

**UNION BANK S.H.A.**  
**Financial Statements**  
**as at 31 December 2013**  
**(with Independent Auditors' Report thereon)**

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## Independent Auditors' Report

To the shareholders and management of  
Union Bank Sh.a.

Tirana, 26 March 2014

We have audited the accompanying financial statements of Union Bank Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Steven Nutley  
Partner

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**Union Bank sh.a**  
**Statement of Financial Position**

(Amounts in LEK'000)

	Notes	31 December 2013	31 December 2012
<b>Assets</b>			
Cash and balances with Central Bank	5	4,193,818	2,908,914
Placements and balances with banks	6	3,290,149	2,632,691
Treasury Bills held-to-maturity	7	1,673,818	2,390,938
Treasury Bonds held-to-maturity	8	8,780,294	6,147,510
Loans and advances to customers	9	13,556,883	13,183,400
Intangible assets	10	132,675	127,628
Property and equipment	11	191,787	186,378
Non-current assets held for sale	12	591,494	299,810
Investment property	13	180,969	-
Other assets	14	82,296	198,256
Deferred tax asset	28	1,410	3,334
<b>Total assets</b>		<b>32,675,593</b>	<b>28,078,859</b>
<b>Liabilities</b>			
Due to Central Bank	15	35,855	261,372
Due to banks and financial institutions	16	2,212,450	1,314,148
Due to customers	17	27,229,261	24,031,899
Other liabilities	18	632,488	131,887
Deferred tax liability	28	-	16,499
Subordinated Debt	19	1,052	1,047
<b>Total liabilities</b>		<b>30,111,106</b>	<b>25,756,852</b>
<b>Shareholders' equity</b>			
Share capital	20	2,481,664	2,299,633
Share premium		175,600	175,600
Accumulated loss		(92,777)	(153,226)
<b>Total shareholders' equity</b>		<b>2,564,487</b>	<b>2,322,007</b>
<b>Total liabilities and shareholders' equity</b>		<b>32,675,593</b>	<b>28,078,859</b>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

These financial statements have been approved by Executive Management on 24 March 2014 and signed on its behalf by:



Gazmend Kadriu  
 Chief Executive Officer




Arten Zikaj  
 Chief Financial Officer

**Union Bank sh.a**  
**Statement of Profit or Loss and Other Comprehensive Income**

(Amounts in LEK'000)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	21	2,033,690	1,763,805
Interest expense	22	(1,073,225)	(944,430)
<b>Net interest income</b>		<b>960,465</b>	<b>819,375</b>
Fee and commission income	23	173,404	156,879
Fee and commission expenses	24	(33,473)	(35,084)
<b>Net fee and commission income</b>		<b>139,931</b>	<b>121,795</b>
Net foreign exchange gain	25	72,051	72,156
Change in fair value of investment property	13	(214)	-
Other (expense) / income, net		978	1,343
		<b>72,815</b>	<b>73,499</b>
<b>Operating income</b>		<b>1,173,211</b>	<b>1,014,669</b>
Allowances for losses on loans and advances	9	(221,726)	(148,447)
Amortization for intangible assets	10	(18,016)	(22,832)
Depreciation of property and equipment	11	(36,888)	(39,008)
Impairment of assets held for sale	12	(3,275)	(5,912)
Personnel costs	26	(330,575)	(325,077)
Other operating expenses	27	(493,218)	(459,578)
<b>Total operating expenses</b>		<b>(1,103,698)</b>	<b>(1,000,854)</b>
<b>Profit before tax</b>		<b>69,513</b>	<b>13,815</b>
Income tax	28	(9,064)	(2,374)
<b>Profit of the year</b>		<b>60,449</b>	<b>11,441</b>
<b>Other comprehensive income, net of income tax</b>		-	-
<b>Total comprehensive income for the year</b>		<b>60,449</b>	<b>11,441</b>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

**Union Bank sh.a**  
**Statement of Changes in Equity**

(Amounts in LEK'000)

	Share capital	Share premium	Accumulated loss	Total
<b>Balance at 1 January 2012</b>	<b>2,159,743</b>	<b>175,600</b>	<b>(164,667)</b>	<b>2,170,676</b>
<b>Transactions with owners recorded directly in equity</b>				
Contributions by and distributions to owners				
Increase in share capital	139,890	-	-	<b>139,890</b>
Total contributions by and distributions to owners	139,890	-	-	<b>139,890</b>
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	11,441	<b>11,441</b>
Other comprehensive income, net of income tax	-	-	-	<b>-</b>
Total comprehensive income for the year	-	-	11,441	<b>11,441</b>
<b>Balance at 31 December 2012</b>	<b>2,299,633</b>	<b>175,600</b>	<b>(153,226)</b>	<b>2,322,007</b>
<b>Transactions with owners recorded directly in equity</b>				
Contributions by and distributions to owners				
Increase in share capital	182,031	-	-	<b>182,031</b>
Total contributions by and distributions to owners	182,031	-	-	<b>182,031</b>
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	60,449	<b>60,449</b>
Other comprehensive income, net of income tax	-	-	-	<b>-</b>
Total comprehensive income for the year	-	-	60,449	<b>60,449</b>
<b>Balance at 31 December 2013</b>	<b>2,481,664</b>	<b>175,600</b>	<b>(92,777)</b>	<b>2,564,487</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

**Union Bank sh.a**  
**Statement of Cash Flows**

(Amounts in LEK'000)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
<b>Cash flows from operating activities</b>			
Profit before tax		69,513	13,815
<b>Adjustments for non-cash items:</b>			
Interest income	21	(2,033,690)	(1,763,805)
Interest expense	22	1,073,225	944,430
Depreciation of property and equipment	11	36,888	39,008
Amortization of intangible assets	10	18,016	22,832
Impairment loss	9	221,726	148,447
Impairment of assets held for sale		3,275	5,912
Change in fair value of investment property	13	214	
Revaluation effect of cash and cash equivalents		40,588	(3,844)
Revaluation effect of subordinated debt		5	5
Written of property and equipment		622	534
Net loss from sale of property and equipment		1,296	-
Net gain from sale of non-current assets held for sale		(395)	-
		<b>(568,717)</b>	<b>(592,666)</b>
Decrease/(increase) in placements and balances with banks		20,059	(35,606)
Increase in loans and advances to customers		(1,087,208)	(2,025,853)
Decrease in other assets		118,100	37,874
Increase in due to banks and financial institutions		899,939	20,454
Increase in due to customers		2,996,665	4,419,428
(Decrease)/increase in due to central bank		(225,371)	10,176
Increase in other liabilities		476,962	6,077
Interest received		1,993,342	1,703,736
Interest paid		(874,311)	(888,984)
<b>Net cash generated from operating activities</b>		<b>3,749,460</b>	<b>2,654,636</b>
<b>Cash flows from investing activities</b>			
Purchases of intangible assets	10	(23,063)	(63,229)
Purchases of property and equipment	11	(46,356)	(24,842)
Proceeds from sale of non-current assets held for sale		2,200	-
Purchases of treasury bills		(374,215)	(134,579)
Purchases of government bonds		(2,578,636)	(2,108,409)
<b>Net cash used in investing activities</b>		<b>(3,020,070)</b>	<b>(2,331,059)</b>
<b>Cash flows from financing activities</b>			
Proceeds from capital injection		182,031	139,890
<b>Net cash generated from financing activities</b>		<b>182,031</b>	<b>139,890</b>
<b>Net increase in cash and cash equivalents during the year</b>		<b>911,421</b>	<b>463,467</b>
Revaluation effect of cash and cash equivalents		(40,588)	3,844
<b>Cash and cash equivalents at the beginning of the year</b>		<b>4,593,199</b>	<b>4,125,888</b>
<b>Cash and cash equivalents at the end of the year</b>	29	<b>5,464,032</b>	<b>4,593,199</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

## **1. INTRODUCTION**

Union Bank Sh.a. (the “Bank”) is a financial institution registered as a commercial bank on 9 January 2006 based on Decision no. 101, dated 28 December 2005, of the Supervisory Board of the Bank of Albania (“BoA”). The Bank’s activity is subject to Law no. 8269 “On the Bank of Albania” dated 23 December 1997, Law No. 9662 “On Banks in the Republic of Albania” dated 18 December 2006 and all rules and regulations approved by the Supervisory Board of the BoA.

The Bank is a commercial bank, which provides banking services to individuals and enterprises in the Republic of Albania. The Bank is registered as a joint stock company, with the registration number 33563, dated 26 May 2005, on which date the Bank started its commercial activities. The Bank obtained its license for banking activities on 9 January 2006.

The Headquarters of the Bank are located in Tirana, Albania. As at 31 December 2013 the Bank had 306 employees (2012: 289).

### **Directors and Management as at 31 December 2013**

#### *Board of Directors (Supervisory Board)*

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranian	Member
Agim Xhaja	Member
Paul Nabavi	Member
Gazmend Kadriu	Member
Genc Turku	Member

#### *Audit Committee*

Varuzhan Piranian	Head of Audit Committee
Mirela Lika	Member
Erton Kaleshi	Member

#### *Executive Management*

Gazmend Kadriu	Chief Executive Officer
Suela Bokshi	Chief Operations Officer
Ardian Petollari	Chief Business Officer
Arten Zikaj	Chief Financial Officer
Enkeleda Hasho	Chief Credit Officer

## **2. BASIS OF PREPARATION**

### **2.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

### **2.2 Basis of preparation**

The financial statements have been prepared on the historical cost basis, except for investment property, which is measured at fair value.

### **2.3 Functional and presentation currency**

These financial statements are presented in Albanian Lek (“LEK”), which is the Bank’s functional currency. All financial information presented in LEK has been rounded to the nearest thousand, except when otherwise indicated.

### **2.4 Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting 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. Management believes that the underlying assumptions are appropriate and that the financial statements therefore present the financial position and results fairly. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 4.



