ANNUAL REPORT 2014

UNIONBANK

Banka që dua

Content

1.

Message of the Chairman of Board of Directors

It is indeed a great pleasure for me to present to you the Annual Report of Union Bank for the year 2014. In addition to giving a full spectrum of the operational and financial developments this year, it also aims to describe the spirit in which the Bank itself operates in the market, highlighting the fundamental importance of values like integrity, transparency or bank involvement in the society where we operate.

Year 2014 was a relatively difficult one in the view of economic conditions in our country and the geopolitical region. Despite these not very favorable conditions, the strategy chosen by us and the involvement of our managerial team in it made this another successful year for us. The Bank made significant progress in sectors and products in which we had put targets to ourselves within our orientation towards sustainable growth and at the same time the Bank increased its active role in being a valuable partner to each individual or business.

One of our core values is integrity and we have integrated this value in the culture of how we work; a working culture which is transmitted to our employees through fulfilling the good practices of corporate governance. Our dedication for having a high standard in the aspect of corporate governance is not a goal in itself but plays a crucial role in the area of risk management or reaching new market opportunities and especially in establishing a trustful relationship with the clients and our business partners. As such, in the content of our report you will find our financial results which are an output of these relationships and of our corporate values built during our history in the market.

Along with the development of our client base, we as Union Bank had an expansion based on our vision of growth through actively evaluating opportunities that may arise in acquiring other financial companies. As a result, the completion of the acquisition of Landeslease sh.a was one such successful achievement during 2014. This purchase will project us in the future toward the leasing financing, too, and by having a larger base of clients we will have the opportunities to grow further and offer high-quality service also in this area.

As a bank we have always put a special focus to our environment area and social aspects of the market in which we operate, considering it as an inseparable part of our identity.

As a result, we have created financing products for environmental and nature protection projects and we always welcome projects of similar scope for further financing .

Also, as it is becoming now a tradition for many years, Union Bank sponsors the Albanian football national team. We believe in the positive value that sports carries through and in the union in spirit which our football team is transmitting to all Albanian sport fans. In our National Football Team we find an additional way to be identified as an Albanian bank and to reach our potential clients wherever they are.

In 2015 and further on, Union Bank will work hard to continue its advancement, as it has done in recent years. We will achieve this goal through our managerial policies and responsible strategies, by financing projects and business that are sustainable.

Finally, please allow me to extend, in my name and on behalf of the Board of Directors, the appreciation and deep gratitude towards our clients, employees and all our partners that collaborate with us because they help us walk our way and make us be Union Bank.

2.

Who we are

Our Vision

To make Union Bank a sound, sustainable and a profitable bank, for our shareholders, clients and employees

Our Strategic Goal

Our strategic goal is through increased sales to become key player in the banking sector

Our Core Values

We take a long term view of our relationships with our customers

...provide them with products and services at competitive prices
...and are innovative and proactive with them.

We develop professional, highly trained, motivated people

...working in teams
...with honest two way communication at all levels.

We operate with integrity in all our dealings.


UNIONBANK
NBANK
Një banke të cilës mund t'i besoni.
PËRFITONI INTERESIN

3.

The Bank and its Shareholders

3.1. History of Union Bank

Union Bank (The Bank") received its license from the Bank of Albania in January 2006.

The Bank is registered as a joint stock company and provides universal banking services almost exclusively to and for individuals and enterprises in the Republic of Albania.

During 2014, the Bank purchase 100% of the shares of the Landeslease sh.a., a leasing company operating in Albania since 2005.

Main Developments

2006 The Bank obtained its license for banking activities on January 9, 2006.

2006 Seven branches are opened, the bank starts its operational activities in Tirana, Durres, Elbasan, Fushe-Kruje, and Fier

2006 The Bank offers a full range of deposit, credit and payment services

2007 Thirteen new branches open in Tirane, Kukes, Berat, Korce, Shkoder, Pogradec, Lezhe, Lushnje, Lac and Rrogozhine

2008 Launch of Maestro debit card product; First Mastercard credit card is issued

2008 Launch of the UB-Online Internet banking product

2008 Bank's total assets exceed EUR 100 million.

2008 EBRD joins as second largest shareholder (12.5% stake)

2010 Six new branches are opened, including two new cities – Divjaka and Polican;

2009 Institutional Building Plan (IBP) starts as a two-year technical support program from EBRD with a purpose of further strengthening the Bank

2009 With Kavaja and Vlora followed by 2 more new branches in Tirana, the branch network reaches 30 branches and 39 ATMs; the Bank has 236 employees

2009 The Bank achieved its first annual profit

2010 The Bank activates credit line agreement with EBRD to support lending to SMEs

2010 The new organization structure and new performance evaluation process took place to respond to the growing size and complexity of the Bank

2011 Steady growth in total assets despite the financial crisis

2011 Third consecutive year realizing profits;

2011 Contracts signed for the Upgrade of the Core Banking System software

2012 Bank's total assets increased by 20% reaching EUR 200 million;

2013 Bank's profitability increased by five times more than 2012;

2013 Bank started the final phase of the new Upgrade of the Core Banking System Software implementation;

2014 Bank purchased 100% of the shares of the LandesLease sh.a., a leasing company operating in Albania since 2005.

2014 Bank's total assets increased by 10% reaching EUR 250 million;

3.2. Bank's Shareholders

The shareholding of Union Bank comprises financial institutions and successful entrepreneurs, acting as major supporters of the successful activity of the Bank.

Financial Union Tirana ("UFT")

UFT as the main shareholder is one of the most successful non-banking financial institutions in the region, representing Western Union in Albania, Kosovo, Macedonia and Switzerland. UFT provides simple, fast, and modern money transfer services to a large mass of clients.

The European Bank for Reconstruction and Development ("EBRD")

EBRD is the second largest shareholder. EBRD is the largest financial investor in central Europe, the Western Balkans and Central Asia with a mandate to help countries in these regions to become open, market economies."The EBRD is committed to furthering progress towards 'market-oriented economies and the promotion of private and entrepreneurial initiative'. This has been its guiding principle since its creation at the beginning of the 1990s and, new challenges and the welcoming of new countries to the EBRD world notwithstanding will continue to be its mission in years to come. Uniquely for a development bank, the EBRD has a political mandate in that it assists only those countries 'committed to and applying the principles of multi-party democracy and pluralism. EBRD is owned by 64 countries, the European Union and the European Investment Bank". EBRD's investment in Union Bank aims to support high corporate governance standards and to help Union Bank achieve its objective of becoming one of the leading financial organizations in Albania. EBRD is represented in General Assembly and appoints one member to the Board of Directors.

Mr. Edmond Leka

Mr. Leka brings an extensive experience in various financial activities. Since March 1995 he is the President and Chief Executive Officer of Financial Union Tirana and since 2006 is Chairman of the Board of Union Bank. From September 2000 until 2008 Mr. Leka was the Vice – President of American Chamber of Commerce in Albania, and previously as Chairman of the Board of Directors of Albanian Mobile Communications. He also has been Chairman of the Board of Directors of the Italian – Albanian Bank, from March 1996 to February 2002 and Chairman of the Board of Open Society Foundation Albania (Soros Foundation) from January 2002 to March 2005.

Mr.Niko Leka

Mr. Leka has a well established and long term experience in the financial, management and business activity. Currently, he serves with the capacity of the Executive Director of Financial Union Tirana and the Chairman of the Landeslease Board of Directors. Previously, Mr. Leka has been a consultant and member of various management and financial organizations. In addition, Mr. Leka has been the Director of Urban Credit Department (Microfinance Institution) during 1994 -1995 within the Albanian Development Fund and has served as a Board Executive Member of the "Besa" Fund (Micro credit Financing Foundation) during 1999-2002.

