to-maturity assets. Investments, which have fixed or determinable payments and which are intended to be held-to-maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition.

(k) Investment entity and consolidation

The Fund has multiple unrelated investors and holds multiple investments. The financial statements of the Fund are not consolidated to the Administration Company's. The Fund has been deemed to meet the definition of an investment entity per IFRS 10 as the following conditions exist:

- (a) The Fund has obtained funds for the purpose of providing investors with professional investment management services.
- (b) The Fund's business purpose, which was communicated directly to investors, is investing for capital appreciation and investment income.
- (c) The investments are measured and evaluated on a fair value basis (except for those classified as Held to maturity).

(l) Net Assets Value

Net assets represent cash contributions and the return from the investment on these contributions net of fees and commissions for the Administration Company owned by the pension fund contributors converted into quotas. Each quota represents a proportional part of the ownership over each asset of the Fund. Accounting units refer to the total contribution amount divided by value of accounting unit.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017; however, the Fund has not applied the following new or amended standards in preparing these financial statements.

IFRS 9 Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Fund is in the process of IFRS 9 implementation and does not expect that the new Standard, when initially applied, will have material impact on the financial statements.

4. Significant accounting policy (continued)

(m) New standards and interpretations not yet adopted (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Fund's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Fund's financial statements. The timing and measurement of the Fund's revenues are not expected to change under IFRS 15 because of the nature of the Fund's operations and the types of revenues it earns.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Fund has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Fund's borrowing rate at 1 January 2019, the composition of the Fund's lease portfolio at that date, the Fund's latest assessment of whether it will exercise any lease renewal options and the extent to which the Fund chooses to use practical expedients and recognition exemptions. The Fund does not expect that the new Standard, when initially applied, will have material impact on the financial statements. At 31 December 2017, the Fund is not a party to a contractual arrangement that would be in the scope of IFRS 16.

Other standards

The following new or amended standards are not expected to have a significant impact on the Fund's financial statements:

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28;
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Transfers of Investment Property (Amendments to IAS 40);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Annual Improvements to IFRS 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

Fondi i Pensionit Vullnetar “SIGAL”

Notes to the financial statements for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

5. Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The risk management function within the Fund is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks. The Fund does not make use of derivative financial instruments to hedge these risks exposures.

Risk Management Framework

The Fund's activity is monitored and managed by Shoqëria Administruese e Fondit të Pensionit SIGAL LIFE UNIQA GROUP AUSTRIA. Sh.a (“The Management Company”). In accordance with Law no.10197 dated 10 December 2009 “On voluntary pension funds”, the Management Company should establish a separate function dedicated to risk management. The shareholders of the Management Company appointed the Fund's Administration Council, which is comprised of five members:

- Mr. Adrian Totokoçi, Chairman
- Mr. Klement Mersini, Member
- Mr. Naim Hasa, Member
- Mr. Abdyl Sarja, Member
- Mr. Edvin Hoxhaj, Member

The Administration Council competencies include control and supervision over the implementation of commercial policies, business development of the Administration Company; the approval of financial and investment policies; the appointment and dismissal of the administrators or members of the Investment Committee. The administration council is committed to ensuring that the acts of the Administrating Company are in compliance with the Law and accounting standards. The Administration Council appointed the Investment Committee members:

- Mr. Naim Hasa, General Director of the Administration Company.
- Mr. Klement Mersini, Finance Manager of "Sigal Uniqa Group Austria Sh.a"
- Mr. Blodin Cuci, Head of Strategic Asset Allocation at Bank of Albania
- Mrs. Esmeralda Shehaj, Professor at the University of Tirana, Faculty of Economics and Consultant on investment and risk management.

5. Financial risk management

Risk Management Framework (continued)

The Investment Committee organizes at least quarterly meetings, in order to develop investment policies, perform asset allocation and modification and present them to the Administration Company. These policies rely on qualitative and quantitative analysis of capital markets, risk markets, and other technical analysis in accordance with the limitations and maximum investment limits determined by the law and the regulations above mentioned.

Depository

Pursuant to article 45 of Law no.10197, dated 10 December 2009 "On voluntary pension funds", pension fund assets, including cash and cash equivalents, are to be held with a single depository, a bank licensed by the Bank of Albania, for the provision of custody services as approved by the Financial Services Authority for the depository role.

The Administration Company of the Fund has custody agreements with Tirana Bank sh.a.. In accordance with Law No. 10197, dated 10 December 2009 "On voluntary pension funds", the Bank provides services regarding custody, deposit and trust for the fund assets.