### **3. SIGNIFICANT ACCOUNTING POLICIES**

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 Fair Value Measurement.

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, as set out in Note 3.6.6, prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the Bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

- Presentation of Items of Other Comprehensive Income (OCI) (Amendments to IAS 1).

The amendments to IAS 1 do not affect the presentation of the OCI, because the Bank does not report other comprehensive income in the current and comparative periods.

#### **3.1 Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currency entities at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency translated to the functional currency at the spot exchange rate at the date that the fair value determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. Net foreign exchange gains or losses include all foreign exchange differences related to spot transactions with settlement dates two business days after the trade date, although such transactions are recognised on the settlement date.

#### **3.2 Interest**

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

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

Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

#### **3.3 Fees and commission**

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

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

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

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4 Lease payments**

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

#### **3.5 Tax expense**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

##### **3.5.1 Current tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

##### **3.5.2 Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### **3.5.3 Tax exposures**

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

#### **3.6 Financial assets and financial liabilities**

##### **3.6.1 Recognition**

The Bank initially recognises loans and advances, deposits, and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6 Financial assets and financial liabilities (continued)**

##### **3.6.2 Classification**

###### *Financial assets*

The Bank classifies its financial assets in one of the following categories:

- loans and receivables
- held to maturity.

See Notes 3.7, 3.8 and 3.9.

###### *Financial liabilities*

The Bank classifies its financial liabilities as measured at amortised cost. See Note 3.15.

##### **3.6.3 Derecognition**

###### *Financial assets*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

###### *Financial liabilities*

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

##### **3.6.4 Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

##### **3.6.5 Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial assets and financial liabilities (continued)

##### 3.6.6 Fair value measurement

###### *Policy applicable from 1 January 2013*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank 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 Bank 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 Bank 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.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

###### *Policy applicable before 1 January 2013*

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.6 Financial assets and financial liabilities (continued)****3.6.6 Fair value measurement (continued)**

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

**3.6.7 Identification and measurement of impairment**

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

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). Based on historical data for each of these groups a loss factor is calculated. These expected loss factors are adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends, and then they are applied to estimate impairment loss on each group. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6 Financial assets and financial liabilities (continued)**

##### **3.6.7 Identification and measurement of impairment (continued)**

- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible (see Note 32). Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

##### **3.7 Cash and cash equivalents**

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

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

##### **3.8 Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks and to customers are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

##### **3.9 Investment securities held-to-maturity**

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as held to maturity.

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 3.6.7). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.10 Property and equipment****3.10.1 Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and when the Bank has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

**3.10.2 Subsequent costs**

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

**3.10.3 Depreciation**

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognised in profit or loss.

Depreciation is calculated using the reducing balance method at the following annual rates:

	<b>Rate per annum</b>
Computers	25%
Office furniture	20%
Electronic equipment	20%
Fixtures and fittings	20%

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful lives of the leasehold improvements range from 3 to 15 years. Work in progress is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**3.11 Intangible assets**

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss over the estimated useful life of the asset, from the date that it is available for use. Work in progress is not amortised.

Software is amortised using the reducing balance method with an annual amortization rate of 25%, while other intangible assets, including licenses and fees paid for access to electronic systems and services used by the Bank, are amortized using the straight line method with an annual rate of 15%.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.12 Non-current assets held for sale**

Non-current assets are classified as held for sale as their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. If an extension of the sale period occurs it does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

When a non-current asset ceases to be classified as held for sale, it is measured at the lower of (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale; and (b) its recoverable amount at the date of the subsequent decision not to sell.

#### **3.13 Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes. The Bank holds investment property as a consequence of acquisition through the enforcement of security over loans and advances. Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other income.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

#### **3.14 Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **3.15 Deposits, repurchase agreements, and subordinated liabilities**

Deposits, repurchase agreements and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repo), the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Bank's financial statements.



### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.16 Provisions**

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

#### **3.17 Employee benefits**

##### ***Defined contribution plans***

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

##### ***Short-term benefits***

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

#### **3.18 New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards and amendments early.

##### ***(i) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)***

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.18 New standards and interpretations not yet adopted (continued)**

##### *(ii) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.

### **4. USE OF ESTIMATES AND JUDGEMENTS**

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting 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 recognised in the period in which the estimates are revised and in any future periods affected.

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 32).

#### **4.1 Impairment**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.6.7.

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

A collective component of the total allowance is established for groups of homogeneous loans that are not individually impaired.

Collective allowance for groups of assets that are not considered individually significant and those that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

#### **4. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)**

##### **4.1 Impairment (continued)**

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Bank considers the market's assessment of creditworthiness as reflected in the bond yields, the rating agencies' assessments of the creditworthiness, the ability of the country to access the capital markets for new debt issuance, the probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness and the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about governments' and agencies' willingness to use those mechanisms. This includes an assessment as to the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

##### **4.2 Fair value**

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.6.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for 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.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed in note 33.

**5. CASH AND BALANCES WITH CENTRAL BANK**

Cash and balances with the Central Bank are detailed as following:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Cash on hand	919,054	799,151
<i>Central Bank:</i>		
Current account	1,215,597	79,968
Compulsory reserves	2,058,553	2,029,125
Accrued interest	614	670
<b>Total</b>	<b>4,193,818</b>	<b>2,908,914</b>

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a compulsory reserve account. This reserve is not available for use in the Bank's day to day operations, however according to the applicable regulations the Bank can make use of up to 40% of the compulsory reserve, provided that the monthly average balance of accounts with the Central Bank (current account plus compulsory reserve) does not fall below the compulsory reserve level.

**6. PLACEMENTS AND BALANCES WITH BANKS**

Placements and balances with banks are detailed as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Current accounts:</b>		
Resident	-	-
Non-resident	2,429,457	1,417,251
	<b>2,429,457</b>	<b>1,417,251</b>
<b>Deposits:</b>		
Resident	334,300	457,140
Non-resident	515,880	698,610
	<b>850,180</b>	<b>1,155,750</b>
Other accounts	10,186	59,673
Accrued interest	326	17
<b>Total</b>	<b>3,290,149</b>	<b>2,632,691</b>

Deposits with resident and non-resident banks mature in the range of 3 to 13 days (2012: 2 to 7 days) and bear interest in the range of 0.07% p.a. to 3.8% p.a. (2012: 0.15% p.a. to 0.4% p.a.).

**7. TREASURY BILLS HELD-TO-MATURITY**

Treasury Bills held-to-maturity ("T-Bills") at 31 December 2013 are issued by the Albanian Government.

T-Bills by original maturity are presented as follows:

	<b>31 December 2013</b>			<b>31 December 2012</b>		
	Nominal value	Remaining discount	Book Value	Nominal value	Remaining discount	Book Value
3 months	50,000	(256)	49,744	100,000	(1,141)	98,859
6 months	300,000	(3,171)	296,829	93,255	(2,211)	91,044
12 months	1,358,445	(31,200)	1,327,245	2,261,391	(60,356)	2,201,035
<b>Total</b>	<b>1,708,445</b>	<b>(34,627)</b>	<b>1,673,818</b>	<b>2,454,646</b>	<b>(63,708)</b>	<b>2,390,938</b>

## 8. TREASURY BONDS HELD-TO-MATURITY

Treasury Bonds held-to-maturity (“Bonds”) are issued by the Albanian Government. The interest is paid semi-annually.

Treasury Bonds by original maturity are presented as follows:

31 December 2013

	Nominal value	Remaining discount	Accrued interest	Book Value
24 months	3,893,473	-	66,709	3,960,182
36 months	1,883,333	-	51,489	1,934,822
60 months	1,680,600	4,032	28,993	1,713,625
84 months	700,000	-	14,336	714,336
120 months	450,000	1,928	5,401	457,329
<b>Total</b>	<b>8,607,406</b>	<b>5,960</b>	<b>166,928</b>	<b>8,780,294</b>

31 December 2012

	Nominal value	Remaining discount	Accrued interest	Book Value
24 months	4,560,000	-	89,027	4,649,027
36 months	800,000	-	22,700	822,700
60 months	668,770	(1,199)	8,212	675,783
<b>Total</b>	<b>6,028,770</b>	<b>(1,199)</b>	<b>119,939</b>	<b>6,147,510</b>

## 9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2013	31 December 2012
Loans	10,285,348	9,247,579
Overdrafts	3,888,744	4,308,229
Other advances to customers	70,087	64,655
	<b>14,244,179</b>	<b>13,620,463</b>
Accrued interest	97,291	111,344
Allowances for losses on loans and advances	(722,260)	(499,271)
Deferred income	(62,327)	(49,136)
<b>Total</b>	<b>13,556,883</b>	<b>13,183,400</b>

Loans and advances to customers earn interest as follows:

Currency	2013	2012
LEK	3.50% - 20.0% p.a.	3.50% - 20.0% p.a.
EUR	2.81% - 15.5% p.a.	2.79% - 15.5% p.a.
USD	3.10% - 15.0% p.a.	3.40% - 11.0% p.a.

The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals or are granted to personnel under special conditions.