3.3. Board of Directors

Edmond Leka

(Chairman of the Board)

Niko Leka

(Vice chairman of the Board)

Paul Nabavi

Mr. Paul Nabavi has been a member of the Union Group Board since 2011.He is a Senior Banker at the European Bank for Reconstruction and Development, based in London. Mr Nabavi's experience spans over thirty years in banking, finance and investments in different regions of the world. From 2007-2008 he was Director at ACTIS LLP (a leading emerging markets private equity firm) and from 2001 to 2008 he was Chief Executive of Caribbean Finance Investments Limited, based in Havana, Cuba. Prior to that, Mr Nabavi worked for many years at the CDC Group (the UK's development finance institution) where he became Director for the financial institutions team, responsible for new investments and loans to CDC's FI clients in Asia, Africa and Latin America. His early career was spent in corporate finance advisory work and auditing.

Varuzhan Piranjani

Mr. Varuzhan Piranjani has been a member of the Union Bank Board since 2005, the Head of its Audit Committee since 2007, and he brings forward a long-time and accomplished experience in business, finance, banking and insurance matters. His early work relates to managerial positions in the accounting field with several enterprises.
From 1992-2006, Mr. Piranjani has been in the insurance industry in the capacity of the Deputy CEO and then later as the CEO of the Insurance Institute of Albania (INSIG).
Mr. Piranjani presently serves as a Board Member of Union Group and of the Unioni Financiar Tirane.

Agim Xhaja

Mr. Agim Xhaja serves as a member of the Union Bank Board Group since 2008 and is currently working as the Head of Service for Fixed Income, Foreign Exchange and Real Estate Portfolios for Banque Cantonale Vaudoise, Asset Management based in Switzerland.
Mr.Xhaja's background entails a vast, thorough and international experience in banking, finance and investments with a special focus in Risk-related and portfolio management issues. Some of his previous positions have been in various international firms, the most highlighted of which UBS Zurich, where he dealt with Investment Analysis and Credit Risk Aggregation. While working for other firms, he has also concentrated in mathematics and financial product engineering.

Genc Turku

Mr. Genc Turku serves as the member of the Union Bank Board since 2010 and is presently working as the Executive Director (before that as the Operational Director) of the Financial Union in Prishtina, Kosovo since 2000.
Mr. Turku has established a solid and long work expertise in banking, treasury, foreign exchange, insurance and asset-liability matters. From 1992-2000, Mr. Turku has served in the capacity of the Head of Foreign Exchange, and later as the Head of Treasury within International Division with Savings Bank of Albania in Albania.
Mr. Turku also serves as a Member of the Institution for Change Management Albania (ICLA)

Gazmend Kadriu

(CEO)

Mr. Kadriu serves in the capacity of CEO and Board Member of Union Bank since the beginning of building the bank in 2005.

(further details of biography on page 14)

The Board meets typically 5 times per year to set the overall strategy and direction for UB, to make major organizational decisions, to approve larger credit decisions and effectively monitor the management of the Bank. In addition, the Board is expected and it does consider, review and approve, on annual basis, all key operating policies of the Bank.

The Board has established the Audit Committee and the Human Resource Management Committee.

1) The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities for the financial reporting process and monitoring compliance with laws and regulations.The main duties of the Audit Committee are to assist the Board of Directors in supervising of the:

- The integrity of the bank financial statements.
- Bank compliance with laws and regulations,
- The selection process and the performance of external auditors,
- The performance of internal auditors.

2) The purpose of the HR Committee (HRC) is to assist and support the BoD of the Union Bank in their responsibilities for issues related to HR Management such as:

- Establishing and reviewing the UB's remuneration policy in areas like employees' benefits and compensations;
- HR policies and Procedures related to Employment hiring/dismissal of high level management of the Bank;
- Examining and reviewing significant developments in such areas as Code of Conduct, Bank organizational structure,
- Policies assisting in the attraction, retention, succession planning and development of UB employees.

3.3. Senior Management

Mr. Gazmend Kadriu, CEO

Tetovo, Macedonia, 1969

Mr. Kadriu serves in the capacity of CEO and Board Member of Union Bank since the beginning of building the bank in 2005.

Mr. Kadriu has a comprehensive and wide-spread experience as a banker, bank regulator and auditor, and has gained an extensive and thorough professional banking and financial experience in three countries in the region (Macedonia, Kosovo, Albania).

Mr. Kadriu holds a degree in Economics from the University St. Ciril and Metodius – Skopje. His experience includes five years in Supervision Department of the National Bank of Macedonia, 1993 – 1998, from which the last two as Head of the Department, than as Audit Manager in Ernst & Young, Skopje from 2001 to 2004. He continued his career as the CEO and Board Member of the New Bank of Kosovo.

Mr. Kadriu has been a member of the Board of Directors and Risk Management Committee of Tutunska Banka a.d.Skopje during December 2000 - June 2006 and Board of Trustee Member and Vice-Chairman of Macedonian Enterprise Development Foundation, Skopje, during December 1998 - March 2006.

Mrs. Suela Bokshi, Chief Operations Officer

Tirana, 1973

Mrs. Bokshi serves in the capacity of Chief Operations Officer in Union Bank since July 2005.

Mrs. Bokshi has a long term experience in banking. She graduated in Finance and Banking, in the University of Tirana and continued a Master in Banking and Finance for Eastern European Countries in “Giordano Del’ Amore Foundation” and CARIPLO Bank, Milan, Italy. Mrs. Bokshi started her career in the National Commercial Bank in 1995. In 1997 she worked in the Bank of Albania in the capacity of Head of Payments Department. In 2000 she joined ProCredit Bank holding the positions of Head of Payments and Treasury and then Chief Operations Officer.

Mr. Ardian Petollari, Chief Business Officer

Korça, 1970

Mr. Petollari serves in the capacity of Chief Business Officer in Union Bank since August 2007.

Mr. Petollari has a diverse experience including banking, business activity, academic experience etc.

Mr. Petollari graduated in Economy in the University of Tirana. After almost five years of academic and business experience he started his banking career in National Bank of Greece in Korça, holding the positions of Deputy and the Branch Manager for more than four years. Afterwards Mr. Petollari had important positions in state institutions like Deputy Director and then Director of the General Director of Taxes during 2002 – 2005, Deputy Minister in the Ministry of Economy, 2005.

Mr.Arten Zikaj, Chief Finance Officer

Tirana, 1975

Mr. Zikaj serves in the capacity of Chief Finance Officer in Union Bank since March 2011.

Mr. Zikaj has an extensive experience in financial accounting, reporting and financial analysis, international and local audit on financial institution, insurance and other commercial companies, IFRS expertise, risk management, treasury operations, etc. He has also served for several years as a part time lecturer in University of Tirana, Economic Faculty.

Mr. Zikaj graduated in Business Management in the Faculty of Economics, Tirana University. He worked for about 7 years in auditing for KPMG as a Manager in charge for auditing and also financial advisory services for several industries in Albania and Kosovo. In 2004 he has been in the position of Deputy Chief Financial Officer in ProcreditBank of Albania and in 2007-2010 he served in KEP Trust, a MFI in Kosovo in the capacity of Deputy Executive Director.

Mrs Enkeleda Hasho, Chief Credit Officer

Berati, 1975

Mrs. Hasho serves in the capacity as Chief Credit Officer and joined the executive team in 2012.

Mrs Hasho' experience comes from a long and solid finance and banking background. Prior to being the Head of Credit for UB, Mrs. Hasho has worked as the Head of the Credit Department for International Commercial Bank (ICB) from 2000-2005. Mrs. Hasho also brings a valuable expertise in the process of credit commercial strategy development based on the credit products

Mrs. Hasho graduated in Business Management from Faculty of Economics of Tirana University and she also holds an MBA degree from Universitas Fabrefacta Optime (UFO) University, in Tirana.

Mrs. Hasho is a Member of Credit Committee and Bank Administrator since 2006.

4.