Depository functions include calculation of the net asset value of the pension fund and reporting on monthly basis to the Administration Company, ensuring that income from transactions involving the assets of the pension fund is distributed/capitalized to pension fund contributors in accordance legislation in force, and informing the Financial Supervision Authority on any matter which may constitute a breach of legislation or threatening the interests of members.

Tirana Bank is a subsidiary of Piraeus Bank SA, Greece. Piraeus Bank SA is rated C by S&P with a stable outlook. Tirana Bank itself is not rated.

5.1 Market risk

Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity instruments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. Sensitivities to market risks are presented below and they are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Fondi i Pensionit Vullnetar “SIGAL”**Notes to the financial statements for the year ended 31 December 2017***(all amounts are expressed in Lek, unless otherwise stated)***5. Financial risk management (continued)****5.1 Market risk (continued)****a) Foreign exchange risk**

The Fund undertakes transactions in both local and foreign currencies; hence exposures to exchange rate fluctuations arise. Foreign currency risk arises as the value of future transactions and recognized monetary assets and monetary liabilities denominated in other currencies fluctuates due to changes in foreign exchange rates. Currency risk in the investments portfolio is managed using assets/liabilities matching principles. The applicable official rate of exchange (Lek to the foreign currency unit) for the principal currencies was as below:

in Lek	31 December 2017	31 December 2016
USD	111.10	128.17
Euro	132.95	135.23

Financial assets or financial liabilities in foreign currencies as of 31 December 2017 and 2016 are composed of the following.

31 December 2017

Assets	in Lek	in EUR	Total
Cash on hand and at banks	35,697,187	8,446,496	44,143,683
Investment securities	833,332,165	-	833,332,165
Total financial assets	869,029,352	8,446,496	877,475,848
Total financial liabilities	(2,196,446)	-	(2,196,446)
Net position	866,832,906	8,446,496	875,279,402

31 December 2016

Assets	in Lek	in EUR	Total
Cash on hand and at banks	24,727,693	3,870,898	28,598,591
Investment securities	645,779,458	-	645,779,458
Total financial assets	670,507,151	3,870,898	674,378,049
Total financial liabilities	(1,687,891)	-	(1,687,891)
Net position	668,819,260	3,870,898	672,690,158

b) Interest rate risk

Interest rate risk is comprised of the risk effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. As at 31 December 2017 and 2016 the Fund has no significant interest bearing liabilities and therefore its interest rate risk is only related to its interest bearing financial assets.

Bond prices and interest rates are inversely related. On the other hand a low interest rate environment makes it challenging for the Fund to deliver an adequate internal rate of return. A parallel increase/decrease in the yield curve by 100bp for the portfolio of fixed income securities would increase/decrease the net assets value of the Fund by Lek (8,523,410) (2016: 6,772,819).

Fondi i Pensionit Vullnetar “SIGAL”

Notes to the financial statements for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

5. Financial risk management (continued)

5.1 Market risk (continued)

c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due. The Fund is exposed to the monthly settlement of periodic pension payment and payments to early withdrawal from the pension fund. The Administration Company policy is to invest the majority of its assets in investments that are held until their maturity. For early withdrawal from the Fund, the Administration Company has set timing limits for announcement of withdrawal, such as 30 days. Exposure to liquidity risk as at 31 December 2017 and 2016 is presented in the table below:

31 December 2017	Carrying amount	Undiscounted Contractual Cash flows	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	More than 5 years
Financial assets							
Cash and cash equivalents	44,143,683	44,149,616	44,149,616	-	-	-	-
Investment securities	833,332,165	1,170,106,266	-	20,067,229	109,115,838	441,891,285	599,031,913
Total financial assets	877,475,848	1,214,255,882	44,149,616	20,067,229	109,115,838	441,891,285	599,031,913
Financial liabilities							
	(2,196,446)	(2,196,446)	(2,196,446)	-	-	-	-
Net Maturity gap	875,279,402	1,212,059,436	41,953,170	20,067,229	109,115,838	441,891,285	599,031,913
Accumulated effect			41,953,170	62,020,399	171,136,237	613,027,523	1,212,059,436
<hr/>							
31 December 2016	Carrying amount	Undiscounted Contractual Cash flows	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	More than 5 years
Financial assets							
Cash and cash equivalents	28,598,591	28,598,591	28,598,591	-	-	-	-
Investment securities	645,779,458	942,956,900	8,470,750	6,160,385	32,734,765	442,025,350	453,565,650
Total financial assets	674,378,049	971,555,491	37,069,341	6,160,385	32,734,765	442,025,350	453,565,650
Financial liabilities							
	(1,687,891)	(1,687,891)	(1,687,891)	-	-	-	-
Net Maturity gap	672,690,158	969,867,600	35,381,450	6,160,385	32,734,765	442,025,350	453,565,650
Accumulated effect			35,381,450	41,541,835	74,276,600	516,301,950	969,867,600

