UNION BANK SH.A.

Consolidated Financial Statements

as at and for the year ended 31 December 2014

(with Independent Auditors' Report thereon)

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Independent Auditors' Report

To the Shareholders and Management of
Union Bank Sh.a.

Tirana, 31 March 2015

We have audited the accompanying consolidated financial statements of Union Bank Sh.a. ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Heris Jani
Statutory Auditor

KPMG Albania Sh.p.k.
"Deshmoret e Kombit" Blvd.
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Building 1, 13th floor
Tirana, Albania

Union Bank sh.a
Consolidated Statement of Financial Position as at 31 December
(Amounts in LEK'000)

	Notes	2014	2013
Assets			
Cash and balances with Central Bank	6	3,767,270	4,193,818
Placements and balances with banks	7	3,461,311	3,290,149
Treasury Bills held-to-maturity	8	2,112,909	1,673,818
Bonds held-to-maturity	9	10,173,067	8,780,294
Loans and advances to customers	10	14,792,661	13,556,883
Intangible assets	11	144,272	132,675
Property and equipment	12	187,504	191,787
Non-current assets held for sale	13	346,245	591,494
Investment property	14	641,592	180,969
Other assets	15	184,686	82,296
Deferred tax asset	29	12,666	1,410
Total assets		**35,824,183**	**32,675,593**
Liabilities			
Due to Central Bank	16	1,125,249	35,855
Due to banks and financial institutions	17	1,516,807	2,212,450
Due to customers	18	29,941,272	27,229,261
Other liabilities	19	246,707	620,454
Income tax payable	29	15,412	12,034
Subordinated Debt	20	1,051	1,052
Total liabilities		**32,846,498**	**30,111,106**
Shareholders' equity			
Share capital	21	2,579,853	2,481,664
Share premium		175,600	175,600
Retained earnings/(Accumulated loss)		222,232	(92,777)
Total shareholders' equity		**2,977,685**	**2,564,487**
Total liabilities and shareholders' equity		**35,824,183**	**32,675,593**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

These consolidated financial statements have been approved by Executive Management on 30 March 2015 and signed on its behalf by:

Gazmend Kadriu
Chief Executive Officer

UNION BANK TIRANE

Arten Zikaj
Chief Financial Officer

Union Bank sh.a
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December
(Amounts in LEK'000)

	Notes	2014	2013
Interest income	22	2,052,752	2,033,690
Interest expense	23	(821,520)	(1,073,225)
Net interest income		**1,231,232**	**960,465**
Fee and commission income	24	171,113	173,404
Fee and commission expenses	25	(23,989)	(33,473)
Net fee and commission income		**147,124**	**139,931**
Gain on acquisition of the Subsidiary	5	104,499	-
Net foreign exchange gain	26	57,720	72,051
Change in fair value of investment property	14	(1,380)	(214)
Impairment of assets held for sale	13	(1,206)	(3,275)
Income from leased investment property	14	14,823	-
Other income, net		13,847	978
Net impairment loss on loans and advances	10	(230,012)	(221,726)
Amortization of intangible assets	11	(35,481)	(18,016)
Depreciation of property and equipment	12	(38,215)	(36,888)
Personnel costs	27	(367,818)	(330,575)
Other operating expenses	28	(541,936)	(493,218)
Profit before tax		**353,197**	**69,513**
Income tax expense	29	(38,188)	(9,064)
Profit for the year		**315,009**	**60,449**
Other comprehensive income, net of income tax		**-**	**-**
Total comprehensive income for the year		**315,009**	**60,449**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

(Amounts in LEK'000)

	Share capital	Share premium	Accumulated loss	Total
Balance at 1 January 2013	**2,299,633**	**175,600**	**(153,226)**	**2,322,007**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital	182,031	-	-	**182,031**
Total contributions by and distributions to owners	182,031	-	-	**182,031**
Total comprehensive income for the year				
Profit for the year	-	-	60,449	**60,449**
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the year	-	-	60,449	**60,449**
Balance at 31 December 2013	**2,481,664**	**175,600**	**(92,777)**	**2,564,487**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital	98,189	-	-	**98,189**
Total contributions by and distributions to owners	98,189	-	-	**98,189**
Total comprehensive income for the year				
Profit for the year	-	-	315,009	**315,009**
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the year	-	-	315,009	**315,009**
Balance at 31 December 2014	**2,579,853**	**175,600**	**222,232**	**2,977,685**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

(Amounts in LEK'000)

	Notes	2014	2013
Cash flows from operating activities			
Profit before tax		353,197	69,513
Adjustments for non-cash items:			
Interest income	22	(2,052,752)	(2,033,690)
Interest expense	23	821,520	1,073,225
Income from investment in subsidiary		(104,499)	-
Depreciation of property and equipment	12	38,215	36,888
Amortization of intangible assets	11	35,481	18,016
Impairment loss	10	230,012	221,726
Impairment of assets held for sale	13	1,206	3,275
Change in fair value of investment property	14	1,380	214
Revaluation effect of cash and cash equivalents		(193,272)	40,588
Other revaluation effects		201	5
Written of property and equipment		733	622
Reversal of fines and penalties		(682)	-
Effect of written of loans and advances to customers		3,842	-
Net loss from sale of property and equipment		-	1,296
Net gain from sale of non-current assets held for sale		(7,317)	(395)
		(872,735)	**(568,717)**
Changes in:			
Placements and balances with banks		(42,785)	20,059
Loans and advances to customers		(1,056,360)	(1,087,208)
Other assets		(91,778)	118,100
Due to banks and financial institutions		(975,780)	899,939
Due to customers		2,819,152	2,996,665
Due to Central Bank		1,088,118	(225,371)
Other liabilities		(432,505)	476,962
Interest received		2,017,306	1,993,342
Interest paid		(928,880)	(874,311)
Income tax paid		(41,009)	-
Net cash generated from operating activities		**1,482,744**	**3,749,460**
Cash flows from investing activities			
Purchases of intangible assets	11	(43,201)	(23,063)
Purchases of property and equipment	12	(30,984)	(46,356)
Investment in subsidiaries		(342,960)	-
Proceeds from sale of property and equipment		34	-
Proceeds from sale of non-current assets held for sale		60,274	2,200
Purchases of treasury bills held to maturity		(438,864)	(374,215)
Purchases of bonds held to maturity		(1,380,100)	(2,578,636)
Net cash used in investing activities		**(2,175,801)**	**(3,020,070)**
Cash flows from financing activities			
Proceeds from capital injection		98,189	182,031
Net cash generated from financing activities		**98,189**	**182,031**
Net increase in cash and cash equivalents during the year		**(594,868)**	**911,421**
Increase in cash and cash equivalents due to investment in Subsidiary		104,179	-
Revaluation effect of cash and cash equivalents		193,272	(40,588)
Cash and cash equivalents at the beginning of the year		**5,464,032**	**4,593,199**
Cash and cash equivalents at the end of the year	30	**5,166,615**	**5,464,032**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

(Amounts in LEK '000 unless otherwise stated)

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.

Based on the Sale and Purchase Agreement signed in September 2014, on 22 December 2014, the Bank acquired 100% of the shares in Landeslease Sh.a (the "Subsidiary" or "Landeslease"), and is the only shareholder of this financial institution. The Subsidiary is an Albanian leasing company that was registered as a joint stock company and started to operate on 5 April 2005.

These consolidated financial statements comprise the Bank and its Subsidiary (collectively the 'Group').

The Headquarters of the Bank are located in Tirana, Albania.

Directors as at 31 December 2014

Board of Directors of the Bank

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

Board of Directors of the Subsidiary

Niko Leka	Chairman
Arten Zikaj	Vice-Chairman
Majlinda Hakani	Member

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated 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 measurement

The consolidated 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 consolidated financial statements are presented in Albanian Lek ("LEK"), which is the Group's functional currency. All financial information presented in LEK has been rounded to the nearest thousands, except when otherwise indicated.