Loan by type of customer are presented as follows:

	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Business Enterprises	9,579,840	67%	9,758,954	72%
Individuals	4,664,339	33%	3,861,509	28%
<b>Total</b>	<b>14,244,179</b>	<b>100%</b>	<b>13,620,463</b>	<b>100%</b>

Movements in the allowance for impairment on loans are as follows:

	31 December 2013	31 December 2012
As at 1 January	499,271	349,812
Net impairment charge for the year	221,726	148,447
Translation differences	1,263	1,012
<b>Balance at the end of the year</b>	<b>722,260</b>	<b>499,271</b>

*(Amounts in LEK '000 unless otherwise stated)***9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

The following table presents the distribution of the Bank's credit exposure by industry sector for loans and advances to customers:

	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Trade	2,904,981	20%	3,274,611	24%
Consumer	2,559,489	18%	1,472,032	11%
Real Estate	2,104,850	15%	2,389,477	17%
Other Services	2,121,814	15%	2,050,375	15%
Construction	1,938,612	14%	1,954,853	14%
Hotels and Restaurants	824,254	6%	869,002	6%
Transportation, Storing and Telecommunication	636,899	4%	352,897	3%
Processing Industry	380,736	2%	420,232	3%
Education	309,261	2%	370,203	3%
Production and transmission of electricity, gas and water	290,292	2%	289,491	2%
Financial services	124,044	1%	118,119	1%
Agriculture and Forestry	48,947	1%	59,171	1%
<b>Total</b>	<b>14,244,179</b>	<b>100%</b>	<b>13,620,463</b>	<b>100%</b>

**10. INTANGIBLE ASSETS**

	Software	Other intangible assets	Intangible assets in progress	Total
<b>At 1 January 2012</b>				
Cost	148,108	24,312	6,906	179,326
Accumulated amortization	(76,724)	(15,371)	-	(92,095)
<b>Net book amount</b>	<b>71,384</b>	<b>8,941</b>	<b>6,906</b>	<b>87,231</b>
<b>Year ended December 2012</b>				
Opening net book amount	71,384	8,941	6,906	87,231
Additions	1,539	13,944	47,746	63,229
Amortization charge	(18,124)	(4,708)	-	(22,832)
<b>Closing net book amount</b>	<b>54,799</b>	<b>18,177</b>	<b>54,652</b>	<b>127,628</b>
<b>At 31 December 2012</b>				
Cost	149,647	38,256	54,652	242,555
Accumulated amortization	(94,848)	(20,079)	-	(114,927)
<b>Net book amount</b>	<b>54,799</b>	<b>18,177</b>	<b>54,652</b>	<b>127,628</b>
<b>Year ended December 2013</b>				
Opening net book amount	54,799	18,177	54,652	127,628
Additions	47	2,714	20,302	23,063
Amortization charge	(13,702)	(4,314)	-	(18,016)
<b>Closing net book amount</b>	<b>41,144</b>	<b>16,577</b>	<b>74,954</b>	<b>132,675</b>
<b>At 31 December 2013</b>				
Cost	149,694	40,970	74,954	265,618
Accumulated amortization	(108,550)	(24,393)	-	(132,943)
<b>Net book amount</b>	<b>41,144</b>	<b>16,577</b>	<b>74,954</b>	<b>132,675</b>

“Other intangible assets” includes payments made to First Data Hellas (“FDH”) for developing the ATM network supporting systems and the installation, customization, certification and on-line links between FDH's ATM host system and the Bank's system, as well as payments made for SWIFT and CIS joining, interface and access fees.

**Union Bank Sh.a**

**Notes to the Financial Statements for the year ended 31 December 2013**

*(Amounts in LEK '000 unless otherwise stated)*

**11. PROPERTY AND EQUIPMENT**

	<b>Computers</b>	<b>Electronic equipment</b>	<b>Office Furniture</b>	<b>Fixtures and Fittings</b>	<b>Fixed assets in progress</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>At 1 January 2012</b>							
Cost	155,290	86,393	42,226	8,901	18,035	142,648	453,493
Accumulated depreciation	(103,771)	(48,339)	(22,587)	(3,170)	-	(74,548)	(252,415)
<b>Net book amount</b>	<b>51,519</b>	<b>38,054</b>	<b>19,639</b>	<b>5,731</b>	<b>18,035</b>	<b>68,100</b>	<b>201,078</b>
<b>Year ended December 2012</b>							
Opening net book amount	51,519	38,054	19,639	5,731	18,035	68,100	201,078
Additions	11,693	6,253	1,940	1,079	(4,974)	8,851	24,842
Disposals	(474)	(1,144)	(55)	-	-	-	(1,673)
Depreciation charge	(15,010)	(8,379)	(4,111)	(1,146)	-	(10,362)	(39,008)
Depreciation charge for disposals	338	762	39	-	-	-	1,139
<b>Closing net book amount</b>	<b>48,066</b>	<b>35,546</b>	<b>17,452</b>	<b>5,664</b>	<b>13,061</b>	<b>66,589</b>	<b>186,378</b>
<b>At 31 December 2012</b>							
Cost	166,509	91,502	44,111	9,980	13,061	151,499	476,662
Accumulated depreciation	(118,443)	(55,956)	(26,659)	(4,316)	-	(84,910)	(290,284)
<b>Net book amount</b>	<b>48,066</b>	<b>35,546</b>	<b>17,452</b>	<b>5,664</b>	<b>13,061</b>	<b>66,589</b>	<b>186,378</b>
<b>Year ended December 2013</b>							
Opening net book amount	48,066	35,546	17,452	5,664	13,061	66,589	186,378
Additions	16,578	12,913	4,601	-	(8,038)	20,302	46,356
Disposals	(139)	(992)	(137)	(6,649)	-	(1,563)	(9,480)
Depreciation charge	(13,695)	(7,688)	(3,840)	(715)	-	(10,950)	(36,888)
Depreciation charge for disposals	120	691	99	3,212	-	1,299	5,421
<b>Closing net book amount</b>	<b>50,930</b>	<b>40,470</b>	<b>18,175</b>	<b>1,512</b>	<b>5,023</b>	<b>75,677</b>	<b>191,787</b>
<b>At 31 December 2013</b>							
Cost	182,948	103,423	48,575	3,331	5,023	170,238	513,538
Accumulated depreciation	(132,018)	(62,953)	(30,400)	(1,819)	-	(94,561)	(321,751)
<b>Net book amount</b>	<b>50,930</b>	<b>40,470</b>	<b>18,175</b>	<b>1,512</b>	<b>5,023</b>	<b>75,677</b>	<b>191,787</b>

Leasehold improvements relate to the expenditures made by the Bank for the reconstruction of leased premises used for the branches.

## 12. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell them for the best offer within a year from their acquisition.

Non-current assets held for sale as at 31 December 2013 are measured at the lower of their carrying amount and fair value less costs to sell, amounting to LEK 591,494 thousand (2012: LEK 299,810 thousand):

	31 December 2013	31 December 2012
<b>Balance at 1 January</b>	<b>299,810</b>	<b>253,143</b>
Transferred to investment property	(178,623)	-
Acquired during the year	475,387	52,579
Assets sold during the year	(1,805)	-
Net impairment charge for the year	(3,275)	(5,912)
<b>Balance at 31 December</b>	<b>591,494</b>	<b>299,810</b>

## 13. INVESTMENT PROPERTY

The Bank holds investment property as a consequence of the acquisitions through enforcement of security over loans and advances.

### *Measurement of fair value - Fair value hierarchy*

The fair value of investment property was determined by property valuers, having professional qualifications and recent experience in the location and category of the property being valued. The valuers provide the fair value of the Bank's investment property portfolio every year.

The fair values of the Bank's investment property are categorized into Level 3 of the fair value hierarchy.

### *Level 3 fair value*

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements of the Bank's investment property.

	31 December 2013	31 December 2012
<b>Balance at 1 January</b>	-	-
Transferred from non-current assets held for sale	178,623	-
Acquired during the year	2,560	-
Net changes in fair value (unrealized)	(214)	-
<b>Balance at 31 December</b>	<b>180,969</b>	-

### *Valuation techniques and significant unobservable inputs*

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

<u>Valuation technique</u>	<u>Significant unobservable inputs</u>
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: <ul style="list-style-type: none"> <li>• The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain</li> <li>• Specific condition of each property (construction, position etc.)</li> </ul>



**14. OTHER ASSETS**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Sundry debtors	35,595	29,986
Prepayments	24,370	13,646
Accrued income	10,695	11,550
Monetary values in transit	5,000	135,864
Inventory	2,981	3,767
Payment in transit	2,193	2,745
Checks for collection	761	-
Guarantee deposit paid	701	698
<b>Total</b>	<b>82,296</b>	<b>198,256</b>

**15. DUE TO CENTRAL BANK**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Current accounts	35,855	-
Treasury bills sold under repurchased agreements	-	261,226
Accrued interest	-	146
<b>Total</b>	<b>35,855</b>	<b>261,372</b>

Current accounts represent the allowed use of the compulsory reserves held with the Central Bank (note 5). Treasury bills sold under repurchase agreements "Repos" at 31 December 2012 are short term liquidity management instruments issued by the Central Bank to inject liquidity in the banking system. Repos at the end of 2012 bear interest at market rates ranging from 4.07% p.a. to 4.12% p.a. and are denominated in LEK.

**16. DUE TO BANKS AND FINANCIAL INSTITUTIONS**

Amounts due to banks and financial institutions are detailed as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Resident	569,181	14,356
Non-resident	5,943	46,202
<b>Current accounts</b>	<b>575,124</b>	<b>60,558</b>
Resident	583,232	815,109
Non-resident	55,666	33,300
<b>Term deposits</b>	<b>638,898</b>	<b>848,409</b>
Resident	996,280	400,000
Non-resident	-	-
<b>Borrowings</b>	<b>996,280</b>	<b>400,000</b>
Resident	20	20
Non-resident	-	1,396
<b>Other accounts</b>	<b>20</b>	<b>1,416</b>
Accrued interest	2,128	3,765
<b>Total</b>	<b>2,212,450</b>	<b>1,314,148</b>

Term deposits from resident financial institutions mature in the range of 3 days to 12 months (2012: from 10 days to 12 months) and bear interest from 1.2%p.a. to 3.6%p.a. (2012: 1.4%p.a. to 4.2%p.a.). These funds are deposited by Unioni Financiar Tirane ('UFT') and represent mainly collateral for loans issued by the Bank to related parties.

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', a related party, of LEK 45,480 thousand (2012: LEK 22,715 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates ranging from 3.5%p.a. to 4.2%p.a. (2012: 3.7%p.a. to 4%p.a.).

