UNIONBANK

Banka që dua

ANNUAL REPORT 2015

UNIONBANK
Banka që dua

Content

1. 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.

We do not:

deceive our customers;
disrespect our employees;
infringe the law.

2. The Bank and its Shareholders

2.1. 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. Since 2014, the Bank owns 100% of the shares of a leasing company operating in Albania since 2005.

Main Developments

2006 Union Bank starts its operations in Tirana on January 9

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 256 million

2015 Steady growth continued. Bank was ranked the 8th bank in the country amongst 16 other banks, in terms of total assets

2015 Bank's profitability stabilised above 11% RoE (post-tax) for the second consecutive year

2.2. 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")

The EBRD is the second largest shareholder in Union Bank. The EBRD invests in over 30 countries stretching from Estonia to Egypt and Morocco to Mongolia. The EBRD is committed to furthering progress towards market-oriented economies and the promotion of private and entrepreneurial initiative. The Bank was established in 1991 and, uniquely among international financial institutions, has a political mandate in support of multi-party democracy and pluralism. Today the EBRD is owned by 65 countries, the European Union and the European Investment Bank. The EBRD's investment in Union Bank aims to support high corporate governance standards and to help Union Bank achieve its goal of becoming one of the leading financial organisations in Albania. The EBRD is represented in Union Bank's general assembly and appoints one member of its 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. He is also the Chairman of the Board of Directors of the leasing subsidiary of the Bank. 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.

2.3. Board of Directors

Edmond Leka

(Chairman of the Board)

Niko Leka

(Vice chairman of the Board)

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.

Paul Nabavi

Mr. Paul Nabavi has been a member of the Union Bank's 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.

Agim Xhaja

Mr. Agim Xhaja has served as a member of the Union Bank's Board 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)

Sokol Marishta

Mr. Sokol Marishta has been a member of the Union Bank's Board since 2015. He is a Senior Leader at the Pioneer Investment, the Wealth and Asset Management arm of UniCredit Bank, headquartered in Milan, and currently is based in Dublin, Ireland
Mr. Marishta's has worked over twenty years in financial industry and high tech. From 2000-2009 he was Vice President and Senior Vice President later, at Bank of America Merrill Lynch, where he worked on FX and Derivative trading platforms. During this time Sokol was based in Chicago, USA. From 2009-2013, Sokol worked as Senior Vice President in high frequency trading platforms at Bank of America Merrill Lync, Investment Banking. These platforms were used on the sell-side for trading a multitude of financial instruments (derivative, fixed income, equities, otc, etc) and collocated in Wall Street and London exchanges, based in New York, USA. Prior to that, Mr. Marishta worked in successful start-ups, which were based in Chicago, Santa Clara, USA.
Mr. Marishta holds a Master Degree in Computer Science from University of Illinois Chicago and a Bachelor Degree in Geodesy from University of Tirana.

Gazmend Kadriu

(CEO)

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.

Changes to the Board; In October 2015, Mr. Agim Xhaja were replaced by Mr Sokol Marishta.

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 audit unit.

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.

2.4. 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, and brings 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. He is also a member of the Board of Directors of the leasing subsidiary of the Bank.

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 ProCredit Bank 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's 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

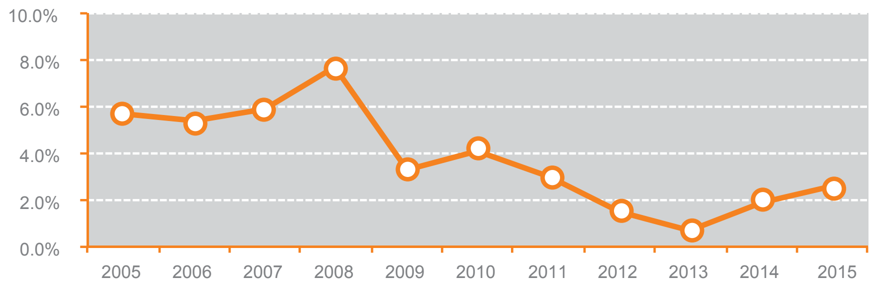
Mrs. Hasho graduated in Business Management from Faculty of Economics of Tirana University and she also holds an MBA degree from Universitas Fabrefacta Optime (UFO) University, in Tirana.