Fondi i Pensionit Vullnetar “SIGAL”

Notes for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

5. Financial risk management (continued)

5.2 Credit risk

Issuers of debt instruments contained in the portfolio could default on interest and principal payment. The deterioration in the credit quality also implies falling market value and liquidity for the underlying instrument. An increase in the credit spread could also decrease the market value of debt instruments leading to an overall decrease in the net asset value for the fund.

The strategic asset allocation is in compliance with regulation on “Permissible assets, limits on maximum amount of investments at the pension funds” dated 18 October 2010. The Investment Council has exclusively invested in debt instruments issued by the Albanian Government. The Albanian Government is rated B1 with a stable outlook by Moody’s. The Fund’s maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position as follows:

	31 December 2017	31 December 2016
Cash and cash equivalents	44,143,683	28,598,591
Investment securities	833,332,165	645,779,458
Maximum exposure to credit risk	877,475,848	674,378,049

Investment policy

The investment strategy of the Sigal Voluntary Pension Fund’s assets is based on the legislation and regulations issued by AFSA, as well as the internal policy of investment of the Management Company, proposed by the Investment Committee and approved by the Board of Administration of the Management Company.

The Administration Company is required to comply with the Regulation “On the permitted assets, the limitations and maximum limit of the investment of the pension funds” approved by the Financial Supervisory Authority with the Board’s decision No. 1 dated 28 January 2010 as amended with the Board’s decision No. 109 dated 18 October 2010.

Based on this regulation, the Fund’s assets may only be invested in the following instruments:

- Treasury bills, bonds, and other securities issued and guaranteed by the Government of Albania;
- Treasury bills, bonds, and other securities issued and guaranteed by a member state of EU or OECD or from the respective central banks;
- Treasury bills, bonds, and other securities issued and guaranteed by the European Central Bank, the European Investment Bank and the World Bank;
- Licensed bank deposits with a maturity less than 12 months;
- Bonds classified as BBB or higher, according to Standard & Poor’s or Fitch, Baa3 or higher according to Moody’s or BBB (low) or higher according to DBRS (Dominion Bond Rating Service);

Shares or units of investment funds licensed in an EU member state and whose only objective is investment in the following indexes: CAC 40, DAX, FTSE 100, S&P 500, Industrial average of Dow Jones, Nikkei 225 (Japanese), Sensex (Indian), All Ordinaries (Australian) and the Hang Seng (Hong Kong) Index, or in bonds, treasury bills and other securities issued or guaranteed by a EU member state.

6. Critical accounting estimates and judgement

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Fondi i Pensionit Vullnetar “SIGAL”
Notes for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

7. Fair value disclosures

The Fund classifies, for disclosure purposes, fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Determining fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The Fund measures fair values using Level 2 of the fair value hierarchy that reflects the significance of the inputs used in making the measurements, which is explained as follow:

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The following table sets out the fair values of financial instruments not measured at fair value as at 31 December 2017 and 31 December 2016.

	Held-to-maturity	Loans and receivables	Total carrying amount	Total Fair value
31 December 2017				
Cash and cash equivalents	35,601,463	8,542,220	44,143,683	44,143,683
Investment securities	833,332,165	-	833,332,165	915,476,320
31 December 2016				
Cash and cash equivalents	-	28,598,591	28,598,591	28,598,591
Investment securities	645,779,458	-	645,779,458	707,727,764

Cash and cash equivalents

Cash and cash equivalents include cash on hand and current accounts with resident banks. As these balances are short term, their fair value is considered the amount receivable at the reporting date.

Investment in securities

Investment securities include treasury bills and government bonds. The fair value for these investment securities has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Fondi i Pensionit Vullnetar "SIGAL"**Notes for the year ended 31 December 2017***(all amounts are expressed in Lek, unless otherwise stated)***8. Cash and cash equivalents**

Cash and cash equivalents are composed as follows:

	31 December 2017	31 December 2016
Cash on hand	-	-
Cash at banks	44,143,683	28,598,591
<i>in foreign currency</i>	95,724	24,727,693
<i>in Lek</i>	44,047,959	3,870,898
Total	44,143,683	28,598,591

Cash at banks in Lek includes short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of Fund, and earn interest at the respective short-term deposit rates.