Economy Overview during 2014

4.1. Economic developments during 2014

Global Economy

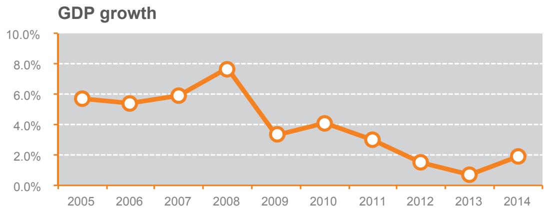
Year 2014 for the world's economy brought gradual progress reflecting a yearly increase of 3.4% in comparison with a 2.9%[1] GDP of the previous period. The overall yearly parameters were lower than the expectations. There are various complex factors that are shaping the entire financial and business situation but the primary observation is the contrasting developments in different regions. The general sentiment was that mature economies grew with positive rhythms, while the emerging markets struggled with many difficulties for more investments and productivity. Inflationary pressures have been low and the costs of commodities havein general dropped following the decrease of crude oil price by bringing the financial markets to a stable point. On the other side, the geo-political conflicts, like the case of Ukraine, have immensely heightened the tensions and have made the export-import balances very volatile, while China's and other economies slowed down toward the end of the year, by curbing the growth of their economic activity. In a broad perspective, the world financial and business authorities state that, although the downward risks have come to a halt, the implementation of economic and financial reforms in developing countries should be applied and followed with utmost rigor to minimize the structural flaws.

US economy grew with a 2.4% yearly rate which is better than the forecasted figures and better than the previous year growth rate of 1.9%. It still continues to be the largest economy in the world, and the general positive trend signs that started in 2013 continued to boost the rising improvement of US economy on most part, thus enhance the consumer spending measures and indexes, lower the unemployment rate to 5.6% from 6.7% from a year ago, and solidified the confidence for the near economic future. The export balances have also improved thanks to many factors with the primary ones being the export of gas, software, technological know-how and consulting. There are still existing concerns and major issues over social and political agendas about foreign and public debts, the implementation of health care and other domestic reforms and the maintenance of the fiscal and financial situation. The medium-term outlook for the US remains positive. The US dollar has strengthened its position against the other currencies, especially toward Eur.
Eurozone economy marked recent recovery signs showing a yearly increase rate of GDP of 0.8% as opposed to the decrease of 0.4% in 2013. The aggregate unemployment rate at the end of the year fell to 11.4% (2013:11.9%). Although the financial markets have stabilized due to the internal demand strengthening, and the lowering of pricing on many commodities have marked positive improvements, the regional geo-political conflicts and the difficulties with different governments and their highdebt and unemployment rate, along with the elevated emigration problems, remain at the bottom of serious concerns that Eurozone actually faces, while the Eur currency has significantly depreciated. The fiscal and economic

1 Source of Data: ECB Reports on World Economic Outlook for 2014

complexities exist in many economies, the measures taken to stimulate or loosen the financial markets in 2013 had an encouraging effect, and the inflation is low (negative brackets), while the interest rates have been falling. The ECB announces that it will continue with its easing and facilitating policies and support the public and private sector toward a further consolidation of the financial markets.. The outlook for the Eurozone tells for a moderate rate of development in the next year, albeit with the significant question mark related to the ultimate outcome of the fragile Greece issue.

Albanian Economy



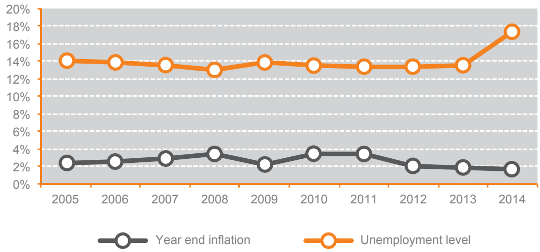
The economy of Albania during 2014 grew by having a GDP increase rate better than the previous year, after a continuous decreasing trend of growth rates in the last 3 years.

As stated in the "Memorandum of Economic and Financial Policies" published on January 2015 "The economy is beginning to recover. Real GDP is expected to have grown by 2.1 percent in 2014, mostly in the second half of the year. The expansion is associated with higher petroleum production, and a pickup in agriculture, trade ,and manufacturing. Arrears clearance, lower interest rates, and a strong export performance in textiles and footwear have yielded a modest pickup in private demand. After a slow start early in the year, public investment picked up subsequently, while electricity production has benefitted from a turnaround in rainfall conditions.

External imbalances are expected to have widened in 2014. The current account deficit is estimated to have reached 14.0 percent of GDP, a 3.4 percentage point increase compared to last year, mainly because of higher demand for electricity imports due to weak rainfall in the first quarter, and higher intermediate imports. Exports of goods increased thanks to higher agriculture and textile exports. Petroleum exports, however, declined because part of the production was channeled to the recently refurbished local refinery. Remittances have continued on a declining trend, in relation to GDP. The current account deficit was financed largely by higher FDI and borrowing. Gross international reserves are sufficient to cover around 4.3 months of imports of goods and services.
Inflation continues to be modest. Average CPI inflation was 1.6 percentin 2014, remaining below the Bank of Albania's (BoA) mediumterm target of 3% (with a tolerance band of ±1 percentage point).

There has been a modest pickup in inflation since 2013: Q4, but it continues to be

Unemployment & Inflation



constrained by weak price pressures from foreign trading partners, the negative output gap, and 5 modest wage growth. The BoA lowered its policy rate by 25 basis points in November, to a new record low of 2.25 percent."

The level of unemployment at the end of the year has increased to 17.4% in comparison to 13.5% that it was during 2013. Central Government Public Debt Stock was at the level of 69.11% (2013:64.82%, 2012: 62.00%)[2] of GDP being at its highest level ever.

Speaking about external risks, the high exposure to the eurozone might have negative effects based on the fact that Eur currency has depreciated toward the main currencies, especially toward the US dollar. The regional instability in relation to some countries sovereign debt and other geo-political issues may impose actual complications for the fiscal system in general, and in particular for the banks that are subsidiary of the banks in these countries. On the domestic side, besides socio-economic and political issues, there is a low demand for goods and there are serious future economic uncertainties which are also linked to relatively small amounts of foreign investments and consumer spending[3].

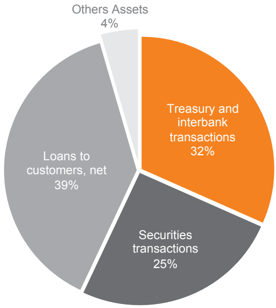
4.2. Banking System in Albania

The system's total Assets value reached the amount of Lek 1,294.0 Billion[4] reflecting a yearly increase rate of 4.8% higher than the 2013. The banking sector continues to be the segment with significant weight and one of the most important and crucial for the national economic activity, with its total assets reaching 92% of the country's GDP. In a general and broad perspective, the situation is considered to be stable with satisfactory levels of capitalization and liquidity, low volatility of exchange rates, and overall positive profitability at the end of the year. In addition, although the volume of NPL still remains one of the highest in the region and the exposure has grown,the quality of the portfolio was slightly improved to 22.8% from 23.5% that it was in 2013.

In comparison with the prior periods, the risk factors are similar to those before. As it's proved by the regular stress tests performed by the central bank and the second-level banks, the systemic risk is present (in some cases higher),

2 Source of Debt data: Ministry of Finance | 3 Source of Data: Bank of Albania
4 Data Source: Bank of Albania | 5 Interests included

but it's watched and controlled with the same vigilance. The primary concern is the perception of a future economy worsening which translates into low internal demand. The system is still sensitive towards the internal and external shocks, and there is a relatively high direct and indirect exposure level of individuals and business.



Banking Sector Assets Structure 2014

The highest relative increase in the development of Assets is thevolume of Security Transaction which grew to Lek 327.8 Billion or 8.4% (in yearly terms) Loans increased by 23.3 Billion or 4.9% reaching the value of 498.4 Billion thus marking a contrasting positive change against the previous year which showed a yearly decrease.

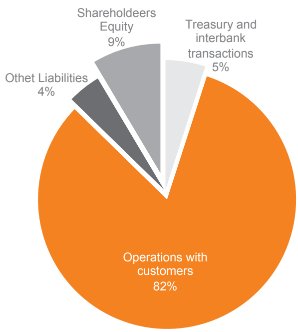
The main component of Liabilities continues to be the Customer Funds which reached a figure near Lek 1,065 Billion or 5.0% higher than the prior year (3.6% in 2013) by being at their lowest rate since 2009.

Shareholders Equity is near to 111 Billions. During 2014, it increased by 7.4% versus 1.5% of 2013 and it makes up for 8.6% of total Assets.

According to IMF and EBRD the credit system in Albania has started to pick up and seemingly has put (for the time being) a stop to main threats and the fiscal system has a consolidating tendency.