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

3. Economy Overview

3.1. Albanian Economy

GDP growth



During 2015, the Albanian economy portrayed a general steady performance with a real GDP yearly increase rate of 2.6 percent against the 1.6 percent of the previous year, clearly marking progress compared to the decreasing lower rate rhythms since 2011.[1]
While evaluating the overall 2015 yearly performance of Albanian economy, EBRD states that "The Albanian economy performed steadily in 2015, successfully withstanding the impact of severe flooding in the south of the country in February and recording 2.6 percent growth for the year as a whole. In September 2015 the government initiated a high-profile campaign to reduce informality in the economy, and some results are already evident in terms of increased business registration".[2]

The output is supported more from the service sector, while the industry one has smaller weight and the agriculture segment shrunk to a considerable degree. The positive development came as a result of private investments and exports net value, while the consumer spending and public investments stay on the low side. The fiscal policies have been stimulating the economy and have helped to narrowed down to the current account deficit which is nearly 12 percent of GDP which was financed largely by FDI and foreign sources. Exports benefited thanks to higher electricity exports and other goods to a certain degree. Remittances have continued to be on a declining trend (10% lower in yearly terms), in relation to GDP. [3]

According to IMF "Memorandum of Economic and Financial Policies" published on January 2016 in regards to IMF Letter of Intent for Albania "Economic growth is projected to have picked up in 2015, despite significant headwinds earlier in the year. Weak demand in the Eurozone as well as low international commodity prices reduced export growth, while economic uncertainties arising from the Greek crisis also weighed on domestic demand. The resulting broad-based weakness in manufacturing and services was, however, offset by strong hydropower generation."

CPI inflation rate was 2.2 percent at the end of 2015 (food prices playing a heavy role), noting an increase by 1.6 from the previous year, but still remaining below the Bank of Albania's (BoA) medium term target of 3 percent (with a tolerance band of ±1 percentage point). Affected by the general low inflationary pressures in the Eurozone which are indirectly imported to the country, it should be said that the core inflation is still very low almost near zero.

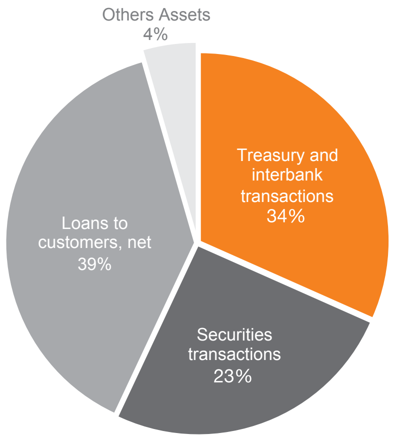
Despite the economic developments, the level of unemployment at the end of the year has slightly increased to 17.7 percent form 17.4 percent a year ago.
Central Government Debt Stock was at the level of 72.13 percent (2014: 69.77 percent, 2013: 65.51 percent,)[4] of GDP being at its highest level ever.

1 Source of data: Albanian Ministry of Finance
2 Source of data: EBRD Reports on "Regional Economic Prospects in EBRD Countries of Operations" May 2016
3 Source of data: Bank of Albania "Financial Stability Report on the second half of 2015"
4 Source of Data: Ministry of Finance

The exchange rates amongst the main currencies have been such that have reflected the government policies to stimulate the growth and soundness of markets. On the external side, there exist real concerns and risks since during the second half of the year, the international business and financial markets experienced very high volatile moments and low prices impacted by the uncertainty of global markets, escalating regional conflicts and terrorism acts. With the further lowering of oil prices and the investments concentrating to countries with the safest return rate, the obstacles and complications could hit the fiscal system in general, and in particular the banks that are subsidiary of the banks in these countries. Internal and more tangible risks include the low consumer spending and demand, relatively high socio-economic and political uncertainty associated with a high rate of unemployment and low foreign investments.[5]

3.2. Banking System in Albania

The Banking system total assets at the end of 2015, reached the amount of Lek 1,318 Billion[6] reflecting a yearly increase rate of 1.9% characterized by low interbank trading rates in average. Even though the banking sector remains the segment with the most significant weight and crucially important for the national economic activity, its weight fell to 91.3 percent (from 92.0 percent in 2014) within the total figure of GDP. The general outlook of stability is considered to be good with relatively low volatility of exchange rates. The level of capitalization increased and so did profitability, while liquidity brackets remained controlled and within the required parameters.



Banking Sector Assets Structure 2015

The value of NPL which reflects the quality of the portfolio has experienced noted improvements going down to 18.2 percent from 22.8 percent that it was in 2014.

The regular stress tests performed by Bank of Albania and the banks, show that the systemic risk is present (in some cases higher), but it's closely monitored and constantly recalculated, while the perception of risk has somewhat softened. The system continues to be sensitive towards the internal and external shocks, exposures to individuals and business, but especially toward the real estate prices' instability.