2.4 Use of estimates and judgments

The preparation of consolidated 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 consolidated 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 consolidated financial statements are described in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

3.1.1 Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

3.1.2 Subsidiary

'Subsidiaries' are entities controlled by the Group. Control is achieved where an entity has the power to govern the financial and the operating policies of another entity and so to obtain benefits from its activities. The Group reassesses weather it has control if there are changes to one or more elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over the investee. The financial statements of the Subsidiary are included in the consolidated financial statements from the date on which control commences until the date in which control ceases.

3.1.3 Loss of control

When the Group loses control over its subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when the control is lost.

3.1.4 Transactions eliminated on consolidation

Intra – group balances and transactions, and any unrealised income and expense (except for foreign currency transactions gains or losses) arising from intra – group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 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 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 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 Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all 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 consolidated 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.

3.4 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.

3.5 Leases

3.5.1 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.

3.5.2 Leased assets – lessor

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, than the arrangement is classified as finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances (see Note 3.9)

3.6 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.

3.6.1 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.

3.6.2 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Tax expense (continued)

3.6.2 Deferred tax (continued)

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 Group 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.

3.6.3 Tax exposures

In determining the amount of current and deferred tax, the Group 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 Group 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.

3.7 Financial assets and financial liabilities

3.7.1 Recognition

The Group 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 Group 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 Group 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.

3.7.2 Classification

Financial assets

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

- loans and receivables
- held to maturity.

See Notes 3.8, 3.9 and 3.10.

Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. See Note 3.16.

3.7.3 Derecognition

Financial assets

The Group 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 Group 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.3 Derecognition (continued)

Financial assets (continued)

The Group 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 Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group 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 Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

3.7.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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 Group's trading activity.

3.7.5 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.

3.7.6 Fair value measurement

'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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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 Group 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 Group 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 Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.6 Fair value measurements (continued)

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

3.7.7 Identification and measurement of impairment

At each reporting date the Group 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 Group on terms that the Group 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 Group 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.

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.7 Identification and measurement of impairment (continued)

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 Group writes off certain loans and advances and investment securities when they are determined to be uncollectible (see Note 33). Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3.8 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 Group in the management of its short-term commitments.

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

3.9 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 Group 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 to customers include:

- those classified as loans and receivable; and
- finance lease receivable

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. Loans and advances also include finance lease receivable in which the Group is the lessor (see Note 3.5.2).

When the Group 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 Group's consolidated financial statements.

3.10 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 Group 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 3.7.7). 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 Group 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 Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(Amounts in LEK '000 unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property and equipment

3.11.1 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 Group 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.

3.11.2 Subsequent costs

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

3.11.3 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:

	Rate per annum
Computers	25%
Office furniture	20%
Electronic equipment	20%
Fixtures and fittings	20%
Vehicles	25%

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.

3.12 Intangible assets

Software acquired by the Group 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 Group, 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)

3.13 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 Group's control and there is sufficient evidence that the Group 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 re-measurement 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.

3.14 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 Group 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 or non-current assets held for sale, its fair value at the date of reclassification becomes its cost or carrying amount for subsequent accounting.

3.15 Impairment of non-financial assets

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

3.16 Deposits, repurchase agreements, borrowings and subordinated liabilities

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

When the Group 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 Group's consolidated financial statements.

3.17 Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Employee benefits

Defined contribution plans

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

Short-term benefits

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

3.19 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 2014, and have not been applied in preparing these consolidated financial statements. Those changes that may be relevant to the Group are set out below. The Group does not plan to adopt these standards and amendments early.

IFRS 9 Financial Instruments: IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's consolidated financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- IFRS 15 Revenue from Contracts with Customers
- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in financial statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated 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 Group'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 consolidated financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 33).

4.1 Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.7.7.

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.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group 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 3.7.6. 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.

4. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Fair value (continued)

The Group 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 34.

(Amounts in LEK '000 unless otherwise stated)

5. ACQUISITION OF LANDESLEASE

On September 2014, the Bank entered into a Sale Purchase Agreement (the 'SPA') with the shareholders of Landeslease for the purchase of 100% of the shares of Landeslease, a licensed financial lease company based in Tirana, Albania that is specialised in the leasing of vehicles and equipment. Upon completion of all conditions set in the SPA, on 22 December 2014 ("Date of Acquisition"), the Bank acquired 100% of the shares of Landeslease. The registration of shares in the National Registration Centre took place on 5 January 2015.

The Bank has acquired Landeslease with the aim of expanding its loans portfolio and the customer base, and of better utilising the funds available for investment. The acquisition has been accounted for using the acquisition method. There were no significant activities conducted by the Subsidiary in the days from the date of acquisition to the reporting date, and as a result the consolidated profit or loss includes only the results of the Bank and the gain on purchase of the Subsidiary.

The fair values of the identifiable assets and liabilities of Landeslease as at the Date of Acquisition were:

	Fair value recognized on acquisition
ASSETS	
Loans and advances credit institutions	104,179
Lease portfolio, net	631,749
Intangible assets, net	3,877
Property and equipment, net	3,715
Assets held for sale	29,342
Other assets	5,920
Deferred tax asset	10,969
Total Assets	**789,751**
LIABILITIES	
Due to banks and financial institutions	281,632
Accounts payable	11,002
Other liabilities	7,616
Total Liabilities	**300,250**
Total identifiable net assets at fair value	489,501
Gain from a bargain purchase	104,499
Purchase consideration transferred	**594,000**
Out of which Retained amount	42,042
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary	104,179
Cash paid (Purchase consideration transferred)	(342,960)
Net cash outflow	**(238,781)**

According to the SPA, the Retained amount of LEK 42,042 thousand (equivalent of EUR 300 thousand) represent a warrantee retained from the purchase price of the Subsidiary (see Note 19). In the event of claims related to the period before the purchase date of the Subsidiary, the guarantee payable shall be reduced accordingly.

The gain of LEK 104,499 thousand from a bargain purchase was recognized in the consolidated financial statements. Such gain is the result of the negotiation process with the seller.

At the acquisition date, the fair value of leased portfolio is based on observable market transactions. The Subsidiary's leased portfolio has an estimated fair value approximately equal to its book value due to underlying interest rates which approximate market rates.

The fair value of due to banks and financial institutions is estimated using discounted cash flow techniques, applying the rates that are offered for borrowings of similar maturities.

(Amounts in LEK '000 unless otherwise stated)

6. CASH AND BALANCES WITH CENTRAL BANK

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

	2014	2013
Cash on hand	940,401	919,054
Central Bank:		
Current account	735,679	1,215,597
Compulsory reserves	2,090,783	2,058,553
Accrued interest	407	614
Total	**3,767,270**	**4,193,818**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Group 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 Group's day to day operations, however according to the applicable regulations the Group 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.

7. PLACEMENTS AND BALANCES WITH BANKS

Placements and balances with banks are detailed as follows:

	2014	2013
Current accounts:		
Resident	104,179	-
Non-resident	2,739,839	2,429,457
	2,844,018	**2,429,457**
Deposits:		
Resident	596,546	334,300
Non-resident	-	515,880
	596,546	**850,180**
Other accounts	20,741	10,186
Accrued interest	6	326
Total	**3,461,311**	**3,290,149**

Deposits with resident and non-resident banks mature in the range of 2 to 6 days (2013: 3 to 13 days) and bear interest in the range of 0.15%p.a. to 2.25%p.a. (2013: 0.07%p.a. to 3.8%p.a.).

8. TREASURY BILLS HELD-TO-MATURITY

Treasury Bills held-to-maturity ("T-Bills") at 31 December 2014 are issued by the Albanian Government.