The yearly profit of the Banking system came to about Lek11.2 Billion almost double of 2013 figure. (3.7 Billion in 2012). As it was mentioned earlier, Loan portfolio quality improved to 22.8% from 23.5% in 2013 while the cost of funds significantly decreased improving thenet interest margins.

From the regulatory point of view, in order to stimulate the growth of lending, the Central Bank of Albania decided to lower the refinancing rate (Lek's prime rate) 4 times during the year by 25 bases points, and it continued to uphold and carry easing mechanisms and processes to further improve the NPL and simulate the credit increase in the banking sector.



Banking Sector Liabilities Structure 2014

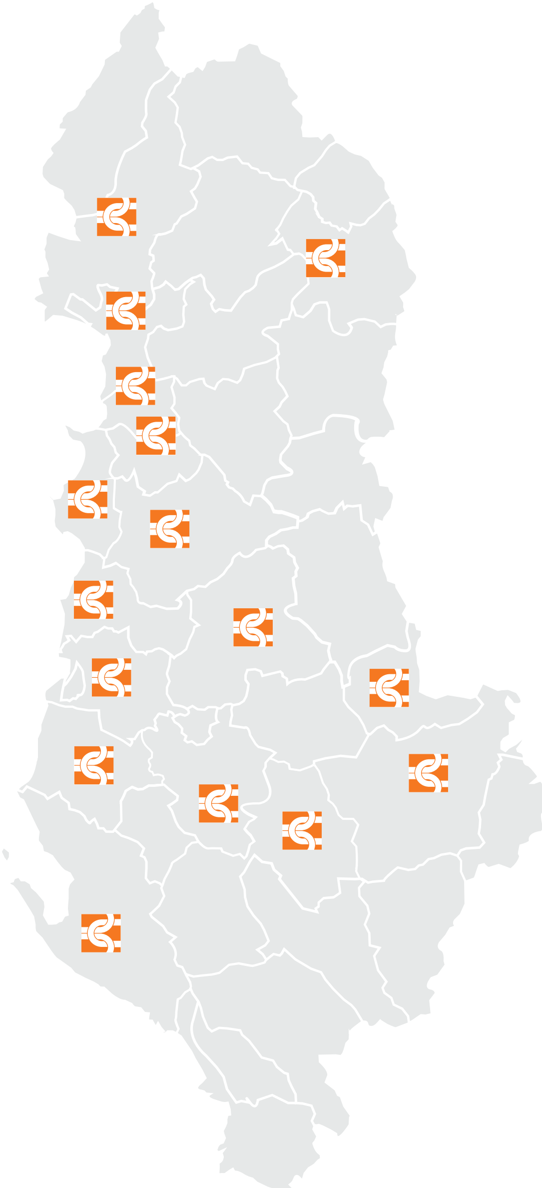
5.

Bank Network Development

Union Bank has a well-established and firm nation-wide network of branches which at the end of December 2014 included 28 physical branches and outlet structures, 40 outlets in ATM network and electronic channels of Internet Banking and Mobile Banking.

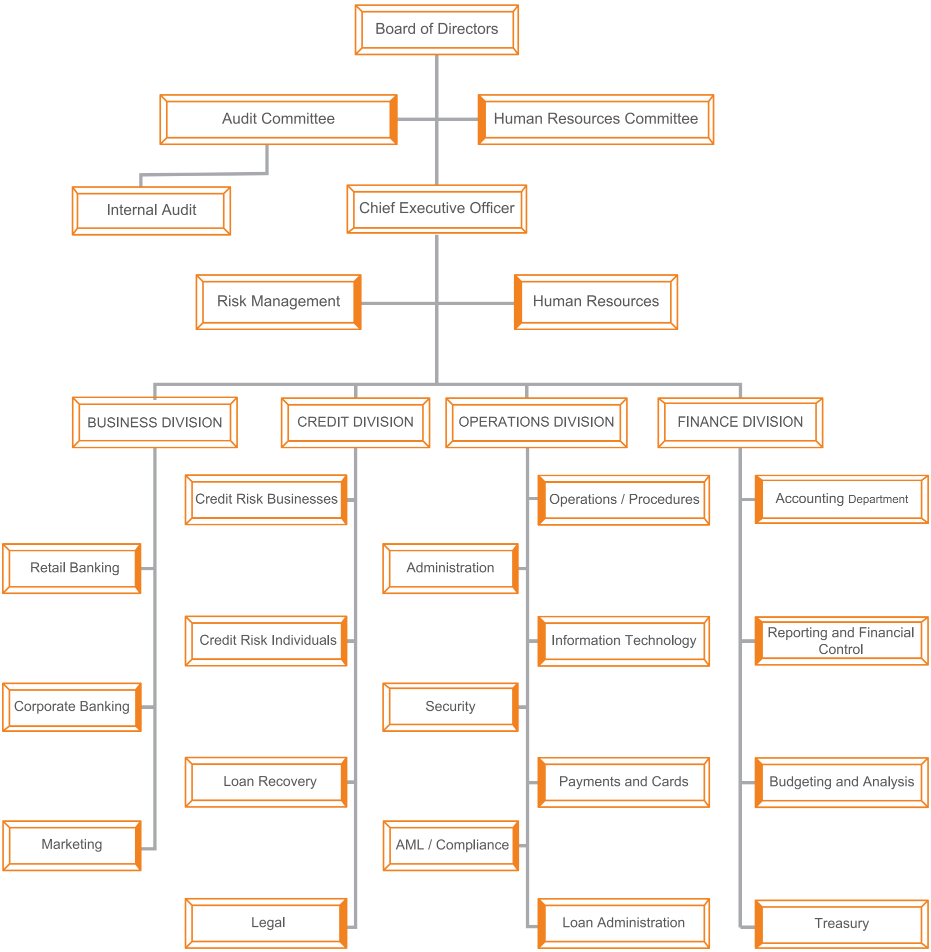
The network started with a few locations in the Tirana region in 2006 and it further expanded its activity in the central, north and south parts of the entire country. In order to construct a more quick and efficient process, the network has continuously allowed the customers to complete their financial and banking transactions, not only through the basic channels such as over-the-counter operations, immediate and live communications within the branches, but also through other venues like on-line distribution electronic channels, telephonic and wire services encompassing national and international locations. Its main objective is to facilitate the collective practices and shorten the time and distance so it contributes to the overall accomplishment of services.

With a purpose of creating better locations and help the customers with their financial needs in a timely and easy fashion, during 2014 the management decided to relocate the branches within the cities in Fushe-Kruje and Rruga e Durresit (Tirana), and consolidate two branches in Kamez (Tirana) into one with new, improved and more spacious facilities.



6. Organisation structure and Human Resources developments

6.1. Organisational structure

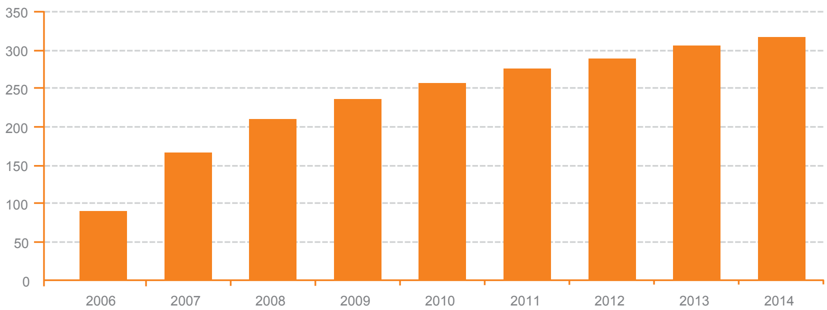


6.2. Human Resources development

The organization of Union Bank totals up to 317 members: 108 in Head Office and 209 in the branch network. During this year Staff grew with a net number of 11 new members or 4% higher than the previous period.

The Bank's progress and solidification depends on the addition of extra support staff and the strengthening managerial capacity in the branches, as well as increasing the capacities of various Head Office departments.

Numbers of staff



In regarding to promotion procedures the same HR policies and practices applied in terms of hiring processes. About 7 vacant positions in HO were filled by existing head office and branches' staff members while in total approximately 15 employees were promoted in higher positions within their branch/region/department (including replacements).