Furthermore, during 2015, Bank of Albania's reports mention a growing concern toward the collateral execution process and that this process is associated with the increase of the real estate volume that is transferred into the banking system for non-performing loans, which implies the concrete difficulties that banks are facing to sell these collaterals and the possible negative effects that might come from the impairment of such assets.[7]

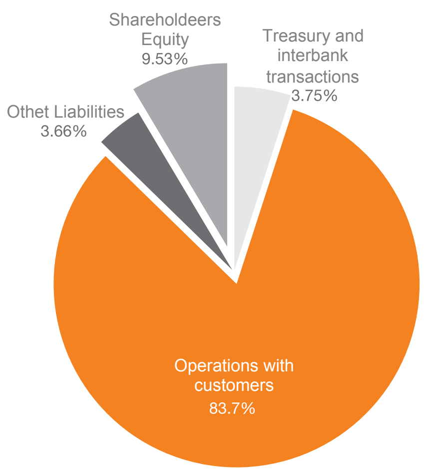
5 Source of Data: Bank of Albania "Financial Stability Report of second half of 2015"
6 Data Source: All numerical data in this section are extracted from Bank of Albania's Published Statistical Data
7 Data Source: Bank of Albania "Financial Stability Report on second half of 2015"

Prolonging of Macro-prudential measures and the decrease of the interest base rate to minimum historical levels, Bank of Albania is trying to steer the banks' activity towards the economy stimulation and lending.

The highest relative increase in the development of assets is the volume of Treasury and Interbank Transaction which grew to Lek 448.6 Billion or 9.6 percent (in yearly terms).

Security Transactions total value decreased by 39. 2Billion or 6.2 percent, characterized by smaller volumes and a sharp decreasing yield.

Loans at 505.6Billion in net value increased by 7.2Billion or 1.4 percent, while in gross terms, decreased by 1.5 percent. The entire credit system has been heavily impacted by the write-off process of bad loans on order to clear and recover the quality of the portfolio.



Banking Sector Liabilities Structure 2015

The main component of liabilities continues to be the Customer Funds, which reached a figure near Lek 1,100.7 Billion or 3.4 percent, interests included, higher than the prior year (+4.8 percent in 2014) showing the lowest rate of increase since 2009. It is also to be mentioned that, due to the sharp decrease of depository products interest rates in general, for the first time in these many years, the time deposits decreased and the whole increase came from current accounts.

Shareholders Equity is near 125.5 Billion, it increased by 14.6Billion or 13.1 percent versus 7.4 percent of the previous year making up for 9.5 percent of total Assets (8.6 percent in 2014).

According to IMF the credit system in Albania has further solidified and consolidated during the year, but it still remains sizably fragile to economic and political developments, all the while facing a generally weak private and public business growth line.

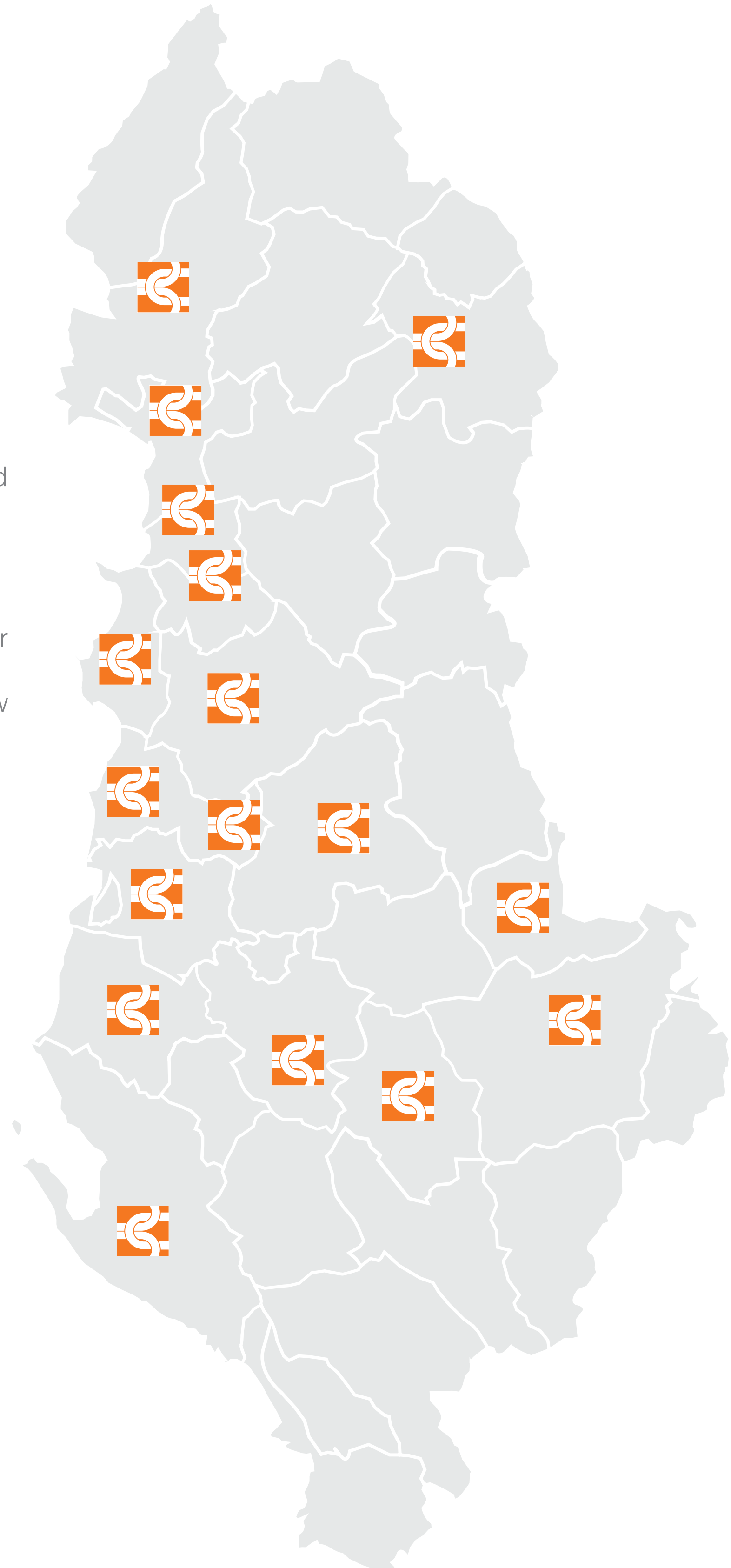
The yearly profit of the Banking system came to about Lek 15.7 Billion, 4.5Billion higher or 40.3 percent compared to a year ago (7.6Billion in 2014). The key contributing factor, as it was mentioned earlier, is the further and sharp lowering of fund costs that resulted in higher net interest margins figures.