9. Investment securities

Government Bonds	31 December 2017	31 December 2016
Purchase Price	822,200,000	635,500,000
Discount	(5,457,605)	(2,935,565)
Premium	643,975	31,724
Accrued Interest	15,945,795	13,183,299
Total	833,332,165	645,779,458

Investments in Albanian Government bonds classified as held to maturity amounted to Lek 833,332,165 with average maturity of 7.69 years and yields ranging from 4.05% to 9.74% per annum. (2016: Lek 645,779,458, average maturity of 5.26 years and yields ranging from 4.89% to 9.52% per annum).

Fondi i Pensionit Vullnetar "SIGAL"**Notes for the year ended 31 December 2017***(all amounts are expressed in Lek, unless otherwise stated)***9. Investment securities (continued)****Government bonds****31 December 2017**

Purchase Date	Maturity Date	Nominal Value	Purchase Value	Yield/ Coupon	Amortized cost at 31 December 2017
08.02.2013	08.02.2018	5,400,000	5,400,000	9.04%	5,589,454
07.05.2013	07.05.2018	21,700,000	21,700,000	8.63%	21,979,433
09.08.2013	09.08.2018	26,400,000	26,400,000	7.84%	27,205,876
12.12.2013	12.12.2018	5,600,000	5,600,000	6.70%	5,620,375
05.08.2014	08.05.2019	9,500,000	9,500,000	6.76%	9,594,554
13.08.2014	18.08.2019	14,100,000	14,100,000	6.72%	14,460,159
11.10.2014	10.11.2019	6,000,000	6,000,000	6.72%	6,056,645
18.03.2013	18.03.2020	19,000,000	19,000,000	9.74%	19,519,598
04.05.2015	04.05.2020	10,000,000	10,000,000	6.55%	10,102,913
13.06.2013	13.06.2020	13,000,000	13,000,000	9.32%	13,062,559
16.12.2013	16.12.2020	36,900,000	36,900,000	7.58%	37,021,728
17.03.2014	17.03.2021	12,500,000	12,500,000	7.78%	12,777,361
16.06.2014	16.06.2021	8,000,000	8,000,000	7.81%	8,027,469
15.09.2014	15.09.2021	8,700,000	8,700,000	7.91%	8,899,533
08.11.2016	08.11.2021	40,000,000	40,000,000	5.32%	40,306,585
09.12.2014	09.12.2021	6,500,000	6,500,000	7.99%	6,532,442
16.06.2015	16.06.2022	19,800,000	19,800,000	7.95%	19,869,409
16.09.2015	16.09.2022	18,000,000	18,000,000	7.92%	18,409,721
16.03.2016	16.03.2023	500,000	531,724	4.05%	527,009
15.09.2016	15.09.2023	22,000,000	22,000,000	4.95%	22,318,309
24.01.2014	24.01.2024	10,000,000	10,000,000	9.45%	10,406,469
25.04.2014	25.04.2024	7,700,000	7,700,000	9.55%	7,831,691
24.10.2014	24.10.2024	26,700,000	26,700,000	9.46%	27,158,669
23.01.2015	23.01.2025	32,200,000	32,200,000	9.45%	33,516,746
24.07.2015	24.07.2025	67,500,000	67,500,000	9.09%	70,141,299
23.10.2015	23.10.2025	14,500,000	14,500,000	8.99%	14,740,648
18.01.2016	18.01.2026	65,500,000	65,500,000	8.05%	67,859,921
15.07.2016	15.07.2016	32,000,000	32,000,000	5.88%	32,862,152
07.10.2016	07.10.2026	15,800,000	15,800,000	6.81%	16,047,554
15.09.2016	15.09.2023	60,000,000	57,064,435	6.07%	57,740,696
09.01.2017	09.07.2017	20,000,000	20,000,000	7.33%	20,687,121
03.04.2017	03.04.2027	48,700,000	48,700,000	6.55%	49,471,313
01.07.2017	01.07.2027	24,000,000	24,000,000	5.46%	24,109,871
09.01.2017	09.07.2017	11,000,000	11,612,250	7.01%	11,599,971
03.04.2017	03.04.2027	41,000,000	39,499,489	7.12%	40,129,599
01.07.2017	01.07.2027	42,000,000	40,978,476	5.94%	41,147,313
		822,200,000	817,386,374		833,332,165