T-Bills by original maturity are presented as follows:

	31 December 2014			31 December 2013		
	Nominal value	**Remaining discount**	**Book Value**	**Nominal value**	**Remaining discount**	**Book Value**
3 months	50,000	(29)	49,971	50,000	(256)	49,744
6 months	100,000	(592)	99,408	300,000	(3,171)	296,829
12 months	1,998,560	(35,030)	1,963,530	1,358,445	(31,200)	1,327,245
Total	**2,148,560**	**(35,651)**	**2,112,909**	**1,708,445**	**(34,627)**	**1,673,818**

(Amounts in LEK '000 unless otherwise stated)

9. BONDS HELD-TO-MATURITY

Bonds held-to-maturity ("Bonds") are shown below according to their issuing bodies. The interest is paid semi-annually.

				31 December 2014
	Nominal value	**Remaining discount**	**Accrued interest**	**Book Value**
Albanian Government	9,707,226	5,143	168,821	9,881,190
Foreign Governments	140,140	1,281	7,271	148,692
Corporate Bonds	140,140	561	2,484	143,185
Total	**9,987,506**	**6,985**	**178,576**	**10,173,067**

				31 December 2013
	Nominal value	**Remaining discount**	**Accrued interest**	**Book Value**
Albanian Government	8,607,406	5,960	166,928	8,780,294
Total	**8,607,406**	**5,960**	**166,928**	**8,780,294**

Based on Moody's rating, corporate bonds as at 31 December 2014 are rated A1 - A2, whereas Foreign Government bonds are rated A1 - A-. Based on S&P rating, Albanian Government bonds are rated B+.

10. LOANS AND ADVANCES TO CUSTOMERS

	2014	**2013**
Loans and advances at amortized cost	15,108,213	14,279,143
Finance Lease	663,864	-
Allowance for Impairment	(979,416)	(722,260)
Total loans and advances to customers, net	**14,792,661**	**13,556,883**

Loans and advances to customers at amortized cost:

	2014	**2013**
Loans	12,326,658	10,285,348
Overdrafts	2,635,140	3,888,744
Other advances to customers	95,468	70,087
	15,057,266	**14,244,179**
Accrued interest	120,591	97,291
Allowances for losses on loans and advances	(947,301)	(722,260)
Deferred income	(69,644)	(62,327)
Total	**14,160,912**	**13,556,883**

Loans and advances to customers earn interest as follows:

Currency	**2014**	**2013**
LEK	2.80% - 20.0% p.a.	3.50% - 20.0% p.a.
EUR	1.79% - 15.5% p.a.	2.81% - 15.5% p.a.
USD	1.90% - 15.0% p.a.	3.10% - 15.0% p.a.

The Group 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 Group, and are covered by cash collaterals or are granted to personnel under special conditions.

Interest rates of the finance lease portfolio vary from 8.5% p.a. to 13% p.a.

(Amounts in LEK '000 unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Expected cash flows to be reimbursed for finance lease receivables for leases of equipment where the Group is the lessor are as follows:

	2014	**2013**
Less than one year	397,223	-
Between one and five years	360,765	-
Unearned future finance income	(94,124)	-
Net investment in finance lease	**663,864**	**-**
Less impairment allowance	(32,115)	-
Total	**631,749**	**-**

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

	2014	**2013**
As at 1 January	722,260	499,271
Net impairment charge for the year	230,012	221,726
Loans written-off during the period	(5,069)	-
Increase in impairment due to investment in Subsidiary	32,115	-
Translation differences	98	1,263
Balance at the end of the year	**979,416**	**722,260**

11. INTANGIBLE ASSETS

	Software	**Other intangible assets**	**Intangible assets in progress**	**Total**
At 1 January 2013				
Cost	149,647	38,256	54,652	242,555
Accumulated amortization	(94,848)	(20,079)	-	(114,927)
Net book amount	**54,799**	**18,177**	**54,652**	**127,628**
Year ended December 2013				
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)
Closing net book amount	**41,144**	**16,577**	**74,954**	**132,675**
At 31 December 2013				
Cost	149,694	40,970	74,954	265,618
Accumulated amortization	(108,550)	(24,393)	-	(132,943)
Net book amount	**41,144**	**16,577**	**74,954**	**132,675**
Year ended December 2014				
Opening net book amount	41,144	16,577	74,954	132,675
Additions	91,611	-	(48,410)	43,201
Amortization charge	(31,080)	(4,401)	-	(35,481)
Adjustments	374	(374)	-	-
Additions due to investment in Subsidiary	7,984	-	-	7,984
Accumulated amortization of additions due to investment in Subsidiary	(4,107)	-	-	(4,107)
Closing net book amount	**105,926**	**11,802**	**26,544**	**144,272**
At 31 December 2014				
Cost	249,663	40,596	26,544	316,803
Accumulated amortization	(143,737)	(28,794)	-	(172,531)
Net book amount	**105,926**	**11,802**	**26,544**	**144,272**

Other intangible assets include 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.

(Amounts in LEK '000 unless otherwise stated)

12. PROPERTY AND EQUIPMENT

	Computers	Electronic equipment	Office Furniture	Fixtures and Fittings	Fixed assets in progress	Leasehold improvements	Total
At 1 January 2013							
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)
Net book amount	**48,066**	**35,546**	**17,452**	**5,664**	**13,061**	**66,589**	**186,378**
Year ended December 2013							
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
Closing net book amount	**50,930**	**40,470**	**18,175**	**1,512**	**5,023**	**75,677**	**191,787**
At 31 December 2013							
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)
Net book amount	**50,930**	**40,470**	**18,175**	**1,512**	**5,023**	**75,677**	**191,787**
Year ended December 2014							
Opening net book amount	50,930	40,470	18,175	1,512	5,023	75,677	191,787
Additions	6,741	5,242	3,455	-	(196)	15,742	30,984
Disposals	(579)	(853)	(760)	-	-	(248)	(2,440)
Depreciation charge	(13,310)	(8,488)	(3,856)	(87)	-	(12,474)	(38,215)
Depreciation charge for disposals	483	598	592	-	-	-	1,673
Additions due to investment in the Subsidiary	1,676	3,571	1,361	2,626	-	-	9,234
Accumulated depreciation – addition due to investment in the Subsidiary	(1,125)	(2,563)	(1,000)	(831)	-	-	(5,519)
Closing net book amount	**44,816**	**37,977**	**17,967**	**3,220**	**4,827**	**78,697**	**187,504**
At 31 December 2014							
Cost	190,786	111,383	52,631	5,957	4,827	185,732	551,316
Accumulated depreciation	(145,970)	(73,406)	(34,664)	(2,737)	-	(107,035)	(363,812)
Net book amount	**44,816**	**37,977**	**17,967**	**3,220**	**4,827**	**78,697**	**187,504**

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

(Amounts in LEK '000 unless otherwise stated)

13. 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 Group 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 2014 are measured at the lower of their carrying amount and fair value less costs to sell, amounting to LEK 346,245 thousand (2013: LEK 591,494 thousand):

	2014	**2013**
Balance at 1 January	**591,494**	**299,810**
Transferred to investment property	(347,720)	(178,623)
Acquired during the year	5,562	475,387
Transferred from investment property	121,730	-
Assets sold during the year	(52,957)	(1,805)
Net impairment charge for the year	(1,206)	(3,275)
Increase in non-current assets due to investment in Subsidiary	55,353	-
Increase impairment of non-current assets due to investment in Subsidiary	(26,011)	-
Balance at 31 December	**346,245**	**591,494**

In December 2014, the Group entered into a sale agreement for a non-currents asset held for sale with a value of LEK 130 million. The price is payable in 12 monthly installments.

14. INVESTMENT PROPERTY

The Group holds investment property as a consequence of the acquisitions through enforcement of security over loans and advances. During 2014, the Group signed a rental agreement for an investment property with a value of LEK 341,942 thousand. Total income from leased investment property in 2014, was LEK 14,823 thousand.