4. Bank Network Development

Union Bank has a well-established and firm nation-wide network of branches which at the end of December 2015 included 29 physical branches and outlet structures, 40 outlets in ATM network and other electronic channels. 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 May 2015, a new agency started its operations and was added to UB's Tirana region network, in a time when the country's Banking System outlet network in overall has shown decreasing numbers for a while. Another strategic branch location in central "Bllok" area, now in construction phase, is expected to start providing banking services in the second half of 2016, strengthening our geographic position in Tirana.

The network continuously allows and supports the clients with banking services, 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 digital channels, such as the long-standing internet and mobile banking applications. Its main objective is to facilitate the collective practices and shorten the time and distance so it contributes to the overall accomplishment of services and the growth of the activities/ customers.



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perballë Qendrës
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Dega Kamëz-Qendër
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i rrethrrotullimit), Tiranë
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Elbasan
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Dega Kavajë
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agjencinë WU) Rrogozhinë
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Fax: 021 524 661

Dega Shkodër
Lagjia "Qemal Stafa",
Rruga "13 Dhjetori" Shkodër
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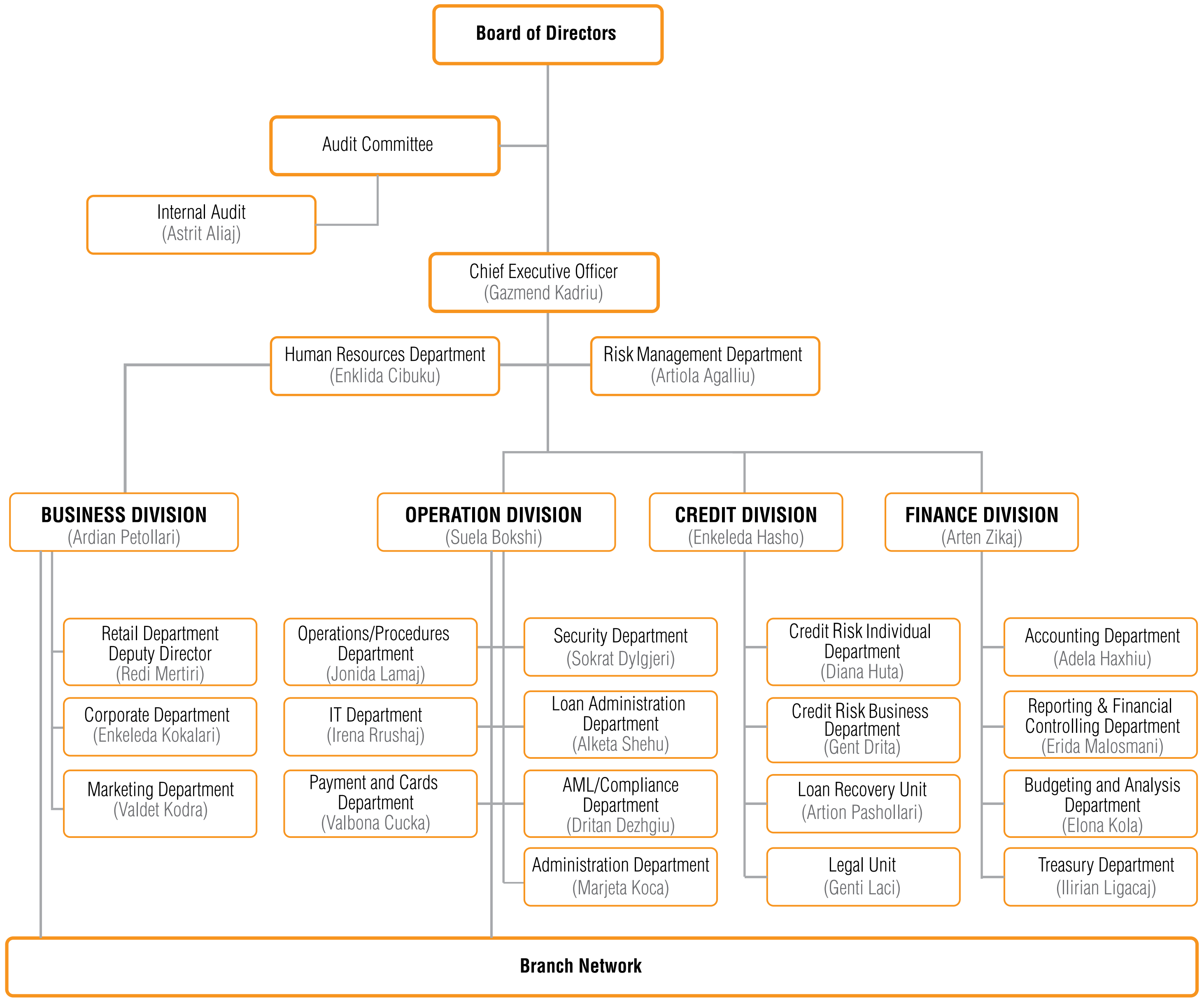
5. Organisation Structure and Human Resources Developments