Fondi i Pensionit Vullnetar "SIGAL"

Notes for the year ended 31 December 2017

(all amounts are expressed in Lek, unless otherwise stated)

9. Investment securities (continued)

31 December 2016

Purchase Date	Maturity Date	Nominal Value	Purchase Value	Yield/Coupon	Amortized cost at 31 December 2016
08.02.2013	08.02.2018	5,400,000	5,400,000	8.89%	5,591,944
18.03.2013	18.03.2020	19,000,000	19,000,000	9.52%	19,520,353
07.05.2013	07.05.2018	21,700,000	21,700,000	8.45%	21,978,158
13.06.2013	13.06.2020	13,000,000	13,000,000	9.12%	13,063,873
09.08.2013	09.08.2018	26,400,000	26,400,000	7.70%	27,208,365
12.12.2013	12.12.2018	5,600,000	5,600,000	6.60%	5,620,785
16.12.2013	16.12.2020	36,900,000	36,900,000	7.45%	37,024,989
24.01.2014	24.01.2024	10,000,000	10,000,000	9.25%	10,407,296
17.03.2014	17.03.2021	12,500,000	12,500,000	7.64%	12,777,655
25.04.2014	25.04.2024	7,700,000	7,700,000	9.34%	7,832,088
08.05.2014	08.05.2019	9,500,000	9,500,000	6.65%	9,594,248
16.06.2014	16.06.2021	8,000,000	8,000,000	7.67%	8,027,965
13.08.2014	13.08.2019	14,100,000	14,100,000	6.62%	14,460,707
15.09.2014	15.09.2021	8,700,000	8,700,000	7.77%	8,900,242
24.10.2014	24.10.2024	26,700,000	26,700,000	9.25%	27,160,287
10.11.2014	10.11.2019	6,000,000	6,000,000	6.62%	6,056,991
09.12.2014	09.12.2021	6,500,000	6,500,000	7.85%	6,532,949
23.01.2016	23.01.2025	32,200,000	32,200,000	9.25%	33,519,833
05.05.2016	04.05.2020	10,000,000	10,000,000	6.45%	10,103,165
16.06.2016	16.06.2022	19,800,000	19,800,000	7.80%	19,870,459
24.07.2016	24.07.2025	67,500,000	67,500,000	8.90%	70,145,153
16.09.2016	16.09.2022	18,000,000	18,000,000	7.78%	18,410,928
23.10.2016	23.10.2025	14,500,000	14,500,000	8.80%	14,741,418
08.11.2017	08.11.2021	40,000,000	40,000,000	5.25%	40,307,726
16.03.2017	16.03.2023	500,000	531,724	4.9%	531,512
15.09.2017	15.09.2023	22,000,000	22,000,000	4.89%	22,319,061
18.01.2017	18.01.2026	65,500,000	65,500,000	7.9%	67,864,772
15.07.2017	15.07.2026	32,000,000	32,000,000	5.8%	32,863,186
07.10.2017	07.10.2026	15,800,000	15,800,000	6.7%	16,048,231
15.09.2017	15.09.2023	60,000,000	57,064,435	4.89%	57,295,119
		635,500,000	632,596,159		645,779,458

10. Interest income from securities

	Year ended 31 December 2017	Year ended 31 December 2016
Income from treasury bonds	53,461,772	40,321,147
Interest income from short-term deposits	1,463	122,690
Total	53,463,235	40,443,837

Fondi i Pensionit Vullnetar "SIGAL"**Notes for the year ended 31 December 2017***(all amounts are expressed in Lek, unless otherwise stated)*

11. Commitment and contingencies***Legal contingencies***

The Fund is not involved in any lawsuits and legal proceedings as at 31 December 2017. In the ordinary course of business. In the opinion of Company management, the ultimate disposition of any potential claims will not have a material adverse effect on the Fund's financial position or changes in net assets unless already provided for in the financial statements.

12. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control with the Fund. A number of transactions are entered into with related parties in the normal course of business. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

<i>Net Asset Value of employee contributions</i>	2017	2016
Sigal Uniqa Group Austria sh.a. employees	88,311,508	59,316,896
<i>Management fees paid to administration company</i>		
Sh.A.F.P. Sigal Life Uniqa Group Austria sh.a.		
- Paid	24,802,016	15,116,203
- Liability	2,196,446	1,687,891

13. Events after the reporting date

There are no significant events after the reporting date that may require adjustment or additional disclosures in the financial statements.