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**Notes to the Financial Statements for the year ended 31 December 2013**

(Amounts in LEK '000 unless otherwise stated)

**17. DUE TO CUSTOMERS**

Customer accounts for enterprises, private entrepreneurs and individuals consisted of current and deposit accounts as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Government and public administration:</b>		
Local currency	3,592	23,940
Foreign currency	121,728	170,107
	<b>125,320</b>	<b>194,047</b>
<b>Current accounts:</b>		
Local currency	1,721,127	1,674,591
Foreign currency	1,328,214	1,257,963
	<b>3,049,341</b>	<b>2,932,554</b>
<b>Saving accounts:</b>		
Local currency	1,169,890	830,438
Foreign currency	1,772,362	1,403,917
	<b>2,942,252</b>	<b>2,234,355</b>
<b>Term deposits:</b>		
Local currency	11,860,448	9,928,851
Foreign currency	8,255,399	8,122,387
	<b>20,115,847</b>	<b>18,051,238</b>
<b>Other customer accounts:</b>		
Local currency	105,446	119,289
Foreign currency	368,954	195,852
	<b>474,400</b>	<b>315,141</b>
Prepaid interest on customer deposits	(6,730)	(23,570)
Accrued interest	528,831	328,134
<b>Total</b>	<b>27,229,261</b>	<b>24,031,899</b>

Current and saving accounts bear interest in the range of 0.1% p.a. to 0.4% p.a. (2012: 0.1% p.a. to 0.4% p.a.) and term deposits bear interest as follows:

<b>Currency</b>	<b>2013</b>	<b>2012</b>
LEK	1.30% p.a. to 7.90% p.a.	2.70% p.a. to 7.90% p.a.
EUR	1.00% p.a. to 4.60% p.a.	1.20% p.a. to 4.60% p.a.
USD	0.80% p.a. to 3.20% p.a.	0.90% p.a. to 3.50% p.a.
GBP	0.40% p.a. to 1.60% p.a.	1.20% p.a. to 4.60% p.a.

Other customer accounts represent blocked accounts for tender or contract guarantees, other bank guarantees and initial capital blocked by customers in the process of the establishment of their own companies.

**Union Bank Sh.a**

**Notes to the Financial Statements for the year ended 31 December 2013**

(Amounts in LEK '000 unless otherwise stated)

**17. DUE TO CUSTOMERS (CONTINUED)**

Customer accounts and deposits could be further analyzed by products as follows:

	31 December 2013			31 December 2012		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
<b>Current accounts</b> (including Government and administration)	<b>1,724,719</b>	<b>1,449,942</b>	<b>3,174,661</b>	<b>1,698,531</b>	<b>1,428,070</b>	<b>3,126,601</b>
<b>Saving accounts</b>	<b>1,169,890</b>	<b>1,772,362</b>	<b>2,942,252</b>	<b>830,438</b>	<b>1,403,917</b>	<b>2,234,355</b>
<b>Term deposits:</b>						
One month	34,929	178,373	213,302	37,592	63,584	101,176
Three months	355,828	326,161	681,989	329,599	541,509	871,108
Six months	520,210	452,473	972,683	461,776	473,813	935,589
Twelve months	3,599,167	3,097,617	6,696,784	3,472,945	3,213,325	6,686,270
Fourteen months	2,350,858	1,387,693	3,738,551	2,041,360	1,461,631	3,502,991
Twenty-four months	545,116	65,757	610,873	594,578	230,236	824,814
Twenty-five months	2,340,007	1,631,788	3,971,795	1,421,665	1,061,593	2,483,258
Other	2,114,333	1,115,537	3,229,870	1,569,336	1,076,696	2,646,032
<b>Total deposits</b>	<b>11,860,448</b>	<b>8,255,399</b>	<b>20,115,847</b>	<b>9,928,851</b>	<b>8,122,387</b>	<b>18,051,238</b>
<b>Other customer accounts:</b>						
On demand	5,547	120,698	126,245	16,222	5,598	21,820
One month	-	-	-	-	-	-
Three months	-	-	-	-	6,282	6,282
Six months	2,400	365	2,765	300	363	663
Twelve months	12,124	105,350	117,474	31,038	105,220	136,258
Twenty-four months	-	2,804	2,804	-	-	-
Other	85,375	139,737	225,112	71,729	78,389	150,118
<b>Total other customer accounts</b>	<b>105,446</b>	<b>368,954</b>	<b>474,400</b>	<b>119,289</b>	<b>195,852</b>	<b>315,141</b>
<b>Total</b>	<b>14,860,503</b>	<b>11,846,657</b>	<b>26,707,160</b>	<b>12,577,109</b>	<b>11,150,226</b>	<b>23,727,335</b>

“Other” includes deposits with initial maturities of 4 months, 7 months, 11 months, 21 months and 35 months.

## 18. OTHER LIABILITIES

Other liabilities are comprised of the following:

	31 December 2013	31 December 2012
Sundry creditors	369,599	414
Suspense accounts	164,865	75,050
Invoices to be received	51,511	36,638
Income tax payable	12,034	-
Income tax provision	11,605	-
Other provisions for risk and expenses	5,080	2,132
Deferred income and accrued expenses	1,287	2,608
Other	16,507	15,045
<b>Total</b>	<b>632,488</b>	<b>131,887</b>

Payment in transit accounts represent outbound international money transfers with agreed settlement dates in the first days of the subsequent year.

Sundry creditors include the cash collateral of Lek 364,520 thousand for a guarantee that was effective from February 2014.

## 19. SUBORDINATED DEBT

The amount of subordinated debt represents the remaining balance of a loan provided by the Bank's shareholders in previous years, to enable the Bank to maintain the minimum regulatory capital requirements until the subscription and contribution from EBRD for new shares issued. Following the subscription of such shares on 8 October 2008 and pursuant to regulatory requirements, the remaining balance of the subordinated loan was treated as a commitment for capital injections and is expected to be utilized as paid-in capital in future periods.

## 20. SHARE CAPITAL

Based on Shareholders' Decision dated 12 December 2013, the subscribed capital was increased by 100 thousand shares using the contributions of UFT (the main shareholder of the Bank). This increase was registered in January 2014 (see note 35). As at 31 December 2013, 30 thousand shares with a total value of Lek 42,807 thousand were paid and the total share capital included the following:

	2013	2012
Registered paid-up capital	2,438,857	2,299,633
Unregistered paid-up capital	42,807	-
<b>Total capital contribution</b>	<b>2,481,664</b>	<b>2,299,633</b>
Unpaid subscribed capital	97,643	139,224
<b>Total subscribed capital</b>	<b>2,579,307</b>	<b>2,438,857</b>

At 31 December 2013, the subscribed capital (including paid-up and unpaid capital) was divided into 1,997,143 shares (2012: 1,897,143 shares) with a nominal value of EUR 10 each, while the movements in the paid up share capital in 2013 and 2012 were as follows:

	31 December 2013		31 December 2012	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	1,797,143	2,299,633	1,697,143	2,159,743
Capital increase	130,000	182,031	100,000	139,890
<b>Paid-up share capital</b>	<b>1,927,143</b>	<b>2,481,664</b>	<b>1,797,143</b>	<b>2,299,633</b>

The structure of subscribed capital is as follows:

	2013	2012
Unioni Financiar Tirane (UFT) Sh.p.k	85.66%	84.90%
European Bank for Reconstruction and Development (EBRD)	10.62%	11.18%
Edmond Leka	1.86%	1.96%
Niko Leka	1.86%	1.96%

Paid-up share capital represents ordinary share capital and has no preferences or restrictions attached thereto.

**21. INTEREST INCOME**

Interest income was earned on the following assets:

	<b>2013</b>	<b>2012</b>
Loans and advances to customers	1,280,636	1,171,569
Investment securities	719,166	554,651
Loans and advances to banks & financial institutions	33,888	37,585
<b>Total</b>	<b>2,033,690</b>	<b>1,763,805</b>

**22. INTEREST EXPENSE**

Interest expense was incurred on the following liabilities:

	<b>2013</b>	<b>2012</b>
Due to customers	1,048,392	895,350
Loans and advances from financial institutions	20,145	36,654
Repurchase agreements	4,670	12,400
Subordinated debt	18	26
<b>Total</b>	<b>1,073,225</b>	<b>944,430</b>

**23. FEE AND COMMISSION INCOME**

Fees and commissions received were comprised as follows:

	<b>2013</b>	<b>2012</b>
Banking services	133,114	123,226
Lending activity	12,625	3,642
Other	27,665	30,011
<b>Total</b>	<b>173,404</b>	<b>156,879</b>

**24. FEE AND COMMISSION EXPENSES**

Fees and commissions expense were comprised as follows:

	<b>2013</b>	<b>2012</b>
Fee charged for services offered from the agents	19,426	21,019
Treasury operations	5,958	4,213
Banking services	4,790	5,160
Other	3,299	4,692
<b>Total</b>	<b>33,473</b>	<b>35,084</b>

**25. NET FOREIGN EXCHANGE GAIN**

Net foreign exchange gain includes gains less losses from trading activities and foreign currency differences arising on retranslation. Net foreign exchange gain in 2013 is LEK 72,051 thousand (2012: LEK 72,156 thousand).