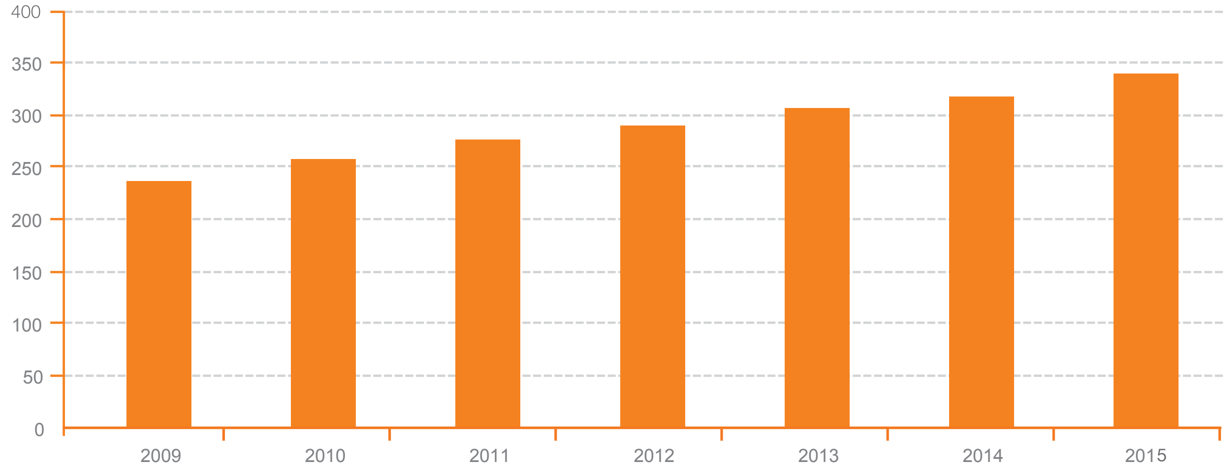
5.1. Organisational structure



5.2. Staff and Staff Developments

The organization of Union Bank, at the end of 2015 totalled up to 337 members: 124 in Head Office and 213 in the branch network. During last year, staff grew with a net number of 20 new members or 6% higher than the previous period.

Numbers of staff



HR policies about the existing members of the organization and the process of adding extra support staff are such that they firstly support and intend to strengthen and continue the bank's overall business activity aligned with its core strategy and mission statement. In relation to the selection, recruiting and promoting procedures, HR practices stay the same and they are non-discriminatory, in full compliance with current labor laws, government guideline and regulations, as well as open and giving equal opportunity to everyone.

About 10 vacant positions in HO were filled by existing head office and branches' staff members while in total approximately 20 employees were promoted in higher positions within their branch/region/ department (including replacements).

5.3. Training and Higher Learning

During 2015, approximately 37 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.

With respect to training and continuous education, there are pre-hand and on-the-job instructions and training to all employees from the time that they start, and it continues with day-to-day operations and activities thus benefiting from the established procedures and the existing expertise.

UB 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). An aspect with extra attention is the introduction and then frequent training of new and existing employees with the new and updated rules and regulations for Compliance and Anti Money Laundering (AML) procedures.