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 Group's investment property portfolio every year.

The fair values of the Group'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 Group's investment property.

	2014	**2013**
Balance at 1 January	**180,968**	**-**
Transferred from non-current assets held for sale	347,720	178,623
Acquired during the year	236,014	2,560
Transferred to non-current assets held for sale	(121,730)	-
Net changes in fair value (unrealized)	(1,380)	(214)
Balance at 31 December	**641,592**	**180,969**

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.

Valuation technique	**Significant unobservable inputs**
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: • The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain • Specific condition of each property (construction, position etc.)

(Amounts in LEK '000 unless otherwise stated)

15. OTHER ASSETS

	2014	2013
Monetary values in transit	87,094	5,000
Sundry debtors	37,398	35,595
Prepayments	26,212	24,370
Accrued income	13,478	10,695
Other	9,010	761
Inventory	5,073	2,981
Payment in transit	3,220	2,193
Clients' receivables	2,500	-
Guarantee deposit paid	701	701
Total	**184,686**	**82,296**

Monetary values in transit represent cash sold with correspondent banks with agreed settlement date in the first days of the subsequent year.

16. DUE TO CENTRAL BANK

	2014	2013
Current accounts	-	35,855
Treasury bills sold under repurchased agreements	1,123,973	-
Accrued interest	1,276	-
Total	**1,125,249**	**35,855**

Current accounts represent the allowed use of the compulsory reserves held with the Central Bank (Note 6).

Treasury bills sold under repurchase agreements "Repos" at 31 December 2014 are short term liquidity management instruments issued by the Central Bank to inject liquidity in the banking system. Repos at the end of 2014, bear interest at market rates ranging from 2.29% p.a. to 2.35% p.a. and are denominated in LEK.

17. DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

	2014	2013
Resident	874,597	569,181
Non-resident	14,465	5,943
Current accounts	**889,062**	**575,124**
Resident	-	583,232
Non-resident	45,460	55,666
Term deposits	**45,460**	**638,898**
Resident	328,157	996,280
Non-resident	253,475	-
Borrowings	**581,632**	**996,280**
Resident	20	20
Other accounts	**20**	**20**
Accrued interest	633	2,128
Total	**1,516,807**	**2,212,450**

Current accounts from resident financial institutions include LEK 669 million deposited by Unioni Financiar Tirane ('UFT'), out of which LEK 420 million represent mainly collateral for loans issued by the Bank to related parties. At 31 December 2013 funds deposited by UFT mainly as collateral for loans to related parties of LEK 583 million, were presented as term deposits with resident financial institutions and held a maturity in the range of 3 days to 12 months and interest rates varying from 1.2%p.a. to 3.6%p.a.

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', a related party, of LEK 45,460 thousand (2013: LEK 45,480 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates ranging from 1%p.a. to 2.5%p.a. (2013: 3.5%p.a. to 4.2%p.a.).

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

17. DUE TO BANKS AND FINANCIAL INSTITUTIONS (CONTINUED)

An amount of LEK 281,632 thousand at 31 December 2014 represents secured borrowing that the Subsidiary has received from banks and financial institutions. These borrowings are secured by lease contracts with a carrying amount of LEK 463,419 thousand.

18. DUE TO CUSTOMERS

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

	2014	**2013**
Government and public administration:		
Local currency	10,834	3,592
Foreign currency	29,416	121,728
	40,250	**125,320**
Current accounts:		
Local currency	2,444,303	1,721,127
Foreign currency	2,029,091	1,328,214
	4,473,394	**3,049,341**
Saving accounts:		
Local currency	1,420,570	1,169,890
Foreign currency	2,151,942	1,772,362
	3,572,512	**2,942,252**
Term deposits:		
Local currency	12,080,053	11,860,448
Foreign currency	8,310,757	8,255,399
	20,390,810	**20,115,847**
Other customer accounts:		
Local currency	251,090	105,446
Foreign currency	793,636	368,954
	1,044,726	**474,400**
Prepaid interest on customer deposits	(2,110)	(6,730)
Accrued interest	421,690	528,831
Total	**29,941,272**	**27,229,261**

Current and saving accounts bear interest in the range of 0.1% p.a. to 0.3% p.a. (2013: 0.1% p.a. to 0.4% p.a.) and term deposits bear interest as follows:

Currency	**2014**	**2013**
LEK	0.40%p.a. to 7.60%p.a.	1.30%p.a. to 7.90%p.a.
EUR	0.20%p.a. to 4.50%p.a.	1.00%p.a. to 4.60%p.a.
USD	0.20%p.a. to 3.00%p.a.	0.80%p.a. to 3.20%p.a.
GBP	0.30%p.a. to 1.20%p.a.	0.40%p.a. to 1.60%p.a.

(Amounts in LEK '000 unless otherwise stated)

18. DUE TO CUSTOMERS (CONTINUED)

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

			31 December 2014			31 December 2013
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Current accounts (including Government and administration)	**2,455,137**	**2,058,507**	**4,513,644**	**1,724,719**	**1,449,942**	**3,174,661**
Saving accounts	**1,420,570**	**2,151,942**	**3,572,512**	**1,169,890**	**1,772,362**	**2,942,252**
Term deposits:						
One month	37,719	56,334	94,053	34,929	178,373	213,302
Three months	440,269	367,808	808,077	355,828	326,161	681,989
Six months	504,045	453,108	957,153	520,210	452,473	972,683
Twelve months	3,463,335	3,585,944	7,049,279	3,599,167	3,097,617	6,696,784
Fourteen months	1,510,313	932,194	2,442,507	2,350,858	1,387,693	3,738,551
Twenty-four months	251,444	35,876	287,320	545,116	65,757	610,873
Twenty-five months	2,409,368	1,430,871	3,840,239	2,340,007	1,631,788	3,971,795
Other	3,463,560	1,448,622	4,912,182	2,114,333	1,115,537	3,229,870
Total deposits	**12,080,053**	**8,310,757**	**20,390,810**	**11,860,448**	**8,255,399**	**20,115,847**
Other customer accounts:						
On demand	34,770	123,470	158,240	5,547	120,698	126,245
One month	-	-	-	-	-	-
Three months	3,200	-	3,200	-	-	-
Six months	2,400	-	2,400	2,400	365	2,765
Twelve months	15,056	389,096	404,152	12,124	105,350	117,474
Twenty-four months	-	2,803	2,803	-	2,804	2,804
Other	195,664	278,267	473,931	85,375	139,737	225,112
Total other customer accounts	**251,090**	**793,636**	**1,044,726**	**105,446**	**368,954**	**474,400**
Total	**16,206,850**	**13,314,842**	**29,521,692**	**14,860,503**	**11,846,657**	**26,707,160**

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

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

(Amounts in LEK '000 unless otherwise stated)

19. OTHER LIABILITIES

Other liabilities are comprised of the following:

	2014	**2013**
Payments in transit	120,216	164,865
Guarantees	42,042	364,520
Invoices to be received	36,106	51,511
Other payables	21,210	21,586
Other provisions for risk and expenses	11,818	5,080
Payables to tax authorities	7,616	-
Advances from clients	6,152	-
Deferred income and accrued expenses	1,547	1,287
Provisions for income tax	-	11,605
Total	**246,707**	**620,454**

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

Guarantees at 31 December 2014, include an amount of LEK 42,042 thousand (equivalent of EUR 300 thousand) that represents a warrantee retained from the purchase price of the Subsidiary (see Note 1). In the event of claims related to the period before the purchase date of the Subsidiary, the guarantee payable shall be reduced accordingly. In 2013, guarantees included the cash collateral of LEK 364,520 thousand for a guarantee that was effective from February 2014.

20. 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.