Learning and Training

During 2014, approximately 35 training sessions were delivered, covering several technical areas for Head Office employees, as well as Customer Service, Sales Force Efficiency and Success, Management and Leadership etc.

In lieu of all the hiring and training developments, the bank maintains the most efficient and appropriate approach by keeping a priority on the business objectives, but without undermining the difficulties and the barriers that go along with the process. The bank conducts a yearly performance evaluation results, and in addition to this, employee opinion surveys are often organized, in order to get the necessary feedback and to pinpoint the areas that need improvements. Union Bank has a thorough and proactive perspective in regards to professional and ethical standards, by conveying them throughout the whole work environment, while trying to instill them and make it an organization culture. The main philosophy is based on the strong belief that essentially, the success of the bank relies on its staff. In this framework, the Bank requires and support professional higher learning, first-rate customer service, team-work, and at the same time upholding and carrying a positive and challenging attitude. UB is one of the first banks to apply managing styles and assess progress of its organization members by putting and following yearly objectives.

As far as training goes, there are prior and on-the-job instructions and training to all employees from the time that they join the organization, and it continues with day-to-day operations and activities thus benefiting from the established procedures and the existing expertise. UB also participates in several updating and training programs, seminars and conferences that are organized locally and nation-wide from Bank of Albania, Albanian Association of Banks etc., and other international organizations such as Banking Association for Central and Eastern Europe (BACEE, based in Budapest), and Financial Technology Transfer Agency (ATTF, based in Luxemburg)

A special emphasis is also put in introducing the new employees and frequently training the existing employees with the new and updated rules and regulations for Anti Money Laundering (AML) procedures.

Remuneration Policy

The Human Resources Committee (HRC)is regulated by the HRC charter and approved by the Board, and it also approves the compensation plan as part of the HR policy.

This is a very important issue for UB and one that has a significant impact on employee engagement. All performance compensation actions derives from the overall performance of Union Bank, the individual business unit performance as measured by level of achievement of business targets and individual staff performance as measured by the performance appraisal.The Bank implements the following salary reviews, complying with respective rules: the initial review, the promotion review, annual performance review, and loyalty review, with the main focus in the performance review in order to reward the best performers. Compensation serves as one part of a total reward and recognition package that includes the base pay, bonuses, and benefits for employees.

In addition to the base salary, as the fixed component, the Bank applies several bonuses, as a form of the variable component, the main ones related to the achievement of the business targets and outstanding sales performance. The bonus is determined according to the financial situation of the bank, its overall, individual business units' performance, as well as individual performance. Some of the bonuses applied are the annual performance bonus, quarterly sales and New Year bonus.

Members of the Board of Directors are paid a fixed amount per meeting participation.

Remuneration for Executive Management is composed of the fixed and variable components, based on the financial situation of the bank, as well as the individual performance of each division.

Safety and Security

UB puts a great effort into making the bank and its employees safer by always increasing controls that guard the customer information, the initiation fraud prevention programs and investing in new security and technology equipment and procedures. New and existing employees are continuously informed about updated security measures and they also participate in sessions accompanied with frequent adequate training to allow their optimal dispersion throughout the bank network.

UB also makes it one of its main functions to ensure the health, safety, and wellbeing of its employees. In terms of benefits, Health Insurance was renewed for almost the entire staff. The scheme covers a regular check up and a high number of employees has benefited.

7.

Risk management

In its business activities, the Bank strives to achieve an optimum balance between the risks taken and returns realized, while steering clear of excessive, unnecessary, and uncontrollable risk exposures.

To enable this, the Bank has established a comprehensive framework for effectively managing all the risks, by identifying, measuring, controlling, monitoring, and mitigating the potential events that could result in losses or potentially impair the ability of the Bank to generate stable and sustainable financial results.

The Bank's primary defense against losses from any risk is reflected in both its internal controls structure and operational model. The Bank has defined adequate policies and procedures for managing all the risks inherent in every business line in which it operates. In this context all the business processes have been designed to reduce the negative impact from any risk, respecting the Bank risk appetite and relevant tolerance level. Every employee and specially process owners bear the primary responsibility of managing the risks and consequently maintaining the relevant control and vigilance at appropriate levels.

However, in addition to the above, the Bank has long now established a risk management function which serves as a centre of excellence for promoting a proactive risk culture across all business lines. The Department presents independent reports to the Board of Director's meetings, in parallel to the management reports. The function is represented also on several Bank Committees (i.e. Asset-Liability, and Operational Risk) providing an independent opinion in the respective areas. It coordinates the creation and maintenance of adequate risk policies, risk parameters and methodologies in accordance with the Bank risk appetite. The Department has close and frequent collaboration with all business units and Executives, and develops innovative, practical and effective risk management processes, tools and controls, as well as proper risk reports.

Considering its business profile and characteristics, the Bank's main risk exposure areas are Credit Risk, Liquidity Risk, Interest Rate Risk, Counterparty Risk, Foreign Exchange Risk, and Operational Risk. While the performance of each of these risks is explained in detail under the Auditor's report on Financial Statements, in this section we are providing main policies with regards to risk control and mitigation.

Risk Management Policy:

The policy defines the main risks the Bank is exposed to, as well as the main principles of risk management process and organizational scheme.

Credit Policy:

The Credit Policy is the primary document defining the credit risk management principles. Credit risk is mitigated by cash-flow oriented lending, adequate collateral as second-tier protection, appropriate risk-based pricing, effective loan portfolio structuring and diversification, adequate bank-wide controls etc. A very important part of the process is continuous monitoring and adequate reserve levels assigned to this risk.

Asset and Liabilities Management Policy:

ALM Policy is the main document governing the Bank assets and liabilities management activities, including all funding transactions, investment of liquid resources and managing the risk in the balance sheet. The below paragraphs shortly describes the main areas addressed by ALM Policy.

- Liquidity Management

The Bank strives to maintain a well-diversified depositor base and preserve satisfactory access to different funding option, managing concentrations and structural imbalances. In addition, the Bank monitors any internal and external factors that might have an impact on its capability to remain liquid.

The Bank's ALCO has developed quantitative models for reducing excessive cash and liquid assets balances, while complying at all times with liquidity risk indicators defined by regulators as well as internal ones defined by Board of Directors.

- Interest Rate Management:

Interest rate risk is defined as the sensitivity of the Bank's earnings and equity to changes in the market interest rates. Interest rate risk results from the differences in the way assets, liabilities and off-balance sheet instruments are affected by interest-rate changes.

The Bank's ALCO has established risk control limits which are regularly monitored. The management of interest rate risk encompasses gap analysis, interest spread management, and dynamic pricing of rate-sensitive assets and liabilities, in line with the market expectations and within the relevant limits.

- Foreign Exchange Management:

Foreign Exchange Risk arises from changes in foreign exchange rates that affect the value of assets, liabilities and off-balance sheet exposures denominated in currencies different from EURO, which is the currency that shareholders measure their returns from investment.

The Bank's ALCO has developed rules, procedures, instruments and control mechanisms to cover for the currency revaluation risk. This risk is managed by controlling the daylight both trading and open position limits, and overnight open position limits being fully compliant with the regulatory definitions.

Investment Policy:

Investment Policy defines the ground and main criteria to responsibly manage the Bank's financial investments in accordance with its business strategy. The policy defines the eligible list of investments taking into consideration all potential inherent risks.

Counterparty Risk Policy:

The counterparty exposure risk is treated very much like credit risk and specifically evaluated in the case of banks and financial institutions. In such case, the counterparty creditworthiness and relevant limits are individually being evaluated based on predefined criteria and methodology.

Operational Risk Policy:

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

The Bank's operational risk framework (policies and procedures) incorporates clear definition of operational risk throughout the organization and a philosophy of business process self-assessment and management. It includes active reporting and monitoring on the performance of key risk indicators, careful root cause analysis of operational losses, proactive response to incidents, and maintaining updated business continuity programs.

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.

8.

Key highlights

8.1. Products of Retail and Commercial Banking

UB has established a long and successful line of providing its retail and commercial banking services to more than 95,000 clients offering complete range of banking products whose features and parameters offer efficiency, security and transparency.