In terms of hiring and training developments, the Bank sustains an efficient and appropriate approach by keeping a priority on the business objectives, but at the same time taking into consideration the difficulties and the barriers that go along with the process. Their aim focuses in sales' abilities for the branch staff, communication and feedback, multitasking, problem solving and the increase of managerial and leadership capacity in all Head Office departments.

The Bank undertakes several performance evaluation results during the year, and a comprehensive and thorough one all-year round to assess the entire level of its performance for yearly objectives. In addition to this, employee and client opinion surveys are often organized, in order to get the necessary feedback and to bring about the issues and concerns which need addressing and/or improvements.

The organization culture of the Bank maintains a proactive approach in regards to professional and ethical standards, by manifesting them throughout the whole work environment. It is done so through higher learning, first-rate customer service, team-work, and at the same time upholding and carrying and a challenging and positive attitude. The Bank believes that the bank's rate of success depends and it is directly linked to the overall performance and professional conduct of its staff members

5.4. 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. The Bank deems this aspect to be very important and one that has a significant impact on employee engagement. All performance compensation actions result 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.

As one part of a total reward and recognition package that includes the base pay, bonuses, and benefits for employees, compensation serves as an essential factor. 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 reach 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. The key 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.

5.5. Safety and Security

Union Bank 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.

6. 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 center 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 events.

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, root cause analysis of operational risk events, proactive response to incidents, a regular and frequent self-assessment program, and careful maintenance and 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

7. Key Highlights

7.1. Products of Retail and Commercial Banking

UB has established a long and successful line of providing its retail and commercial banking services to around 100,000 clients offering a wide range of banking products whose features and parameters offer efficiency, security and transparency.

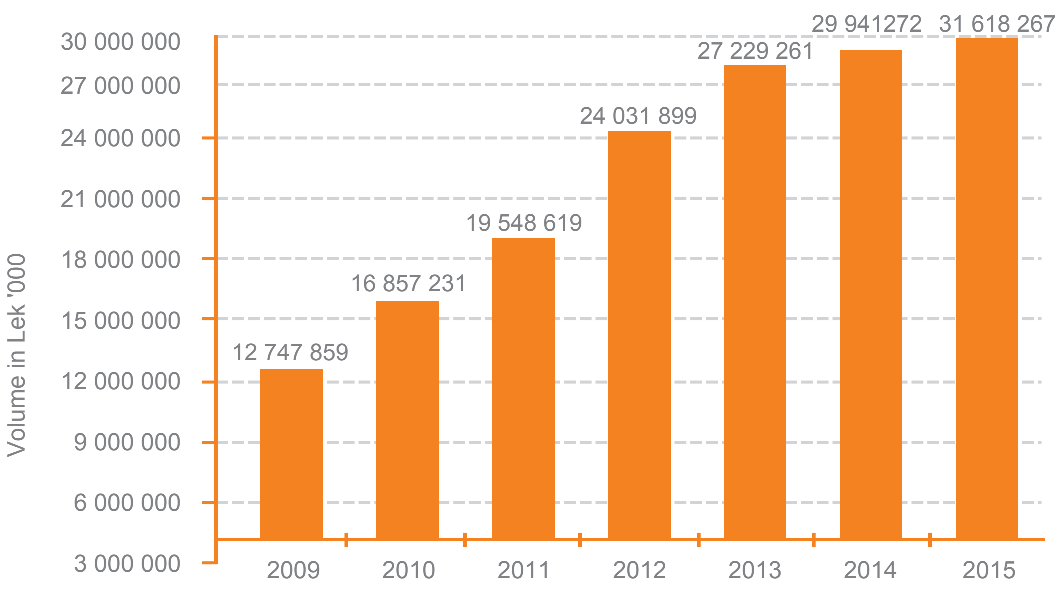
Through different channels, the sales and operational team continued to build strong relationship with clients, providing them with a wide variety of options to help them reach their financial goals and increase their savings by tailoring to their needs.

Products include but are not limited to current, demand and term-deposit accounts, credits and advancements, debit and credit cards, transfers, guarantees and other monetary transactions, utility and pension payments, etc. The bank has also focused on the flexibilities and varieties of product features, ATM and online services in order to provide its clients and facilitating these processes even further.

7.2. Customer Funds

The Customer Funds during 2015 increased nearly by 1.7 Billion Lek or 5.6 percent higher than the previous year and double compared to System funds yearly growth, by taking the level of these funds more than 31.6 Billion Lek or at 3 percent of the market share ranked no 8 in terms of this indicator.

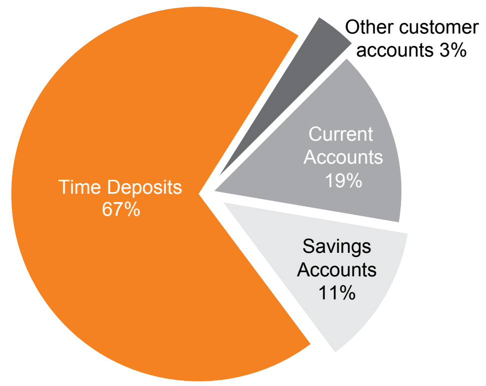
Customer Funds developments



Related to the developments of these funds during the last year, the bank's management continued, in a general line with the similar approach in regards to pricing strategy by lowering the rates of deposits. The main purpose was to somewhat control their growth in the light of the business growth, alternatives of investments and the liquidity needs and responds to the market developments/trends by improving the net interest margins.