**26. PERSONNEL COSTS**

	<b>2013</b>	<b>2012</b>
Salaries and other compensations	295,466	292,480
Social insurance	35,109	32,597
<b>Total</b>	<b>330,575</b>	<b>325,077</b>

**27. OTHER OPERATING EXPENSES**

Other operating expenses were comprised as follows:

	<b>2013</b>	<b>2012</b>
Rent	141,608	127,316
Other external services	72,808	70,528
Premium insurance of deposits	70,633	55,367
Communication expenses	39,933	37,640
Security services	29,659	29,828
Software maintenance	27,898	28,400
Marketing	26,317	35,536
Utilities, energy, water	19,417	19,422
Office supply	18,145	14,825
Maintenance and repairs	16,866	16,245
Consulting and legal fees	11,481	5,649
Transportation and business trip exp	8,044	7,119
Board remuneration	4,457	3,995
Insurance	4,203	5,392
Representation	1,218	1,264
Trainings	531	1,052
<b>Total</b>	<b>493,218</b>	<b>459,578</b>

**28. INCOME TAX**

	<b>2013</b>	<b>2012</b>
Current tax expense	12,034	-
Deferred tax expense	(2,970)	2,374
<b>Total tax expense</b>	<b>9,064</b>	<b>2,374</b>

Income tax in Albania is assessed at the rate of 10% (2012: 10%) of taxable income. The following represents a reconciliation of the accounting profit to the taxable profit:

	<b>2013</b>	<b>2012</b>
<b>Profit before tax</b>	<b>69,513</b>	<b>13,815</b>
Impairment of non-current assets	3,275	5,912
Loan loss allowances in excess of limits	48,939	-
Change in the fair value of investment property	214	-
Adjustment for start up costs	-	(2,327)
Un-deductible expenses:	<b>11,758</b>	<b>9,912</b>
Staff expenses	3,858	3,574
Other	4,243	5,888
Fines and penalties	3,657	450
<b>Taxable profit</b>	<b>133,699</b>	<b>27,312</b>
<b>Utilization of tax losses carried forward</b>	<b>(13,356)</b>	<b>(27,312)</b>
<b>Taxable profit</b>	<b>120,343</b>	<b>-</b>
<b>Current tax at 10%</b>	<b>12,034</b>	<b>-</b>

	<b>2013</b>	<b>2012</b>
Losses carried forward from 2010 at beginning of the year	<b>27,435</b>	<b>54,747</b>
Adjustments to losses carried forward from 2010	(14,079)	-
Utilization of tax losses	(13,356)	(27,312)
<b>Unutilized tax losses from 2010 (expired in 2013)</b>	<b>-</b>	<b>27,435</b>

**28. INCOME TAX (CONTINUED)**

The carry forward period for any tax losses in accordance with the Albanian Tax Law is three years. Adjustments to losses carried forward from 2010 represent a decrease of tax losses carried forward, following an inspection of the tax authorities during 2013, covering periods from 2009 to 2011.

Deferred tax is calculated based on the enacted tax rate for 2014 of 15%. Deferred tax assets recognized in respect of tax losses are based on the management estimate of future probable taxable profit that will be available against which the losses can be utilized.

The movements in deferred tax assets and liabilities are presented as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Deferred tax asset at the beginning of the year	3,334	5,708
Recognized in profit or loss	(1,924)	(2,374)
<b>Deferred tax asset at the end of the year</b>	<b>1,410</b>	<b>3,334</b>
Deferred tax liability at the beginning of the year	16,499	16,499
Recognized in profit or loss	(4,894)	-
Reclassified as income tax provision	(11,605)	
<b>Deferred tax liability at the end of the year</b>	<b>-</b>	<b>16,499</b>

Deferred tax assets and liabilities are attributable to the following items:

	<b>31 December 2013</b>	<b>Recognized in Profit or loss</b>	<b>Effect of changes in the tax rate</b>	<b>Reclassified as income tax provision</b>	<b>31 December 2012</b>
<b>Deferred tax asset:</b>					
Non-current assets held for sale	1,378	787	459	-	591
Investment property	32	32	11	-	-
Tax losses carried forward	-	(2,743)	-	-	2,743
	<b>1,410</b>	<b>(1,924)</b>	<b>470</b>	<b>-</b>	<b>3,334</b>
<b>Deferred tax liability:</b>					
Allowances for losses on loans and advances	-	(4,894)	-	(11,605)	16,499
	<b>-</b>	<b>(4,894)</b>	<b>-</b>	<b>(11,605)</b>	<b>16,499</b>

Based on the local accounting law, starting from 1 January 2008 the Bank must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances on loans and advances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors and are not in excess of the limits determined by the Central Bank.

Effective from 1 January 2014, the limits determined by the Central Bank are not applicable and the impairment charged in accordance with IFRS shall be considered as tax deductible expense. However, the transition rules for these changes in the legislation, the interpretations made by the tax authorities and the tax guidelines on the tax impact for IFRS reporting are not clear. As a result, the Bank considered as a permanent difference the charge in excess to the Central Bank provisions for the year 2013, and given the recent interpretations of the fiscal authorities has reclassified as income tax provisions all the remaining deferred tax liabilities at 31 December 2013 that were recognized in previous years, and that represent the difference between the allowances for impairment made in accordance with IFRS and provisions required by the Central Bank.

**29. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consisted of the following:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Cash on hand	919,054	799,151
Accounts with Central Bank	1,215,597	79,968
Financial institutions with maturity of 3 months or less	3,279,637	2,573,001
Treasury bills with maturity of 3 months or less	49,744	1,141,079
<b>Total</b>	<b>5,464,032</b>	<b>4,593,199</b>

**30. RELATED PARTIES**

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not the merely to the legal form.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The shareholding structure of the Bank as at 31 December 2013 and 2012 is presented in Note 20.

Associated entities include Union Distribucion Servis Albania Shpk, Media Union Shpk, Union Travel Shpk, Albanian Courier Shpk, Intergrafika Shpk, United Transport, Union Group Shpk, Uni-Com Sha, Albanian Courier Service Shpk, Auto Master Sha, United Motors Shpk, S-Systems Sha, Klubi i Automobilitete Shqiperise, Atex Shpk, Union Distribucion Shpk, Auto City Sha, Pluton Investor Shpk, Arch Investor Shpk, Union Of Financial Corners, Plus Communication, Auto Net Shpk, Press Point Albania Shpk, Press Point El, Uni-Cons Shpk, Auto Master Service Shpk, Union Smart Security Shpk, Union Net Shpk, Paylink Sha.

As at each reporting date the Bank has the following balances with its related parties:

	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>
<b>Assets:</b>		
Loans and advances to customers:		
Associated entities	1,268,920	1,036,104
Management personnel of the entity or its parent and their relatives	96,802	107,359
Other Assets:		
Parent company	862	761
Associated entities	2,931	377
Management personnel of the entity or its parent and their relatives	8	659
<b>Liabilities:</b>		
Due to banks and financial institutions:		
Parent company	662,259	832,566
Associated entities	47,731	23,707
Due to customers:		
Associated entities	77,575	231,647
Management personnel of the entity or its parent and their relatives	384,923	240,475
Other Liabilities:		
Parent company	42,270	223
Associated entities	5,052	3,843
EBRD	351	140
Subordinated debt:		
Parent company	1,052	1,047



**30. RELATED PARTY TRANSACTIONS (CONTINUED)**

Loans to associated entities in the amount of LEK 838,920 thousand (2012: LEK 625,494 thousand) are covered by cash collateral and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Off Statement of Financial Position</b>		
Un-drawn credit facilities from the Bank:		
Associated entities	16,959	5,363
Management personnel of the entity or its parent and their relatives	24,100	19,145
Guarantees received:		
Parent company	583,232	497,579
Associated entities	1,839,933	565,773
Management personnel of the entity or its parent and their relatives	420,245	415,060
Guarantees given:		
Parent company	20	20
Associated entities	3,234	34,637

The Bank has entered into the following transactions with related parties:

	<b>2013</b>	<b>2012</b>
Interest income:		
Parent company	-	86
Associated entities	45,409	85,841
Management personnel of the entity or its parent and their relatives	7,106	6,995
Interest expense:		
Parent company	7,846	31,982
Associated entities	3,132	5,985
Management personnel of the entity or its parent and their relatives	6,188	4,648
Fees and commission income:		
Parent company	9,626	9,033
Associated entities	2,694	3,509
Management personnel of the entity or its parent and their relatives	430	568
Operating expense:		
Parent company	2,525	2,674
Associated entities	56,549	42,635
Management personnel of the entity or its parent and their relatives	128,502	134,821
Other shareholders	928	787

**31. COMMITMENTS AND CONTINGENCIES**

Commitments and contingencies include the following:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Guarantees given in favor of customers	544,525	446,193
Un-drawn credit facilities	611,101	746,276

**Guarantees and commitments**

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees received from customers and credit institutions include cash collateral, mortgages pledged in favor of the bank from its borrowers.

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

**Legal**

The Bank was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2013. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims.

**Operating lease commitments**

The Bank has entered into non-cancelable lease commitments. Such commitments are composed as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Not later than 1 year	97,028	87,071
Later than 1 year and not later than 5 years	2,173	195
<b>Total</b>	<b>99,201</b>	<b>87,266</b>

**32. FINANCIAL RISK MANAGEMENT**

The Bank's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems.

The most important types of risk are discussed below.

## **32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **(a) Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank is subject to credit risk through its lending activities, and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees in this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations.

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Credit facilities approvals and renewals require approval by Credit Department, Head of Credit Department, Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances).
- Developing and maintaining the Bank's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Bank's Executive Management.
- Reviewing compliance of business units with agreed exposure limits. Regular reports on the credit quality of local portfolios are provided to Bank Credit Department who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Department and Credit Committee. Each business unit has a responsible officer who reports on all credit related matters to local management and the Bank Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. In addition, regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)****(a) Credit risk (continued)***Maximum credit exposure*

Maximum exposure to credit risk before collateral held or other credit enhancements are as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Treasury Bills held-to-maturity	1,673,818	2,390,938
Placements and balances with banks	3,290,149	2,632,691
Loans and advances to customers	13,556,883	13,183,400
Treasury Bonds held-to-maturity	8,780,294	6,147,510
Financial guarantees	544,525	446,193
Commitments to extend credit	611,101	746,276
<b>Maximum exposures to credit risk</b>	<b>28,456,770</b>	<b>25,547,008</b>

Exposure to credit risk is also managed in part by obtaining collateral and guarantees. The principal collateral types are:

- Mortgage over residential properties
- Pledges over business assets and inventories
- Deposits and accounts placed (cash collateral)
- Personal guarantee for the loan

In addition to the term loans and business overdrafts that are secured by the above type of collateral, overdrafts on payroll accounts are extended to individuals as well. No pledges are taken for these advances as the monthly salary offsets the used part of the limit given. Financial guarantees and stand-by letters of credit are cash-collateralized.