21. 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. This contribution was paid in two trenches as follows:

- 31 December 2013: 30 thousand shares with a total value of LEK 42,807 thousand; and
- 31 March 2014: 70 thousand shares with a total value of LEK 98,189 thousand.

At 31 December 2014, the subscribed capital was divided into 1,997,143 shares (2013: 1,927,143 shares) with a nominal value of EUR 10 each, while the movements in the paid up share capital in 2014 and 2013 were as follows:

	31 December 2014		**31 December 2013**	
	No. of shares	**Value of shares**	**No. of shares**	**Value of shares**
Balance at the beginning of the year	1,927,143	2,481,664	1,797,143	2,299,633
Capital increase	70,000	98,189	130,000	182,031
Paid-up share capital	**1,997,143**	**2,579,853**	**1,927,143**	**2,481,664**

(Amounts in LEK '000 unless otherwise stated)

21. SHARE CAPITAL (CONTINUED)

The structure of subscribed capital is as follows:

	2014	2013
Unioni Financiar Tirane (UFT) Sh.p.k	85.66%	85.66%
European Bank for Reconstruction and Development (EBRD)	10.62%	10.62%
Edmond Leka	1.86%	1.86%
Niko Leka	1.86%	1.86%

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

22. INTEREST INCOME

Interest income was earned on the following assets:

	2014	2013
Loans and advances to customers	1,311,927	1,280,636
Investment securities	716,575	719,166
Loans and advances to banks & financial institutions	24,250	33,888
Total	**2,052,752**	**2,033,690**

23. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	2014	2013
Due to customers	792,590	1,048,392
Loans and advances from financial institutions	16,303	20,145
Repurchase agreements	12,609	4,670
Subordinated debt	18	18
Total	**821,520**	**1,073,225**

24. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	2014	2013
Banking services	136,248	133,114
Lending activity	11,626	12,625
Other	23,239	27,665
Total	**171,113**	**173,404**

25. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	2014	2013
Fee charged for services offered from the agents	9,232	19,426
Treasury operations	5,703	5,958
Banking services	5,364	4,790
Other	3,690	3,299
Total	**23,989**	**33,473**

26. 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 2014, is LEK 57,720 thousand (2013: LEK 72,051 thousand).

(Amounts in LEK '000 unless otherwise stated)

27. PERSONNEL COSTS

	2014	2013
Salaries and other compensations	328,760	295,466
Social insurance	39,058	35,109
Total	**367,818**	**330,575**

As at 31 December 2014 the Group had 327 employees (2013: 306).

28. OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	2014	2013
Rent	156,171	141,608
Premium insurance of deposits	78,788	70,633
Other external services	75,141	72,808
Communication expenses	42,243	39,933
Marketing	40,100	26,317
Security services	28,893	29,659
Software maintenance	28,794	27,898
Office supply	20,512	18,145
Utilities energy, water etc.	19,955	19,417
Consulting and Legal fees	18,097	11,481
Maintenance and repairs	13,142	16,866
Transportation and business trip expense	9,053	8,044
Board remuneration	4,090	4,457
Insurance	3,615	4,203
Trainings	2,260	531
Representation	1,082	1,218
Total	**541,936**	**493,218**

29. INCOME TAX

	2014	2013
Current tax expense	38,475	12,034
Deferred tax income	(287)	(2,970)
Total tax expense	**38,188**	**9,064**

Income tax in Albania is assessed at the rate of 15% (2013: 10%) of taxable income. The following represents a reconciliation of the accounting profit to the income tax:

	Effective Tax rate	2014	Effective Tax rate	2013
Profit before tax		**353,197**		**69,513**
Income tax at 15% (2013: 10%)	15.00%	52,980	10.0%	6,951
Non-deductible expenses	0.55%	1,932	1.7%	1,176
Income exempted from income tax	(4.74%)	(16,724)	-	-
Effect of changes in the tax rate and reversal of previous temporary differences	-	-	3.3%	2,273
Utilization of tax losses carried forward	-	-	(1.9%)	(1,336)
Income tax expense	**10.81%**	**38,188**	**13.0%**	**9,064**

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.

(Amounts in LEK '000 unless otherwise stated)

29. INCOME TAX (CONTINUED)

	2014	2013
Losses carried forward from 2010 at beginning of the year	**-**	**27,435**
Adjustments to losses carried forward from 2010	-	(14,079)
Utilization of tax losses	-	(13,356)
Unutilized tax losses from 2010 (expired in 2013)	**-**	**-**

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:

	2014	2013
Deferred tax asset at the beginning of the year	1,410	3,334
Recognized in profit or loss	287	(1,924)
Additions due to investment in Subsidiary	11,175	-
Deferred tax asset at the end of the year	**12,872**	**1,410**
Deferred tax liability at the beginning of the year	-	16,499
Recognized in profit or loss	-	(4,894)
Reclassified as income tax provision	-	(11,605)
Additions due to investment in Subsidiary	206	-
Deferred tax liability at the end of the year	**206**	**-**
Net deferred tax asset	**12,666**	**1,410**

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

	2014	Subsidiary	Recognized in Profit or loss	2013	Recognized in Profit or loss	Realized temporary differences	2012
Deferred tax asset:							
Non-current assets held for sale	1,093	-	(285)	1,378	787	-	591
Investment property	604	-	572	32	32	-	-
Tax losses carried forward	-	-	-	-	(2,743)	-	2,743
Finance lease receivable	5,522	5,522	-	-	-	-	-
Other provisions	5,653	5,653	-	-	-	-	-
	12,872	**11,175**	**287**	**1,410**	**(1,924)**	**-**	**3,334**
Deferred tax liability:							
Allowances for losses on loans	-	-	-	-	(4,894)	(11,605)	16,499
Loans and other borrowings	(206)	(206)	-	-	-	-	-
	(206)	**(206)**	**-**	**-**	**(4,894)**	**(11,605)**	**16,499**

(Amounts in LEK '000 unless otherwise stated)

29. INCOME TAX (CONTINUED)

Based on the local accounting law, starting from 1 January 2008 the Group 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 for banks 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. The Bank considered as a permanent difference the charge in excess to the Central Bank provisions for the year 2013, and given the 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. Provisions for income tax were fully paid in 2014.

Income tax is prepaid in quarterly installments. The table below shows the total amount due to tax authorities for income tax after taking into consideration the amount of it paid in respective years.

	2014	**2013**
Income tax payable as at 01 January	**12,034**	**-**
Income tax paid (due as at the end of previous year)	(12,034)	**-**
Income tax prepaid	(18,052)	**-**
Current tax	38,475	12,034
Income tax prepaid by the Subsidiary	(5,011)	**-**
Income tax payable as at 31 December	**15,412**	**12,034**

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	2014	**2013**
Cash on hand	940,401	919,054
Accounts with Central Bank	735,679	1,215,597
Financial institutions with maturity of 3 months or less	3,440,564	3,279,637
Treasury bills with maturity of 3 months or less	49,971	49,744
Total	**5,166,615**	**5,464,032**

(Amounts in LEK '000 unless otherwise stated)

31. 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 Group has related party relationships with its shareholders and affiliates, directors and executive officers. The shareholding structure of the Group as at 31 December 2014 and 2013 is presented in Note 21. Unioni Financiar Tirane (UFT) Sh.p.k is the ultimate parent of the Group.