With the purpose of enticing new clients and offering more variety to existing ones but to also compete in all ranges, in July 2015, in order to further tailor the customers' needs and the market developments the Bank introduced a new attractive product, a 5-year long-term deposit (offered both in lcy and fcy).

Considering the all-around national and international tendency of low interest rate, a phenomenon which continued in 2015 as well, as a result of the high level of liquidity toward the limited investments alternatives and lending growth, the structure/composition of these Funds (Term, Savings and Current Accounts and all of them are about 91% of bank's liabilities), have changed in favour of Current Accounts, that gained grounds from 15 percent to 19 percent compared to a year ago. These later ones showed considerable additions close to 1.9 Billion Lek, reflecting a relative 42.2% yearly increase.



Customers Funds Structure 2015

Time Deposits have decreased their share compared to the prior year, from 69% of the total funds to 67% at the end of 2015, nonetheless they continue to be the key source of funds for the Bank as the strongest component of Core Deposits and they continued to grow, despite the overall decreasing trend of the System's time deposits.

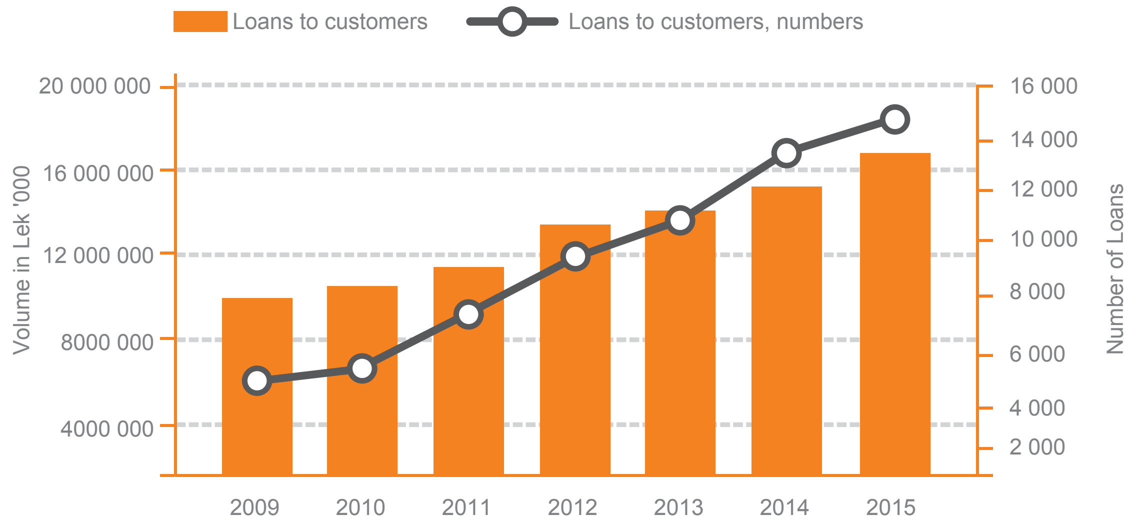
In absolute value they grew up to 21.8 BillionLek, up by 1.4 Million or 6.7 percent,

There is an analogous development line of TD, as far as the product range goes, the tendency that we saw during 2013 and which continued in 2014 and 2015 in relation to the preference to the longer-term deposits in local currency, it grew by portraying a big number of new deposits in these segments that make up for the majority of the volume yearly increase.

7.3. Lending Activity

The Bank total Loan portfolio reached a value near to Lek17.0Billion, reflecting a yearly increase of more than Lek1.2Billion or 7.9 percent higher. In comparison to the national system which as we mentioned fell by 1.5 percent, the Bank clearly has a better growth rate.

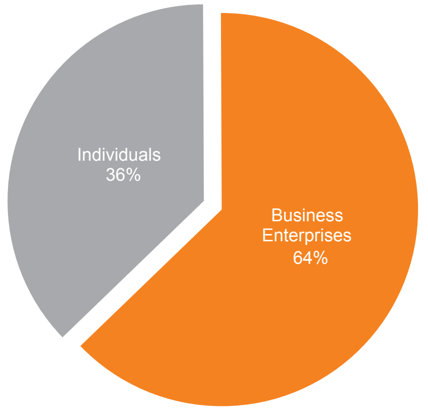
The Albanian credit system was presented with a variety of obstacles and a considerable level of vulnerability toward many aspects, as well as direct and indirect risks. The systemic risk, the exposures of businesses and individuals and the write-off process as well, naturally impact the development of the Bank loan portfolio as well. The Bank's goal was to increase the entire value of its loan portfolio regardless of these challenges.