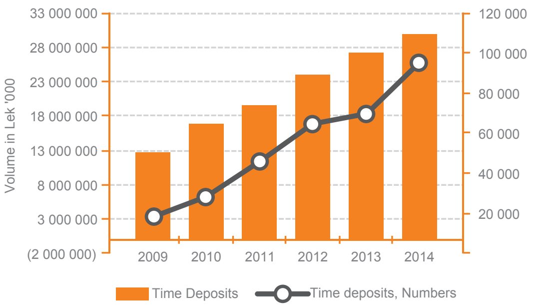
They include but not limited to current and deposit accounts, credits and advancements, guaranties and other monetary transactions, while the bank has also focused on the flexibilities and varieties of product features, ATM and online services in order to provide its clients with the facility of round the clock banking.

The sales and operational team continued to build strong relationship with clients, providing them with a wide variety of options to help them reach their financial goals and increase their savings by tailoring to their needs.

8.2. Customer Funds

The Customer Funds during 2014 increased nearly by 2.7 Billion Lek or 10% higher than the previous year by taking the level of these funds close to 30 Billion Lek. This increased the bank's market share of total Deposits close to 2.8%.

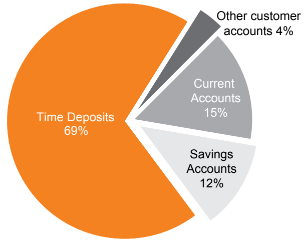
Funds Developement



With regard to the developments of these funds during the last year, the bank's management continued with the same approach in regards to pricing strategy by lowering the rates of deposits in order to somewhat balance their growth and respond to the market developments/trends improving the net interest margins. At the same time, it intends to use it as a tool to control the additional funds based on the lending needs and possibilities associated with profitable alternative investments.

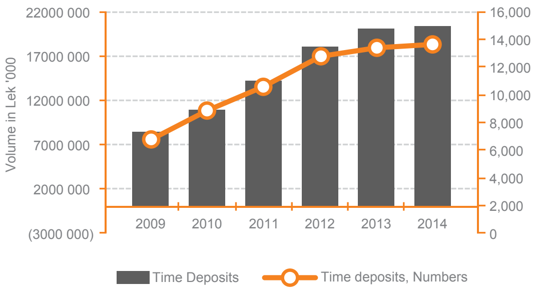
The Bank's funds have continuously grown with positive additions each year, by offering an inclusive array of products to its retail and business clients including packets with combination of different accounts, term deposits and cross-products in both local and foreign currency.

Considering the significant decrease in the interest on funds, a phenomenon that affected all the banking system during 2014, considering the high level of liquidity toward the limited investments alternatives, the structure/ composition of these Funds (Term, Savings and Current Accounts) which are about 96% of Customers Deposits have evolved so that TD have slightly decreased their share compared to the prior year. With 69% of the total funds, they continue to be the key source of funds for the Bank as the strongest component of Core Deposits and they continued to grow, although their growth is intentionally slowed down. In absolute value they grew up to 20.4 Billion Lek, up by 275 Million.



Customers Accounts Structure 2014

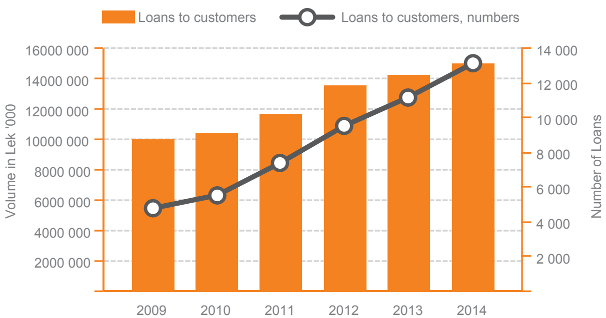
Time Deposits developments



As far as the product range goes, the tendency that we saw during 2012 and that it continued in 2013 and 2014 in relation to the preference to the longer term deposits in local currency, (TD24 mo and above) continued to grow sharply portrayed by a large number of new deposits in these segments that make up for the whole gross volume yearly increase. They also account for significant shifts and replacements during the summer and on.

8.3. Lending Activity

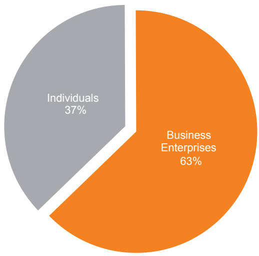
The Bank total Loan portfolio reached a value near to Lek 15.1 Billion, reflecting a yearly increase of Lek by 813 Million or 5.7% higher. In comparison to the national system which as we mentioned grew by 5%, the Bank shows slightly a better growth rate in relative terms.



The Albanian banking system is presented with a variety of direct and indirect risks and obstacles in regards to the credit system which increase its vulnerability toward many directions. The systemic risk, the exposures of businesses and individuals as well as the high volume of non-performing loans, naturally impact the development of the Bank loan portfolio as well.

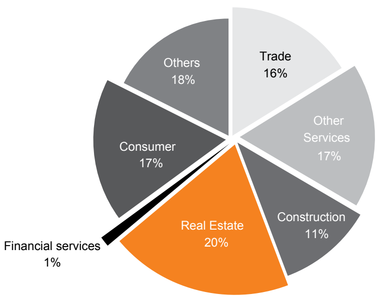
The preference continues to be for the foreign currency.

The UB's goal was to increase the entire value of its loan portfolio regardless of these challenges. The number of our individual and business clients grew by the end 2014 to more than 13,180 or with 18% (from approximately 11,150 in 2013), benefitting from a wide range of products and services for loans and other advances.



Individual vs. Business loans structure

While the growth of the entire portfolio remained an ultimate goal, the bank stressed the need for further increase of retail lending and SME business loans. As a result of this the number of retail loans grew by 18.4% substantiated by an increase in volume close to 19.0% compared to the previous year, increasing the retail portion of the portfolio to 37% of the entire value at the end of 2014.



The structure of the Union Bank Loan Portfolio supports many economic and industry sectors nationwide and the structure does not have extreme/unusual concentrations in any of the industries. During 2014, the sector of Other Services and Real Estate grew to 17% to 20% respectively from 15% each in Y2013. Industries that have lost grounds are Construction that went from 14% to 11% and Trade from 20% to 16%. Structural-wise, the rest of the other sectors have undergone through insignificant changes in relation to the total portfolio value.

Portfolio Quality

The managing of the portfolio quality is one of the top emphases in managing and close monitoring of the portfolio quality since it represents one of the current crucial issues in lending. The financial circumstances of many consumers and businesses remain fragile and insecure. During 2014 the NPL of the Bank continues to remain below the banking system NPL, with UB's Loan Loss Provisions growing from 7.3% to 8.9% of the total portfolio.

8.4. Card Products

The Bank continue to supplied a large portion of its clientele base with Debit Cards and Credit Cards (Mastercard) which enable the customers with a full range of domestic and international purchasing and withdrawing options in most of the ATM and POS networks. The markets share for the Debit cards is at the level of 4.4% while for the Credit cards is at the level of 2.2%. The number of transactions performed in 2014 was close to 470,000.

There is noted progress with Credit Card (Mastercard) activity, moving with considerably increasing pace. The number of users has gone up by 40% and the numbers of transactions increased by 60% in comparison to the last year. The bank provides numerous services and helping lines in order to facilitate the clients and the non-UB clients with many payment and other procedures in order for them to have access to their funds and use our distribution channels, taking advantage from a variety of some the latest features.

The revenues from this segment grow every year, and the year of 2014 marked a 25% growth rate compared to the prior period.

8.5. Transfers and Payments

The total number of transfers and payments international and domestic (in and out) reached an amount of 23,240 which represents a yearly addition of 15%. The international Payments grew with 7%, while the Domestic ones grew with 19%. Our clients continue to benefit from a wide variety of services related to monetary and wire transactions. The product of transfers is closely related to the numbers of clients, thus the higher the number of clients who have accounts with the bank, the higher number of these transfers will be, and related fee income would also increase if cross-sell efforts produce higher penetration rates in this segment.