*Impaired loans and advances*

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

*Past due but not impaired loans*

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

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independently from eventual satisfactory performance after restructuring.

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It consists in the specific loss component that relates to individually significant exposures.

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**Notes to the Financial Statements for the year ended 31 December 2013**

*(Amounts in LEK '000 unless otherwise stated)*

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Credit risk (continued)**

Loans and advances are summarized as follows:

**As at 31 December 2013**

	Loans and advances to customers			Placements and balances with banks	
	Retail	Corporate	Advances		Total Loans
Neither past due nor impaired	3,160,344	3,269,403	2,891,451	9,321,198	3,290,149
Past due but not impaired	829,646	1,468,413	841,793	3,139,852	-
Individually impaired	218,681	1,345,072	254,340	1,818,093	-
<b>Total Gross</b>	<b>4,208,671</b>	<b>6,082,888</b>	<b>3,987,584</b>	<b>14,279,143</b>	<b>3,290,149</b>
Less: allowance for individually impaired loans	98,706	331,669	93,735	524,110	-
Less: allowance for collectively impaired loans	46,763	103,317	48,070	198,150	-
<b>Total Allowance for impairment</b>	<b>145,469</b>	<b>434,986</b>	<b>141,805</b>	<b>722,260</b>	<b>-</b>

**As at 31 December 2012**

	Loans and advances to customers			Placements and balances with banks	
	Retail	Corporate	Advances		Total Loans
Neither past due nor impaired	2,734,965	3,714,857	2,210,684	8,660,506	2,632,691
Past due but not impaired	480,353	933,139	1,762,772	3,176,264	-
Individually impaired	142,810	1,260,066	443,025	1,845,901	-
<b>Total Gross</b>	<b>3,358,128</b>	<b>5,908,062</b>	<b>4,416,481</b>	<b>13,682,671</b>	<b>2,632,691</b>
Less: allowance for individually impaired loans	56,174	214,650	89,128	359,952	-
Less: allowance for collectively impaired loans	27,385	70,913	41,021	139,319	-
<b>Total Allowance for impairment</b>	<b>83,559</b>	<b>285,563</b>	<b>130,149</b>	<b>499,271</b>	<b>-</b>

*(Amounts in LEK '000 unless otherwise stated)***32. FINANCIAL RISK MANAGEMENT (CONTINUED)****(a) Credit risk (continued)***Loans and advances neither past due nor impaired*

As per Bank's internal credit rating, loans and advances that are neither past due nor impaired are classified as below:

**As at 31 December 2013**

Rating	Loans and advances to customers			Total Loans	Placements and balances with banks
	Retail	Corporate	Advances		
Good	3,143,024	3,172,224	2,877,937	9,193,185	3,290,149
Acceptable	17,320	97,179	13,514	128,013	-
Close monitoring	-	-	-	-	-
Unacceptable	-	-	-	-	-
<b>Total</b>	<b>3,160,344</b>	<b>3,269,403</b>	<b>2,891,451</b>	<b>9,321,198</b>	<b>3,290,149</b>

**As at 31 December 2012**

Rating	Loans and advances to customers			Total Loans	Placements and balances with banks
	Retail	Corporate	Advances		
Good	2,734,553	3,714,857	1,997,691	8,447,101	2,632,691
Acceptable	412	-	212,993	213,405	-
Close monitoring	-	-	-	-	-
Unacceptable	-	-	-	-	-
<b>Total</b>	<b>2,734,965</b>	<b>3,714,857</b>	<b>2,210,684</b>	<b>8,660,506</b>	<b>2,632,691</b>

*Loans and advances past due but not impaired*

Below is the ageing analysis of loans past due but not individually impaired.

**As at 31 December 2013**

Time band	Loans and advances to customers			
	Retail	Corporate	Advances	Total Loans
Past due up to 30 days	617,071	1,231,377	91,641	1,940,089
Past due 31-60 days	123,531	63,986	179,577	367,094
Past due 61-90 days	85,997	153,556	216,884	456,437
Past due 91-180 days	2,470	3,526	327,927	333,923
Past due over 180 days	577	15,968	25,764	42,309
<b>Total</b>	<b>829,646</b>	<b>1,468,413</b>	<b>841,793</b>	<b>3,139,852</b>
<b>Estimation of fair value of collateral</b>	<b>3,233,437</b>	<b>5,021,411</b>	<b>972,142</b>	<b>9,226,990</b>

**As at 31 December 2012**

Time band	Loans and advances to customers			
	Retail	Corporate	Advances	Total Loans
Past due up to 30 days	321,942	683,755	107,255	1,112,952
Past due 31-60 days	100,352	48,346	382,252	530,950
Past due 61-90 days	49,192	184,163	1,164,978	1,398,333
Past due 91-180 days	8,867	16,875	32,867	58,609
Past due over 180 days	-	-	75,420	75,420
<b>Total</b>	<b>480,353</b>	<b>933,139</b>	<b>1,762,772</b>	<b>3,176,264</b>
<b>Estimation of fair value of collateral</b>	<b>2,191,108</b>	<b>3,711,350</b>	<b>3,864,096</b>	<b>9,766,554</b>

Loans and advances past due over 90 days are collateralized by cash amounting to LEK 53,989 thousand (2012: LEK 62,311 thousand).

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Credit risk (continued)**

*Loans and advances individually impaired*

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 1,818,093 thousand (2012: LEK 1,845,901 thousand).

The breakdown of the gross amount of the individually impaired loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

**As at 31 December 2013**

	<b>Loans and advances to customers</b>			
	<b>Retail</b>	<b>Corporate</b>	<b>Advances</b>	<b>Total Loans</b>
Individually impaired	218,681	1,345,072	254,340	1,818,093
Collateral	519,197	10,548,422	565,985	11,633,604

**As at 31 December 2012**

	<b>Loans and advances to customers</b>			
	<b>Retail</b>	<b>Corporate</b>	<b>Advances</b>	<b>Total Loans</b>
Individually impaired	142,810	1,260,066	443,025	1,845,901
Collateral	324,012	9,077,646	631,114	10,032,772

Included in collateral used to secure the corporate loans is an amount of LEK 5,399,903 thousand (2012:LEK 5,376,408 thousand), which represents a portion of the real estate collaterals received from a single borrower of the Bank that is not a first mortgage. Therefore, the Bank will not have the first claim in the event of a default by that borrower.

*Loans and advances renegotiated*

Restructuring activities include extended payment agreements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. The total restructured portfolio is LEK 1,165,103 thousand (2012: LEK 198,779 thousand). The increase in the total restructured portfolio in 2013 is a consequence of the management decision to use loan restructuring for certain borrowers that are facing financial difficulties with negative impact in their cash flows, when the restructuring is deemed to increase the probability that the borrower will be able to repay the credit exposure and the new payment plan is in line with the actual and expected future payment capacity of the borrower.

*Write-off policy*

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

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The collateral structure referring to loans past due but not impaired is similar to the collaterals structure referring to impaired loans presented below.

<b>31 December 2013</b>	<b>Against individually impaired</b>	<b>Against collectively impaired</b>	<b>Total</b>
Property	11,213,362	24,156,216	<b>35,369,578</b>
Pledge	419,937	14,712,108	<b>15,132,045</b>
Cash	304	2,641,666	<b>2,641,970</b>
<b>Total</b>	<b>11,633,603</b>	<b>41,509,990</b>	<b>53,143,593</b>

*(Amounts in LEK '000 unless otherwise stated)***32. FINANCIAL RISK MANAGEMENT (CONTINUED)****(a) Credit risk (continued)**

<b>31 December 2012</b>	<b>Against individually impaired</b>	<b>Against collectively impaired</b>	<b>Total</b>
Property	9,804,866	23,045,964	<b>32,850,830</b>
Pledge	227,906	9,446,988	<b>9,674,894</b>
Cash	-	2,541,805	<b>2,541,805</b>
<b>Total</b>	<b>10,032,772</b>	<b>35,034,757</b>	<b>45,067,529</b>

**(b) Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core business lines. On an operational basis, the Bank monitors the performance of its customer deposits, and on that basis adjusts the balance of its current assets' access to funding, in order to maintain a satisfactory payment capability. On a more strategic level, the Bank through its Asset and Liability Committee ("ALCO") manages this risk by continually monitoring expected cash flows from financial instruments and adjusting its investments to match the timing of payments and receipts.

When an operating branch is subject to a liquidity limit imposed, the branch is responsible for managing its overall liquidity within regulatory limit in co-ordination with Bank's Treasury Department. Treasury Department monitors compliance for all operating branches with limits set on daily basis.

All liquidity policies and procedures are subject to annual review and approval by Board and ALCO respectively. Daily reports cover the liquidity position of both the Bank and operating branches.

The Bank relies on deposits from customer and banks, Repos and short term borrowings as its primary source of funding. The short term nature of this source of funding increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

One of the key measures used by the Bank for managing liquidity risk is the ratio of liquid assets to short term liabilities. This ratio was within the limits set by Central Bank in each and all currencies converted for the period.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

The monitoring and control function for the Bank's investments are performed by ALCO. Bank's ALCO policy includes sets of daily, weekly and monthly reports to be prepared and analyzed. Daily report, "Liquidity Position Report", controls respectively daily inflows/outflows of liquidity till 1-year maturity, under business usual scenario. Monthly reports include ratio and gap analyses under separate bank specific and market crisis scenarios. Reports are produced for each single currency LEK, USD and EUR and for the total assets and liabilities as well.