Associated entities (owed directly or indirectly by UFT) 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 Automobilit te 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 Group has the following balances with its related parties:

	2014	2013
Assets:		
Loans and advances to customers:		
Associated entities	1,040,085	1,268,920
Key management personnel of the entity and their relatives	120,246	85,204
Other Assets:		
Parent company	428	862
Associated entities	3,051	2,931
Key management personnel of the entity and their relatives	5,459	7
Liabilities:		
Due to banks and financial institutions:		
Parent company	852,482	662,259
Associated entities	48,788	47,731
Due to customers:		
Associated entities	208,269	77,575
Key management personnel of the entity and their relatives	402,867	341,958
Other Liabilities:		
Parent company	210	42,270
Associated entities	4,978	5,052
EBRD	490	351
Subordinated debt:		
Parent company	1,051	1,052

(Amounts in LEK '000 unless otherwise stated)

31. RELATED PARTY (CONTINUED)

Loans to associated entities in the amount of LEK 640,440 thousand (2013: LEK 838,920 thousand) are covered by cash collateral of LEK 674,571 thousand (2013: LEK 836,606 thousand) and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

	2014	**2013**
Un-drawn credit facilities from the Bank:		
Associated entities	8,135	16,959
Key management personnel of the entity and their relatives	11,345	20,928
Guarantees received:		
Parent company	-	583,232
Associated entities	2,071,977	2,423,165
Key management personnel of the entity and their relatives	296,140	393,155
Guarantees given:		
Parent company	20	20
Associated entities	4,938	3,234

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

	2014	**2013**
Interest income:		
Parent company	2	-
Associated entities	47,812	45,409
Key management personnel of the entity and their relatives	5,920	6,284
Interest expense:		
Parent company	2,842	7,846
Associated entities	2,000	3,132
Key management personnel of the entity and their relatives	5,024	5,037
Fees and commission income:		
Parent company	5,473	9,626
Associated entities	2,616	2,694
Key management personnel of the entity and their relatives	654	383
Operating income:		
Associated entities	34	2,827
Operating expense:		
Parent company	2,518	2,525
Associated entities	55,675	56,549
Key management personnel of the entity and their relatives	129,490	110,866
Other shareholders	1,052	928

(Amounts in LEK ‘000 unless otherwise stated)

32. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2014	2013
Guarantees given in favor of customers	659,957	544,525
Un-drawn credit facilities	864,791	611,101
Commitments for LC	48,368	-

Guarantees and commitments

The Group 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 Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2014. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group’s management is of the opinion that no material losses will be incurred in relation to legal claims.

Operating lease commitments

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

	2014	2013
Not later than 1 year	102,281	97,028
Later than 1 year and not later than 5 years	-	2,173
Total	**102,281**	**99,201**

33. FINANCIAL RISK MANAGEMENT

The Group’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 Group’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group’s financial performance.

The Group’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 further.

33. 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 Group to incur a loss. The Group is subject to credit risk through its lending activities (including financial leasing), 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 Group 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 for the Bank, reporting to the Bank Executive Management; and, Supervisory Board in cooperation with Lease Committee for the Subsidiary, are responsible for management of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Credit facilities approvals and renewals require approval by Credit Department or Lease Committee, Head of Credit Department, Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit Department or/and Lease Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances).
- Developing and maintaining the Group'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 or Subsidiary Lease Committee.
- Reviewing compliance of business units with agreed exposure limits. Regular reports on the credit quality of local portfolios are provided to Bank Credit Department or to the Subsidiary Lease Committee who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Department and Credit Committee or Subsidiary Lease Committee. Each business unit has a responsible officer who reports on all credit related matters to local management and the Bank Credit Committee or Subsidiary Lease 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 Group Credit processes are undertaken by Internal Audit.

(Amounts in LEK '000 unless otherwise stated)

33. 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:

	2014	**2013**
Treasury Bills held-to-maturity	2,112,909	1,673,818
Placements and balances with banks	3,461,311	3,290,149
Loans and advances to customers	14,792,661	13,556,883
Bonds held-to-maturity	10,173,067	8,780,294
Financial guarantees	659,957	544,525
Standby letters of credit	48,368	-
Commitments to extend credit	864,791	611,101
Maximum exposures to credit risk	**32,113,064**	**28,456,770**

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 Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

Past due but not impaired loans

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

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.

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances are summarized as follows:

As at 31 December 2014	Loans and advances to customers					Placements and balances with banks
	Retail	Corporate	Advances	Finance Lease	Total Loans	
Neither past due nor impaired	4,128,703	3,794,187	1,540,288	296,219	9,759,397	3,461,311
Past due but not impaired	845,345	1,598,256	736,745	298,616	3,478,962	-
Individually impaired	339,846	1,633,382	491,461	69,029	2,533,718	-
Total Gross	**5,313,894**	**7,025,825**	**2,768,494**	**663,864**	**15,772,077**	**3,461,311**
Less: allowance for individually impaired loans	116,471	406,214	201,980	17,041	741,706	-
Less: allowance for collectively impaired loans	53,354	126,464	42,818	15,074	237,710	-
Total Allowance for impairment	**169,825**	**532,678**	**244,798**	**32,115**	**979,416**	**-**

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	-
Total Gross	**4,208,671**	**6,082,888**	**3,987,584**	**14,279,143**	**3,290,149**
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	-
Total Allowance for impairment	**145,469**	**434,986**	**141,805**	**722,260**	**-**

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances neither past due nor impaired

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

As at 31 December 2014

Rating	**Loans and advances to customers**					
	Retail	**Corporate**	**Advances**	**Finance Lease**	**Total Loans**	**Placements and balances with banks**
Good	4,090,865	3,659,211	1,534,242	296,219	9,580,537	3,461,311
Acceptable	29,564	134,976	6,046	-	170,586	-
Close monitoring	8,274	-	-	-	8,274	-
Unacceptable	-	-	-	-	-	-
Total	**4,128,703**	**3,794,187**	**1,540,288**	**296,219**	**9,759,397**	**3,461,311**

As at 31 December 2013

Rating	**Loans and advances to customers**				**Placements**
	Retail	**Corporate**	**Advances**	**Total Loans**	**and balances with banks**
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	-	-	-	-	-
Total	**3,160,344**	**3,269,403**	**2,891,451**	**9,321,198**	**3,290,149**

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 2014	**Loans and advances to customers**				
Time band	**Retail**	**Corporate**	**Advances**	**Finance Lease**	**Total Loans**
Past due up to 30 days	520,114	961,337	203,461	161,551	1,846,463
Past due 31-60 days	179,830	543,022	223,998	85,645	1,032,495
Past due 61-90 days	119,872	82,187	58,635	51,420	312,114
Past due 91-180 days	18,738	381	216,312	-	235,431
Past due over 180 days	6,791	11,329	34,339	-	52,459
Total	**845,345**	**1,598,256**	**736,745**	**298,616**	**3,478,962**
Estimation of fair value of collateral	**520,114**	**961,337**	**203,461**	**226,833**	**14,669,016**

As at 31 December 2013	**Loans and advances to customers**			
Time band	**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
Total	**829,646**	**1,468,413**	**841,793**	**3,139,852**
Estimation of fair value of collateral	**3,233,437**	**5,021,411**	**972,142**	**9,226,990**

Loans and advances past due over 90 days are collateralized by cash amounting to LEK 168,616 thousand (2013: LEK 53,989 thousand).

(Amounts in LEK '000 unless otherwise stated)

33. 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 2,533,718 thousand (2013: LEK 1,818,093 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 Group as security, are as follows:

As at 31 December 2014	**Loans and advances to customers**				
	Retail	**Corporate**	**Advances**	**Finance Lease**	**Total Loans**
Individually impaired	339,846	1,633,382	491,461	69,029	2,533,718
Collateral	909,419	5,412,894	1,246,304	41,591	7,610,208

As at 31 December 2013	**Loans and advances to customers**			
	Retail	**Corporate**	**Advances**	**Total Loans**
Individually impaired	218,681	1,345,072	254,340	1,818,093
Collateral	519,197	10,548,422	565,985	11,633,604

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 1,491,315 thousand (2013: LEK 1,165,103 thousand). The increase in the total restructured portfolio in 2014 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 Group 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 total amount written off during 2014, is LEK 8,911 thousand (2013: nil).

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and 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.