The revenues from this segment surpassed the revenues from last year's with about 10%.

8.6. Customer Service

UB understands that the recent developments and demands in the business environment have increased the standards for the entire banking industry as well. The bank is determined to deliver effective and efficient customer service, and a set of standardized measures and follow-up procedures to further improve the overall activity. In this contest, in order to assess its level of service and professionalism, and on the other hand, for the employees to be able to identify, reflect and enhance their overall performance viewed from a different angle, the Bank conducts the "Mystery Shopping" activity. This is done frequently several times a year by independent "shoppers" who interact with our tellers and the customer service.

Elements such as promptness, accuracy, fairness, and transparency of transactions are analysed the aggregated data that this activity includes has turned out to be very positive and significant.

The Bank realizes that all the organization members should possess a set of certain skills which they have to master when they are dealing with the customers and third parties. Underneath all the specialized knowledge lays a commitment to performance and client satisfaction. It always strives to obtain and share its customer's view and also respond to their opinions, suggestions and requests but most of all, being patient and knowledgeable about products and showing willingness to listen and to learn. Keeping in mind that the market is a social relationship, besides daily interactions with its clients, there are also leaflets and survey forms placed inside branches and clients are encouraged to fill out them about the service and the banking products.

8.7. Purchase of Landeslease

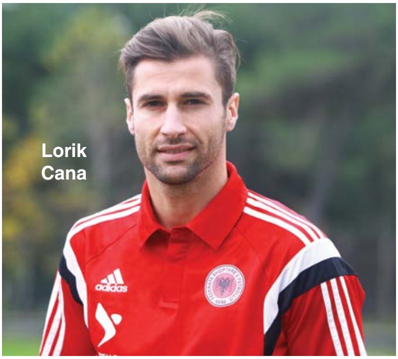
On September 2014, the Bank entered into a Sale Purchase Agreement with the shareholders of Landeslease for the purchase of 100% of the shares of Landeslease, a licensed financial lease company based in Tirana, Albania that is specialised in the leasing of vehicles and equipment. Upon completion of all conditions set in the Agreement, on December 2014, the Bank acquired 100% of the shares of Landeslease.

The Bank has acquired Landeslease with the aim of expanding its loans portfolio and the customer base, and of better utilizing the funds available for investment. Landeslease has been one of key three players in the leasing market by offering a high-quality and flexible service, and tailored to the customer needs.

As it was noted upon the completion of the transaction: "Financing through financial lease is a very important aspect for strategic growth of our bank. By combining the expertise and flexibility of our services, variety of products and the solid clientele base of Landeslease and with plan for internal and external advancement, Union Bank will have the ability of developing, marketing and supporting a broad portfolio of its products, including here financing through financial leasing. This surely makes us, every member of our organization, the board members and executive management, naturally very proud".

8.8. Sponsorship of the Albanian National Football Team

Union Bank is one of the sponsors, and it has supported The National Football Team of Albania for three qualifying cycles in a row, currently for the 2016 European Championship qualifiers. We are proud of our Football Team, cheering their steady excellent results and their increasing chances to qualify for the 2016 European Championship in France.



Union Bank, sponsor of the Football National Team

Union Bank is an Albanian capital bank and the National Football Team represents a prominent value for all Albanians in the world.

We are proud to support our National Football Team, because at the same time, we support this prominent value to any of us...

UNIONBANK
Banka që dua

9.

Financial Results

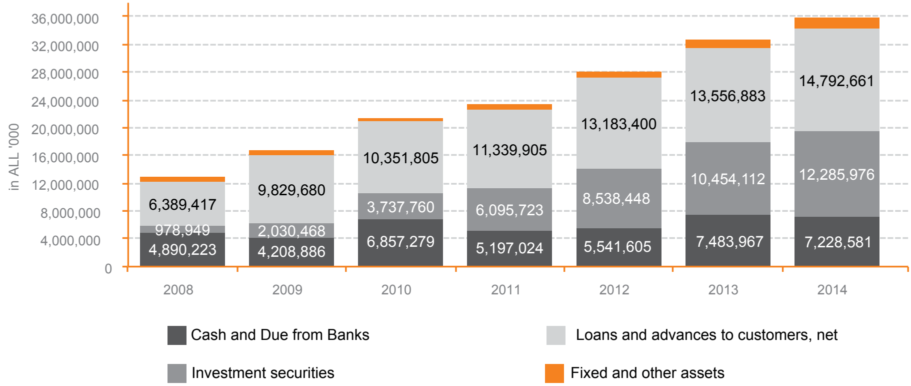
Main results of the year

	In Lek '000		In Euro '000*		Change	
	2014	2013	2014	2013	2014	2013
Balance Sheet						
Total assets	35,824,183	32,675,593	255,631	233,064	10%	16%
Gross loans portfolio	15,057,266	14,244,179	107,444	101,599	6%	5%
Investments in securities	12,285,976	10,454,112	87,669	74,566	18%	22%
Placements with banks	3,461,311	3,290,149	24,699	23,468	5%	25%
Customer accounts	29,941,272	27,229,261	213,653	194,217	10%	13%
Paid in capital	2,579,853	2,481,664	18,409	17,701	4%	8%
Profit and Loss						
Net interest income	1,231,232	960,465	8,786	6,851	28%	17%
Net fee and commission income	147,124	139,931	1,050	998	5%	15%
Other operating income	86,390	72,815	616	519	19%	-1%
Operating income	1,464,746	1,173,211	10,452	8,368	25%	16%
Total operating expenses	(1,111,549)	(1,103,698)	(7,932)	(7,872)	1%	10%
Net Profit before taxes	353,197	69,513	2,520	496	408%	403%
Statistics						
Numbers of staff	317	306			4%	6%
Number of outlets	28	29			-3%	0%
Number of Loans outstanding	13,185	11,159			18%	17%
Number of Clients	94,518	86,116			10%	8%
Kery ratios						
Return on Equity	11.4%	2.5%			359%	386%
Cost to Banking Income Ratio	67.1%	75.2%			-11%	-11%
Loans to Deposits ratio	49.4%	49.8%			-1%	-9%
Assets Growth Rate	9.6%	16.4%			-41%	-18%
Customer Deposit Growth Rate	10.0%	13.3%			-25%	-42%
Loans Growth Rate	5.7%	4.6%			25%	-73%
LLP to Loan portfolio	6.3%	5.1%			24%	38%
Net Interest Margin	3.6%	3.2%			14%	-1%
Asset to Employee Ratio	113,010	106,783			6%	10%
Assets to Branch ratio	1,279,435	1,126,745			14%	16%

* The conversion in Euro is based on the official currency rate from Bank of Albania on Decembre, 31.

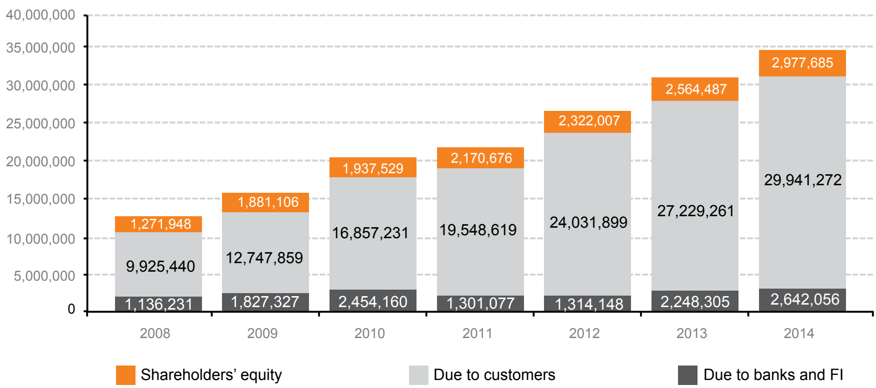
At the end of Y2014, UB's assets reached the value of Lek 35.8Billion reflecting a yearly increase of nearly Lek 3.2 Billion or 9.6% higher than 2013. The assets structure is firstly composed by Loans and Advances to Customers, being 41.3% (41.5% in Y2013), followed by Investment Securities increased their weight to 34.3% (32.0%) that are made of Treasury Bills, Albanian Government Bonds and few foreign investment grade Corporate bonds, and Cash and Due from Banks with 20.2% (2013: 22.9%) of total assets.