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**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Liquidity risk (continued)**

An analysis of financial assets and liabilities according to their maturities is as follows:

	31 December 2013						Total
	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 to 5 years	Over 5 years	
<b>Assets</b>							
Cash and balances with Central Bank	4,193,818	-	-	-	-	-	<b>4,193,818</b>
Placements and balances with banks	3,279,963	-	-	-	-	10,186	<b>3,290,149</b>
Treasury Bills held-to-maturity	199,743	220,594	477,035	776,446	-	-	<b>1,673,818</b>
Treasury Bonds held-to-maturity	511,221	451,184	469,510	1,435,013	4,761,438	1,151,928	<b>8,780,294</b>
Loans and advances to customers	2,030,906	660,313	1,080,427	2,853,786	4,660,867	2,270,584	<b>13,556,883</b>
Other assets	54,244	-	-	-	-	701	<b>54,945</b>
<b>Total</b>	<b>10,269,895</b>	<b>1,332,091</b>	<b>2,026,972</b>	<b>5,065,245</b>	<b>9,422,305</b>	<b>3,433,399</b>	<b>31,549,907</b>
<b>Liabilities</b>							
Due to Central Bank	35,855	-	-	-	-	-	<b>35,855</b>
Due to banks and Financial institutions	2,085,039	11,750	-	115,661	-	-	<b>2,212,450</b>
Due to customers	8,141,335	2,620,826	3,070,384	9,650,985	3,745,731	-	<b>27,229,261</b>
Other liabilities	631,201	-	-	-	-	-	<b>631,201</b>
Subordinated debt	-	-	-	1,052	-	-	<b>1,052</b>
<b>Total</b>	<b>10,893,430</b>	<b>2,632,576</b>	<b>3,070,384</b>	<b>9,767,698</b>	<b>3,745,731</b>	<b>-</b>	<b>30,109,819</b>
<b>Liquidity risk at 31 December 2013</b>	<b>(623,535)</b>	<b>(1,300,485)</b>	<b>(1,043,412)</b>	<b>(4,702,453)</b>	<b>5,676,574</b>	<b>3,433,399</b>	<b>1,440,088</b>
<b>Cumulative</b>	<b>(623,535)</b>	<b>(1,924,020)</b>	<b>(2,967,432)</b>	<b>(7,669,885)</b>	<b>(1,993,311)</b>	<b>1,440,088</b>	

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**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Liquidity risk (continued)**

	31 December 2012						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	
<b>Assets</b>							
Cash and balances with Central Bank	2,908,914	-	-	-	-	-	<b>2,908,914</b>
Placements and balances with banks	2,573,018	-	-	49,088	-	10,585	<b>2,632,691</b>
Treasury Bills held-to-maturity	499,330	641,749	419,958	829,901	-	-	<b>2,390,938</b>
Treasury Bonds held-to-maturity	199,327	176,272	119,448	1,604,891	4,047,572	-	<b>6,147,510</b>
Loans and advances to customers	1,687,361	1,040,873	1,329,897	2,549,981	4,569,716	2,005,572	<b>13,183,400</b>
Other assets	180,145	-	-	-	-	698	<b>180,843</b>
<b>Total</b>	<b>8,048,095</b>	<b>1,858,894</b>	<b>1,869,303</b>	<b>5,033,861</b>	<b>8,617,288</b>	<b>2,016,855</b>	<b>27,444,296</b>
<b>Liabilities</b>							
Due to Central Bank	261,372	-	-	-	-	-	<b>261,372</b>
Due to banks and Financial institutions	801,025	1,396	-	511,727	-	-	<b>1,314,148</b>
Due to customers	7,001,758	2,302,281	2,924,021	7,998,801	3,805,038	-	<b>24,031,899</b>
Other liabilities	129,279	-	-	-	-	-	<b>129,279</b>
Subordinated debt	-	-	-	1,047	-	-	<b>1,047</b>
<b>Total</b>	<b>8,193,434</b>	<b>2,303,677</b>	<b>2,924,021</b>	<b>8,511,575</b>	<b>3,805,038</b>	<b>-</b>	<b>25,737,745</b>
<b>Liquidity risk at 31 December 2011</b>	<b>(145,339)</b>	<b>(444,783)</b>	<b>(1,054,718)</b>	<b>(3,477,714)</b>	<b>4,812,250</b>	<b>2,016,855</b>	<b>1,706,551</b>
<b>Cumulative</b>	<b>(145,339)</b>	<b>(590,122)</b>	<b>(1,644,840)</b>	<b>(5,122,554)</b>	<b>(310,304)</b>	<b>1,706,551</b>	

**(c) Market risk**

The Bank is exposed to the market risk whenever the fair value or future cash flows of a financial instrument fluctuates because of changes in market prices. Market risks arise from open positions in interest rates and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

**Currency risk**

The Bank is exposed to currency risk through transactions in foreign currencies. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. As the currency in which the Bank presents its financial statements is the LEK, the Bank's financial statements are affected by movements in the exchange rates between the LEK and other currencies.

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Market risks (continued)**

*Currency risk (continued)*

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of profit or loss and other comprehensive income. These exposures comprise the monetary assets and liabilities of the Bank that are not denominated in the measurement currency of the Bank. The applicable exchange rates for the principal currencies are as follows:

	2013	2012
EUR:LEK	140.20	139.59
USD:LEK	101.86	105.85

The analysis of monetary assets and liabilities as at 31 December 2013 and 2012 by the foreign currencies in which they were denominated is shown below:

	<b>31 December 2013</b>				
	<b>LEK</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with Central Bank	1,447,095	213,086	2,305,614	228,023	<b>4,193,818</b>
Placements and balances with banks	124,051	1,309,117	1,830,454	26,527	<b>3,290,149</b>
Treasury Bills held-to-maturity	1,673,818	-	-	-	<b>1,673,818</b>
Treasury Bonds held-to-maturity	8,355,462	-	424,832	-	<b>8,780,294</b>
Loans and advances to customers	3,450,587	98,693	10,007,603	-	<b>13,556,883</b>
Other assets	42,979	1,691	9,930	345	<b>54,945</b>
<b>Total</b>	<b>15,093,992</b>	<b>1,622,587</b>	<b>14,578,433</b>	<b>254,895</b>	<b>31,549,907</b>
<b>Liabilities</b>					
Due to Central Bank	35,855	-	-	-	<b>35,855</b>
Due to banks and financial institutions	804,609	10,893	1,396,936	12	<b>2,212,450</b>
Due to customers	15,232,783	1,467,764	10,410,594	118,120	<b>27,229,261</b>
Other liabilities	162,112	8,770	460,319	-	<b>631,201</b>
Subordinated debt	-	-	1,052	-	<b>1,052</b>
<b>Total</b>	<b>16,235,359</b>	<b>1,487,427</b>	<b>12,268,901</b>	<b>118,132</b>	<b>30,109,819</b>
Net commitments and FX Spot transactions	310,108	(20,321)	131,496	(141,789)	<b>279,494</b>
<b>Net Position</b>	<b>(831,259)</b>	<b>114,839</b>	<b>2,441,028</b>	<b>(5,026)</b>	<b>1,719,582</b>
	<b>31 December 2012</b>				
	<b>LEK</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with Central Bank	1,382,547	186,624	1,254,230	85,513	<b>2,908,914</b>
Placements and balances with banks	-	1,202,421	1,423,455	6,815	<b>2,632,691</b>
Treasury Bills held-to-maturity	2,295,872	-	95,066	-	<b>2,390,938</b>
Treasury Bonds held-to-maturity	5,725,047	-	422,463	-	<b>6,147,510</b>
Loans and advances to customers	3,092,188	380,049	9,669,856	41,307	<b>13,183,400</b>
Other assets	28,063	2,384	15,403	134,993	<b>180,843</b>
<b>Total</b>	<b>12,523,717</b>	<b>1,771,478</b>	<b>12,880,473</b>	<b>268,628</b>	<b>27,444,296</b>
<b>Liabilities</b>					
Due to Central Bank	261,372	-	-	-	<b>261,372</b>
Due to banks and financial institutions	402,485	330,980	580,682	1	<b>1,314,148</b>
Due to customers	12,780,566	1,404,795	9,724,699	121,839	<b>24,031,899</b>
Other liabilities	42,354	2,475	79,828	4,622	<b>129,279</b>
Subordinated debt	-	-	1,047	-	<b>1,047</b>
<b>Total</b>	<b>13,486,777</b>	<b>1,738,250</b>	<b>10,386,256</b>	<b>126,462</b>	<b>25,737,745</b>
Net commitments and FX Spot transactions	220,023	16,880	204,832	(152,245)	<b>289,490</b>
<b>Net Position</b>	<b>(743,037)</b>	<b>50,108</b>	<b>2,699,049</b>	<b>(10,079)</b>	<b>1,996,041</b>

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Market risks (continued)**

*Interest rate risk*

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Bank attempts to mitigate this risk by maintaining the Repricing Gap fully matched, so that both its assets and liabilities mature and re-price simultaneously. This limits the risk of the Bank becoming over-sensitive to interest rate changes.

The Bank's interest rate gap as at 31 December 2013 is analyzed below. As at 31 December 2013, majority of the Bank's short-term financial assets and liabilities, except for the loan portfolio, carry fixed interest rates.