31 December 2014	**Against individually impaired**	**Against collectively impaired**	**Total**
Property	6,831,652	37,965,870	**44,797,522**
Pledge	776,385	15,233,781	**16,010,166**
Cash	2,171	2,338,415	**2,340,586**
Total	**7,610,208**	**55,538,066**	**63,148,274**

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

31 December 2013	Against individually impaired	Against collectively impaired	Total
Property	11,213,362	24,156,216	**35,369,578**
Pledge	419,938	14,712,108	**15,132,046**
Cash	304	2,641,666	**2,641,970**
Total	**11,633,604**	**41,509,990**	**53,143,594**

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core business lines.

For the Bank

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.

For the Subsidiary

The Subsidiary approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Subsidiary and Group reputation.

One of the key measures used by the Subsidiary for managing liquidity risk is the ratio of liquid assets to short term liabilities.

The Supervisory Board reviews the liquidity situation of the Subsidiary frequently and makes appropriate recommendations.

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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

31 December 2014	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with Central Bank	3,767,270	-	-	-	-	-	3,767,270
Placements and balances with banks	3,440,570	-	-	-	-	20,741	3,461,311
Treasury Bills held-to-maturity	249,867	258,517	482,578	1,121,947	-	-	2,112,909
Bonds held-to-maturity	406,826	207,963	530,281	1,511,033	5,215,232	2,301,732	10,173,067
Loans and advances to customers	1,615,615	807,671	1,189,857	2,453,503	5,840,738	2,885,277	14,792,661
Other assets	150,200	2,500	-	-	-	701	153,401
Total	**9,630,348**	**1,276,651**	**2,202,716**	**5,086,483**	**11,055,970**	**5,208,451**	**34,460,619**
Liabilities							
Due to Central Bank	855,080	270,169	-	-	-	-	1,125,249
Due to banks and Financial institutions	1,204,179	111,991	56,152	100,649	43,836	-	1,516,807
Due to customers	10,305,144	3,008,332	2,695,069	7,803,934	6,128,793	-	29,941,272
Other liabilities	245,160	-	-	-	-	-	245,160
Income tax payable	-	15,412					15,412
Subordinated debt	-	-	-	1,051	-	-	1,051
Total	**12,609,563**	**3,405,904**	**2,751,221**	**7,905,634**	**6,172,629**	**-**	**32,844,951**
Liquidity risk at 31 December 2014	**(2,979,215)**	**(2,129,253)**	**(548,505)**	**(2,819,151)**	**4,883,341**	**5,208,451**	**1,615,668**
Cumulative	**(2,979,215)**	**(5,108,468)**	**(5,656,973)**	**(8,476,124)**	**(3,592,783)**	**1,615,668**	

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2013	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with Central Bank	4,193,818	-	-	-	-	-	4,193,818
Placements and balances with banks	3,279,963	-	-	-	-	10,186	3,290,149
Treasury Bills held-to-maturity	199,743	220,594	477,035	776,446	-	-	1,673,818
Treasury Bonds held-to-maturity	511,221	451,184	469,510	1,435,013	4,761,438	1,151,928	8,780,294
Loans and advances to customers	2,030,906	660,313	1,080,427	2,853,786	4,660,867	2,270,584	13,556,883
Other assets	54,244	-	-	-	-	701	54,945
Total	**10,269,895**	**1,332,091**	**2,026,972**	**5,065,245**	**9,422,305**	**3,433,399**	**31,549,907**
Liabilities							
Due to Central Bank	35,855						35,855
Due to banks and Financial institutions	2,085,039	11,750	-	115,661	-	-	2,212,450
Due to customers	8,141,335	2,620,826	3,070,384	9,650,985	3,745,731	-	27,229,261
Other liabilities	619,167	-	-	-	-	-	619,167
Income tax payable	12,034						12,034
Subordinated debt	-	-	-	1,052	-	-	1,052
Total	**10,893,430**	**2,632,576**	**3,070,384**	**9,767,698**	**3,745,731**	**-**	**30,109,819**
Liquidity risk at 31 December 2013	**(623,535)**	**(1,300,485)**	**(1,043,412)**	**(4,702,453)**	**5,676,574**	**3,433,399**	**1,440,088**
Cumulative	**(623,535)**	**(1,924,020)**	**(2,967,432)**	**(7,669,885)**	**(1,993,311)**	**1,440,088**	

(c) Market risk

The Group 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 Group 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 Group 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 Group presents its consolidated financial statements is the LEK, the Group's consolidated financial statements are affected by movements in the exchange rates between the LEK and other currencies.

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Currency risk (continued)

The Group'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 Group that are not denominated in the measurement currency of the Group. The applicable exchange rates for the principal currencies are as follows:

	2014	**2013**
EUR:LEK	140.14	140.20
USD:LEK	115.23	101.86

The analysis of monetary assets and liabilities as at 31 December 2014 and 2013 by the foreign currencies in which they were denominated is shown below:

31 December 2014	**LEK**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,385,802	497,310	1,799,992	84,166	**3,767,270**
Placements and balances with banks	63,603	423,047	2,954,488	20,173	**3,461,311**
Treasury Bills held-to-maturity	2,112,909	-	-	-	**2,112,909**
Bonds held-to-maturity	9,456,115	-	716,952	-	**10,173,067**
Loans and advances to customers	3,561,964	122,887	11,107,810	-	**14,792,661**
Other assets	43,952	682	21,279	87,488	**153,401**
Total	**16,624,345**	**1,043,926**	**16,600,521**	**191,827**	**34,460,619**
Liabilities					
Due to Central Bank	1,125,249				**1,125,249**
Due to banks and financial institutions	320,847	3,679	1,192,269	12	**1,516,807**
Due to customers	16,527,926	1,113,019	12,173,120	127,207	**29,941,272**
Other liabilities	89,320	11,617	142,356	1,867	**245,160**
Income tax payable	15,412	-	-		**15,412**
Subordinated debt	-	-	1,051	-	**1,051**
Total	**18,078,754**	**1,128,315**	**13,508,796**	**129,086**	**32,844,951**
Net commitments and FX Spot	45,684	159,561	34,593	(68,221)	**171,617**
Net Position	**(1,408,725)**	**75,172**	**3,126,318**	**(5,480)**	**1,787,285**

31 December 2013	**LEK**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,447,095	213,086	2,305,614	228,023	**4,193,818**
Placements and balances with banks	124,051	1,309,117	1,830,454	26,527	**3,290,149**
Treasury Bills held-to-maturity	1,673,818	-	-	-	**1,673,818**
Bonds held-to-maturity	8,355,462	-	424,832	-	**8,780,294**
Loans and advances to customers	3,450,587	98,693	10,007,603	-	**13,556,883**
Other assets	42,979	1,691	9,930	345	**54,945**
Total	**15,093,992**	**1,622,587**	**14,578,433**	**254,895**	**31,549,907**
Liabilities					
Due to Central Bank	35,855	-	-	-	**35,855**
Due to banks and financial institutions	804,609	10,893	1,396,936	12	**2,212,450**
Due to customers	15,232,783	1,467,764	10,410,594	118,120	**27,229,261**
Other liabilities	150,078	8,770	460,319	-	**619,167**
Income tax payable	12,034	-	-	-	**12,034**
Subordinated debt	-	-	1,052	-	**1,052**
Total	**16,235,359**	**1,487,427**	**12,268,901**	**118,132**	**30,109,819**
Net commitments and FX Spot	310,108	(20,321)	131,496	(141,789)	**279,494**
Net Position	**(831,259)**	**114,839**	**2,441,028**	**(5,026)**	**1,719,582**

(Amounts in LEK '000 unless otherwise stated)

33. 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 Group 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 Group becoming over-sensitive to interest rate changes.