Structure of Assets in Y2014



UB's Liabilities are more than Lek 32.9 Billion (2013: 30.1 Billion) and in their entirety they grew pretty much according to the Bank's plan. Customer Funds constitute for about 83.6% as opposed to 83.3% of the Bank's total assets in 2013, while Due to Banks and other Financial Institutions account for 7.4%.

Structure of Liabilities and Equity in Y2014

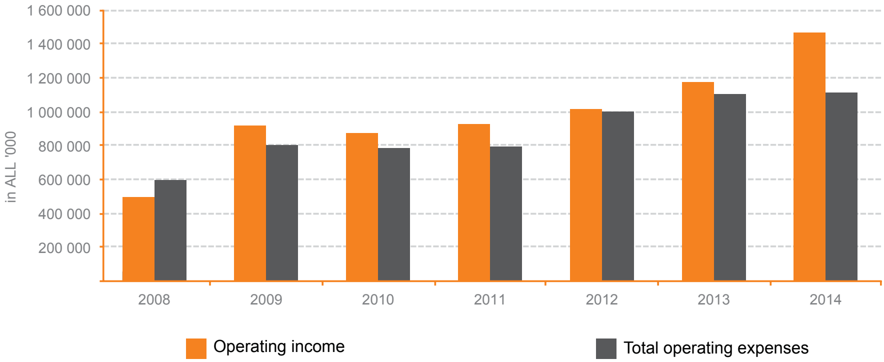


The Shareholders Equity close to Lek 3.0 Billion grew to 8.3% of total assets of the Bank, versus 7.8% at the end of Y2013.

In Y2014UB turned a profit in the amount of Lek 315 Million. Out of this, the Income from Operations is by Lek 210.5 Million or 3.5 more times than 2013.

Net Interest Income increased by 28.2%, and Net Fees income also increased by 5.1%.Total operating income has increased by 24.8% while the Operational Costs increased by 10.2% (LLP included) compared to the previous year.

Profit and Loss structure of Y2014



10.

Plans for 2015

The Bank plans to go ahead with clear and defined objectives and strategies .It targets to grow its business by being proactive, prudent and profitable despite the unsteady economic environment and despite the low increase on the Banking system. The Bank's management and its staff will follow the strategies and technical plans in order to achieve the organizational objectives and keep in mind that the socio-economic and politic environment is constantly changing.

Following the established mission and core strategies, the Bank's core goal for Y2015 is that the Bank will continue to grow better than the system and increase its market share, and keep the overall sustainability of its entire performance at the same time. In addition, we expect to reach the expected level of profitability and improve the quality of our assets.

Furthermore, considering that the acquisition multiples have come down as the industry needs new capital while the profitability has decreased and the regulatory requirements exponentially increased, being in a momentum where some banks are considering to leave the Albanian market, we are evaluating the market opportunities in that regard through a well defined and structured process, involving the most qualitative consultancy resources needed to support such transactions, always keeping in mind the size and culture of our bank and the regulatory requirements in all aspects.

Lending

Although the system performance has been relatively week (resulting in a portfolio increase at the levels of 5% while a decrease during 2013), Union Bank forecasts approximately 13% Loan Portfolio yearly growth rate. We aim to consolidate and increase the overall parameters of the existing portfolio and go ahead by adding up to its value with special focus to the Retail side and SME. In the same time, the Bank will strictly consider and regularly monitor all the risk factors and exposures which faces on day-today bases by trying to keep up the good quality of the loan portfolio. One of the most important mid term objectives is to get more Retail weight within the total net value of the portfolio, thus having a more proportionate and balances portfolio structure between retail and business, with a lower concentration, lower risk and better yield. The target for the retail lending in 2015 is to increase by approximately 17% in yearly terms. The facilitation of the process by providing more convenient and contemporary application and approval procedures will be at the center of the activities supported by intensed and careful marketing campaign, dedicated staff and strong and well established partnership with retail sellers.

Since the business loans side continues to be the largest segment of the portfolio, a 11% yearly increase target is aimed for in this segment. The lending process here will continue to support all sectors of the economy, facilitating mainly small and medium businesses by increasing the cross-sell efforts. In the same time it will fulfill the necessary requirements for credit growth combined with parameters for better loan monitoring and quality improvements of this segment.

Funding

The Bank's growth target for Customer Funds in Y2015 is by above 10%.With such growth we aim on one side to maintain the optimum liquidity level and on the other side to support the budgeted Lending and Securities growth, also improving the balance sheet structure toward improvement of interest bearing assets, loans to deposit ratios and net interest margins.

For the next year the product pricing strategy remains a priority since it is tightly related to the core strategy of the bank for growth and increasing the client base and market share, accompanied with the reduction of total costs to preserve and boost profitability. The implementation and adaptations of these campaigns will firstly consist in sustaining the main product range, and then improving and tailoring new product characteristics by focusing on taking advantage of cross-sale opportunities through forward marketing and brand campaigns and the retail sales.

Main Marketing Projects for 2015

During Y2015, UB plans to undertake various marketing projects where the most important goal is growth and the strengthening of the Bank's image and its products and services. There will be many projects which will start the promotion of new products as well as the increase of the awareness for many existing products for new and existing bank clients. At the same time, this will considerably enhance Bank's whole activity and improve the bank's figure.

The focus of the promotion will also be on facilitating and creating easy, quick, and convenient procedures for the clients to make use and benefit from the products such as loans, deposits and card products, or other banking services.

There will be numerous campaigns which targets products that are important to individuals and businesses, such as:

- "SME Loans" Communication Campaign– to feature concrete, fast and convenient procedures for business clients through live communication through the branches, the on-line application and the Direct Sales unit, planned for the first quarter of the year.

- "Mortgage Loan" Communication Campaign which will intend to promote this special but basic product related to individuals through cross-selling. Its aim is to broaden the clientele base and help with the refinancing of several existing loans as well.

- "Debit & Credit Cards" Promotional and Communication Campaign which will try to increase the numbers of clients that use these products and also serve to further educate the clients on greater understanding of transactions and payments through these channels.

- "Summer Deposit" Campaign which will initiate a special program and incentives for the mid-year deposit season.

During Y2015, the Bank will continue to actively participate in national and local celebrations and events, and proudly sponsor the Albanian National Soccer Team up to Y2016 as part of the qualifying games for the "UEFA EURO 2016" cup in France.

Branches Network

To achieve the growth objectives, better reach and serve to its customer base and broaden its geographic network in the upcoming year, the bank also plans to open 2 new branches in Tirana region, one of which is already completed and in full capacity to start operations in early periods of 2015, while the other has been procured and being readied for launch later in the year.

In regard to the existing branches, the bank has planned to continue upgrading the network system, improving and refurbishing the internal and outward appearance of several branches by aiming to unify and advance the bank overall performance and its reflection.

11.

Audited Consolidated Financial Statements

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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KPMG

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"Dëshmorët e Kombit" Blvd
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Internet www.kpmg.al

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.
Twin Towers Buildings
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 Zikajo
Chief Financial Officer

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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.

Union Bank sh.a
Consolidated Statement of Changes in Equity for the year ended 31 December
(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.

Union Bank sh.a
Consolidated Statement of Cash Flows for the year ended 31 December
(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.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2014
(*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.

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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.

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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**

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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.

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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.)

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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.).

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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.

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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.

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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**

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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).

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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.

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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**

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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**

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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

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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

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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.

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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**	**-**

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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				
	Retail	Corporate	Advances	Total Loans	Placements 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 **Time band**	Loans and advances to customers 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 **Time band**	Loans and advances to customers Retail	Corporate	Advances	Total Loans
Past due up to 30 days	617,071	1,231,377	91,641	1,940,089
Past due 31-60 days	123,531	63,986	179,577	367,094
Past due 61-90 days	85,997	153,556	216,884	456,437
Past due 91-180 days	2,470	3,526	327,927	333,923
Past due over 180 days	577	15,968	25,764	42,309
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**

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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**	

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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.

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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**

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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.

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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**	

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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.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2014
(*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.


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