*i. Effective yield information*

The average effective yields of significant categories of financial assets and liabilities of the Bank were as follows:

	LEK		Weighted average interest rate				Other	
	2013	2012	USD 2013	2012	EUR 2013	2012	2013	2012
<b>Assets:</b>								
Statutory reserves	2.1%	2.8%	N/A	N/A	N/A	N/A	N/A	N/A
Placements and balances with banks	3.35%	N/A	0.07%	0.21%	0.33%	0.40%	N/A	N/A
Investment securities	7.21%	7.78%	N/A	N/A	7.50%	6.99%	N/A	N/A
Loans to customers	10.37%	11.42%	7.30%	7.63%	7.59%	8.15%	N/A	3.10%
<b>Liabilities:</b>								
Due to banks	3.08%	4.03%	0.15%	1.36%	1.36%	3.57%	N/A	N/A
Due to customers	5.45%	6.53%	1.76%	2.51%	3.08%	3.70%	1.22%	1.65%
T Bills under Repos	N/A	4.09%	N/A	N/A	N/A	N/A	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	1.67%	2.10%	N/A	N/A

*ii. Interest rate repricing analysis*

The following table presents the interest rate repricing dates for the Bank's assets and liabilities. Variable-rate assets have been reported according to their next rate revision date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

**Union Bank Sh.a**

**Notes to the Financial Statements for the year ended 31 December 2013**

*(Amounts in LEK '000 unless otherwise stated)*

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Market risks (continued)**

*Interest rate risk (continued)*

	31 December 2013						
	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	Non interest bearing	Total
<b>Assets</b>							
Cash and balances with Central Bank	1,143,711	-	-	-	-	3,050,107	<b>4,193,818</b>
Placements and balances with banks	3,279,128	-	-	-	-	11,021	<b>3,290,149</b>
Treasury Bills held-to-maturity	199,743	220,594	477,035	776,446	-	-	<b>1,673,818</b>
Treasury Bonds held-to-maturity	450,000	550,000	520,000	2,091,928	5,001,438	166,928	<b>8,780,294</b>
Loans and advances to customers	1,967,209	1,044,833	2,500,515	6,948,339	1,880,573	(784,586)	<b>13,556,883</b>
Other assets	-	-	-	-	-	54,945	<b>54,945</b>
<b>Total</b>	<b>7,039,791</b>	<b>1,815,427</b>	<b>3,497,550</b>	<b>9,816,713</b>	<b>6,882,011</b>	<b>2,498,415</b>	<b>31,549,907</b>
<b>Liabilities</b>							
Due to Central Bank	35,855	-	-	-	-	-	<b>35,855</b>
Due to banks and financial institutions	2,006,100	11,319	-	115,094	-	79,937	<b>2,212,450</b>
Due to customers	7,629,179	2,575,315	3,032,653	9,442,156	3,649,258	900,700	<b>27,229,261</b>
Other liabilities	-	-	-	-	-	631,201	<b>631,201</b>
Subordinated debt	-	-	1,052	-	-	-	<b>1,052</b>
<b>Total</b>	<b>9,671,134</b>	<b>2,586,634</b>	<b>3,033,705</b>	<b>9,557,250</b>	<b>3,649,258</b>	<b>1,611,838</b>	<b>30,109,819</b>
<b>Gap</b>	<b>(2,631,343)</b>	<b>(771,207)</b>	<b>463,845</b>	<b>259,463</b>	<b>3,232,753</b>	<b>886,577</b>	<b>1,440,088</b>
<b>Cumulative gap</b>	<b>(2,631,343)</b>	<b>(3,402,550)</b>	<b>(2,938,705)</b>	<b>(2,679,242)</b>	<b>553,511</b>	<b>1,440,088</b>	<b>-</b>

**Union Bank Sh.a**

**Notes to the Financial Statements for the year ended 31 December 2013**

*(Amounts in LEK '000 unless otherwise stated)*

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Market risks (continued)**

*Interest rate risk (continued)*

	31 December 2012						Total
	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	Non interest bearing	
<b>Assets</b>							
Cash and balances with Central Bank	1,091,314	-	-	-	-	1,817,600	<b>2,908,914</b>
Placements and balances with banks	2,572,492	-	-	49,088	10,585	526	<b>2,632,691</b>
Treasury Bills held-to-maturity	499,330	641,749	419,958	829,901	-	-	<b>2,390,938</b>
Treasury Bonds held-to-maturity	150,000	150,000	180,000	1,600,000	3,947,571	119,939	<b>6,147,510</b>
Loans and advances to customers	1,701,982	1,496,605	2,692,393	6,331,473	1,509,354	(548,407)	<b>13,183,400</b>
Other assets	-	-	-	-	-	180,843	<b>180,843</b>
<b>Total</b>	<b>6,015,118</b>	<b>2,288,354</b>	<b>3,292,351</b>	<b>8,810,462</b>	<b>5,467,510</b>	<b>1,570,501</b>	<b>27,444,296</b>
<b>Liabilities</b>							
Due to Central Bank	261,226	-	-	-	-	146	<b>261,372</b>
Due to banks and financial institutions	747,875	-	-	508,726	-	57,547	<b>1,314,148</b>
Due to customers	6,604,514	2,269,311	2,877,556	7,943,483	3,757,790	579,245	<b>24,031,899</b>
Other liabilities	-	-	-	-	-	129,279	<b>129,279</b>
Subordinated debt	-	-	1,047	-	-	-	<b>1,047</b>
<b>Total</b>	<b>7,613,615</b>	<b>2,269,311</b>	<b>2,878,603</b>	<b>8,452,209</b>	<b>3,757,790</b>	<b>766,217</b>	<b>25,737,745</b>
<b>Gap</b>	<b>(1,598,497)</b>	<b>19,043</b>	<b>413,748</b>	<b>358,253</b>	<b>1,709,720</b>	<b>804,284</b>	<b>1,706,551</b>
<b>Cumulative gap</b>	<b>(1,598,497)</b>	<b>(1,579,454)</b>	<b>(1,165,706)</b>	<b>(807,453)</b>	<b>902,267</b>	<b>1,706,551</b>	

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)****(c) Market risks (continued)***Sensitivity analyses*

The sensitivity analysis below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate in the net profit, assuming all the other variables are held constant:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Interest rate increases by 2%	11,070	18,045
Interest rate increases by 1.5%	8,303	13,534
Interest rate increases by 1%	5,535	9,023
Interest rate decreases by 1%	(5,535)	(9,023)
Interest rate decreases by 1.5%	(8,303)	(13,534)
Interest rate decreases by 2%	(11,070)	(18,045)

The sensitivity rate, used when reporting foreign currency risk internally to key management personnel, represents management's assessment of the reasonably possible change in foreign exchange rates based on information available after the balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the change in exchange rates as described above.

Below is a stipulation of effects of changes in exchange rates in the net profit, assuming that all the other variables are held constant:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Lek depreciates by 5%	127,542	136,954
Lek appreciates by 5%	(127,542)	(136,954)

**(d) Operational risk**

The operational risk is incurred on the delivery of all of the Bank's products and services and arises on a daily basis as transactions are being processed. It may occur also as a result of inadequate information systems, technology failures, breaks of internal controls, and fraud or unforeseen catastrophes.

To cover for operational risk, the Bank has established a framework that incorporates clear definitions of operational risk throughout the organization, and a philosophy of business processes self-assessment. It has also developed, and is actively monitoring, the performance of key risk indicators.

The Bank's Operational Risk Committee (ORC) is periodically monitoring the occurrences of operational losses and has assigned responsibilities for mitigating losses and providing back-up solutions and risk coverage for activities subject to operational risk.

**33. DISCLOSURE AND ESTIMATION OF FAIR VALUE**

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

***Financial instruments not measured at fair value – fair value hierarchy***

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	As at 31 December 2013		As at 31 December 2012	
	Carrying amount	Fair value Level 2	Carrying amount	Fair value Level 2
<b>Financial assets</b>				
Treasury Bills held-to-maturity	1,673,818	1,677,546	2,390,938	2,393,327
Placements and balances with banks	3,290,149	3,290,149	2,632,691	2,632,691
Loans and advances to customers	13,556,883	13,556,883	13,183,400	13,183,400
Treasury Bonds held-to-maturity	8,780,294	9,039,933	6,147,510	6,200,044
<b>Financial liabilities</b>				
Due to Central Bank	35,855	35,855	261,372	261,372
Due to banks and financial institutions	2,212,450	2,210,835	1,314,148	1,302,274
Due to customers	27,229,261	26,803,832	24,031,899	23,442,439
Subordinated debt	1,052	1,052	1,047	1,047

***Treasury Bills held-to-maturity***

Treasury Bills held-to-maturity include treasury bills issued by Government which are bought with the intention to hold till maturity. Since no active market exists for treasury bills, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

***Placements and balances with banks***

Due from other banks include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

***Loans and advances to customers***

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

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

***Treasury Bonds held-to-maturity***

Treasury Bonds held-to-maturity include treasury bonds issued by Government which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, these securities were transferred to Level 2 of the fair value hierarchy.

***Due to banks, financial institutions and customers***

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.



### **34. CAPITAL MANAGEMENT**

#### *Regulatory capital*

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 8365 date 02.07.1998 "Banking Law of the Republic of Albania".

#### *Capital Adequacy Ratio*

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

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

#### *Risk-Weighted Assets (RWAs)*

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

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

Based on amendments to the regulation effective from June 2013, the risk-weighted assets are adjusted to:  
(a) add the increase of balances due from/(to) nonresident banks, net during the period from 31 March 2013 to the reporting date; and

(b) deduct the annual increase in gross loans and advances to resident customers up to the maximum level of 10% increase, when such increase is at least 4% of the balances in the previous year.

The Bank's policy is to maintain a strong capital base so as to sustain future development of the business and to maintain market confidence. The impact of the level of capital on future shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing within regulatory and prudential limits and the advantages and security afforded by a sound capital position.

The Bank monitors all externally imposed capital requirements throughout the period and anticipates future needs on an ongoing basis. The Bank has complied with the minimum capital requirements during 2013 and 2012.

### **35. EVENTS AFTER THE REPORTING DATE**

The Shareholders' Decision dated 12 December 2013 to increase the subscribed capital by 100 thousand shares (Note 20) using the contributions of UFT (the main shareholder of the Bank), was registered in the National Registration Office (QKR) during January 2014. The subscribed unpaid capital of 70 thousand shares is expected to be contributed within the first half of year 2014.

There are no other events after the reporting date that would require either adjustments or additional disclosures in the financial statements.