The Group's interest rate gap as at 31 December 2014 is analyzed below. As at 31 December 2014, majority of the Group'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 Group were as follows:

	Weighted average interest rate							
	LEK		**USD**		**EUR**		**Other**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Assets:								
Statutory reserves	1.40%	2.10%	N/A	N/A	N/A	N/A	N/A	N/A
Placements and balances with banks	2.25%	3.35%	0.07%	0.07%	0.17%	0.33%	N/A	N/A
Investment securities	6.03%	7.21%	N/A	N/A	5.57%	7.50%	N/A	N/A
Loans to customers	9.41%	10.37%	6.35%	7.30%	7.24%	7.59%	N/A	N/A
Liabilities:								
Due to banks	2.30%	3.08%	N/A	N/A	1.78%	1.36%	N/A	N/A
Due to customers	3.39%	5.45%	1.16%	1.76%	1.63%	3.08%	0.95%	1.22%
T-Bills under Repos	2.31%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	1.53%	1.67%	N/A	N/A

ii. Interest rate repricing analysis

The following table presents the interest rate repricing dates for the Group'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.

(Amounts in LEK '000 unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk (continued)

31 December 2014	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	Non-interest bearing	Total
Assets							
Cash and balances with Central Bank	1,107,067	-	-	-	-	2,660,203	**3,767,270**
Placements and balances with banks	3,440,564	-	-	-	-	20,747	**3,461,311**
Treasury Bills held-to-maturity	249,867	258,517	482,578	1,121,947	-	-	**2,112,909**
Bonds held-to-maturity	350,000	300,000	580,000	2,167,171	6,605,232	170,664	**10,173,067**
Loans and advances to customers	5,043,448	819,227	2,706,357	4,326,642	2,946,047	(1,049,060)	**14,792,661**
Other assets	-	-	-	-	-	153,401	**153,401**
Total	**10,190,946**	**1,377,744**	**3,768,935**	**7,615,760**	**9,551,279**	**1,955,955**	**34,460,619**
Liabilities							
Due to Central Bank	854,285	269,688	-	-	-	1,276	**1,125,249**
Due to banks and financial institutions	1,192,120	111,806	56,152	100,624	43,836	12,269	**1,516,807**
Due to customers	9,596,285	2,944,420	2,655,620	7,716,332	5,989,112	1,039,503	**29,941,272**
Other liabilities	-	-	-	-	-	245,160	**245,160**
Income tax payable	-	-	-	-	-	15,412	**15,412**
Subordinated debt	-	-	1,051	-	-	-	**1,051**
Total	**11,642,690**	**3,325,914**	**2,712,823**	**7,816,956**	**6,032,948**	**1,313,620**	**32,844,951**
Gap	**(1,451,744)**	**(1,948,170)**	**1,056,112**	**(201,196)**	**3,518,331**	**642,335**	**1,615,668**
Cumulative gap	**(1,451,744)**	**(3,399,914)**	**(2,343,802)**	**(2,544,998)**	**973,333**	**1,615,668**	

(Amounts in LEK '000 unless otherwise stated)

33. 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
Assets							
Cash and balances with Central Bank	1,143,711	-	-	-	-	3,050,107	**4,193,818**
Placements and balances with banks	3,279,128	-	-	-	-	11,021	**3,290,149**
Treasury Bills held-to-maturity	199,743	220,594	477,035	776,446	-	-	**1,673,818**
Bonds held-to-maturity	450,000	550,000	520,000	2,091,928	5,001,438	166,928	**8,780,294**
Loans and advances to customers	1,967,209	1,044,833	2,500,515	6,948,339	1,880,573	(784,586)	**13,556,883**
Other assets	-	-	-	-	-	54,945	**54,945**
Total	**7,039,791**	**1,815,427**	**3,497,550**	**9,816,713**	**6,882,011**	**2,498,415**	**31,549,907**
Liabilities							
Due to Central Bank	35,855	-	-	-	-	-	**35,855**
Due to banks and financial institutions	2,006,100	11,319	-	115,094	-	79,937	**2,212,450**
Due to customers	7,629,179	2,575,315	3,032,653	9,442,156	3,649,258	900,700	**27,229,261**
Other liabilities	-	-	-	-	-	619,167	**619,167**
Income tax payable	-	-	-	-	-	12,034	**12,034**
Subordinated debt	-	-	1,052	-	-	-	**1,052**
Total	**9,671,134**	**2,586,634**	**3,033,705**	**9,557,250**	**3,649,258**	**1,611,838**	**30,109,819**
Gap	**(2,631,343)**	**(771,207)**	**463,845**	**259,463**	**3,232,753**	**886,577**	**1,440,088**
Cumulative gap	**(2,631,343)**	**(3,402,550)**	**(2,938,705)**	**(2,679,242)**	**553,511**	**1,440,088**	

(Amounts in LEK '000 unless otherwise stated)

33. 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:

	31 December 2014	**31 December 2013**
Interest rate increases by 2%	19,467	11,070
Interest rate increases by 1.5%	14,600	8,303
Interest rate increases by 1%	9,733	5,535
Interest rate decreases by 1%	(9,733)	(5,535)
Interest rate decreases by 1.5%	(14,600)	(8,303)
Interest rate decreases by 2%	(19,467)	(11,070)

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:

	31 December 2014	**31 December 2013**
Lek depreciates by 5%	159,801	127,542
Lek appreciates by 5%	(159,801)	(127,542)

(d) Operational risk

The operational risk is incurred on the delivery of all of the Group'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 Group 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.

(Amounts in LEK ‘000 unless otherwise stated)

34. DISCLOSURE AND ESTIMATION OF FAIR VALUE

Fair value estimates are based on existing financial instruments on the Group’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 2014			As at 31 December 2013	
	Carrying amount	**Fair value Level 1**	**Fair value Level 2**	**Carrying amount**	**Fair value Level 2**
Financial assets					
Treasury Bills held-to-maturity	2,112,909	-	2,111,245	1,673,818	1,677,546
Placements and balances with banks	3,461,311	-	3,461,311	3,290,149	3,290,149
Loans and advances to customers	14,792,661	-	14,792,661	13,556,883	13,556,883
Bonds held-to-maturity	10,173,067	728,320	9,483,434	8,780,294	9,039,933
Financial liabilities					
Due to Central Bank	1,125,249	-	1,125,249	35,855	35,855
Due to banks and financial institutions	1,516,807	-	1,516,682	2,212,450	2,210,835
Due to customers	29,941,272	-	29,593,655	27,229,261	26,803,832
Subordinated debt	1,051	-	1,051	1,052	1,052

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 Group’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.

Bonds held-to-maturity

Bonds held-to-maturity include treasury bonds issued by Albanian Government in LEK, bonds issued by Albanian and foreign Governments in EUR and Corporate bonds issued in EUR which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for securities issued in LEK. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, whenever the quoted prices exist, the securities are included in the Level 1 of the fair value hierarchy, whereas those securities that observable market inputs were used to determine their fair value were transferred to Level 2 of the fair value hierarchy.

34. DISCLOSURE AND ESTIMATION OF FAIR VALUE (CONTINUED)

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.

35. CAPITAL MANAGEMENT

Regulatory capital

The Group 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%, and 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 Group’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 Group monitors all externally imposed capital requirements throughout the period and anticipates future needs on an ongoing basis. The Group has complied with the minimum capital requirements during 2014 and 2013.

36. EVENTS AFTER THE REPORTING DATE

From the amount of EUR 300 thousand payable for the Subsidiary (see Note 19), the Bank paid EUR 100 thousand in February 2015.

On 13 February 2015, during the cash in transit process, which is managed through contracted professional, licensed third parties, the escort of the Bank was attacked outside the Bank’s premises by unidentified armed people. The total potential amount is fully insured within the Bankers Blanket Bond Insurance Policy the Bank has in place, and Management believes that the Bank will recover the full amount. The case is currently under investigation, and the amount will be disclosed upon completion of such investigation.

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