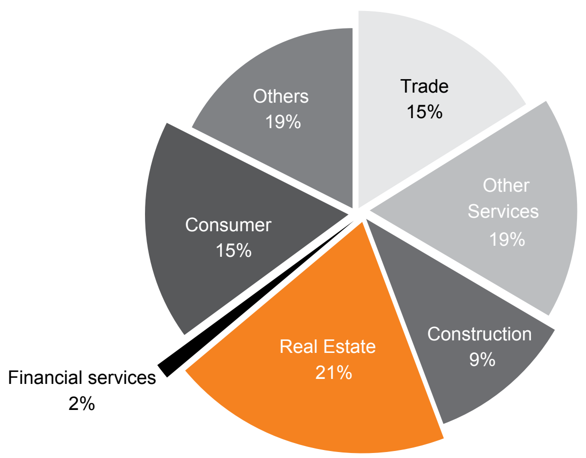
Although the preference has shifted at times toward the foreign currency, the loan portfolio segment in lcy grew considerably and in higher brackets than a year ago.

The yearly number of our individual and business clients grew by the end 2015 to more than 14,022 or with 6.3 percent (from approximately 13,180 in 2014), benefitting from a wide range of products and services for loans and other advances.

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 6.1 percent substantiated by an increase in volume close to 12.0 percent compared to the previous year and surpassing the Banks objective, increasing the retail portion of the portfolio to 35 percent of the entire value at the end of 2015.



Individual va. Business loans structure



The structure of the Union Bank Loan Portfolio supports many economic and industry sectors nationwide and it does not have extreme/unusual concentrations in any of the industries. During 2015, the sectors of Other Services and Real Estate grew to 19 percent and 21 percent respectively from 17 percent and 19 percent in Y2014. Industries that have lost grounds are Construction that went from 11 percent to 9 percent and Consumers from 18 percent to 15 percent. Structural-wise, the rest of the other sectors have undergone through insignificant changes in relation to the total portfolio value.

Portfolio Quality

The management of the portfolio quality remains of the top emphases, and it is constantly done through close monitoring since it represents one of the current essential issues in lending. The financial circumstances of many consumers and businesses remain fragile and insecure. During 2015, the NPL of the Bank dropped at 13.2 percent and continues to remain below the banking system NPL, while the Bank's Loan Loss Provisions fund grew from 9.3% to 9.7% of the total portfolio more or less within the budgeted figure.

7.4. Card Products

The Bank continue to supply a large portion of its clientele base with Debit Cards and Credit Cards (both 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 4.6% (4.4% in 2014) while for the Credit cards are at the level of 2.8% (2.2% in 2014).

There is noted progress, especially with Credit Card activity, moving with considerably increasing pace. The number of users has gone up by 12% in yearly terms. 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.

UB has entered into a processing agreement with "Paylink sh.a" a vendor company which has provided the processing and all other aspects of cards services. It is worth mentioning that "Pylink sh. a" represents the first company in Albania to ever be licensed from Master Card and VISA to operate processing and personalization services. From the Bank's perspective, it feels very optimistic to enter into such processing agreement while expanding and improving the service to its clients on two main aspects:

- the Bank has notably accelerated the process of card delivery to clients (from the application moment until the cards pick-up)
- the product range has been increased due to the flexibility and quickness in the implementation of new projects.

The revenues from this segment grow every year, and the year of 2015 marked a 21% growth rate compared to the prior period.

7.5. Transfers and Payments

The total number of transfers and payments international and domestic (in and out) reached an amount of 25,044 which represents a yearly addition of 7.8%. The number of international Payments grew with 25%, while the Domestic ones showed insignificant increase rate. The product of transfers is closely related to the numbers of clients, thus the high number of clients directly affects the number of these transfers and related fee income also increased through the cross-sell efforts producing higher penetration rates in this segment.

The revenues from this segment surpassed the revenues from last year's with about 21%.

7.6. Customer Service

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. At the foundations 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 with main objective is to facilitate the collective practices and shorten the time and distance so it contributes to the overall accomplishment of services.

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. It understands that the recent developments and demands in the business environment have increased the standards for the entire banking industry as well. 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, elements such as promptness, accuracy, fairness, and transparency of transactions are thoroughly analysed and frequently checked upon.

7.7. Sponsorship Programs

Union Bank is one of the sponsors of Albania's National Football Team for three qualifying cycles in a row, including the historic first qualification for the European Championship in 2016. The Bank is proud to support our Football Team, cheering their steady excellent games, providing such joy and happiness to the whole country and all Albanians around the world.

Besides this long-lasting sponsorship activity, the Bank has also been engaged in other numerous social and business sponsoring activities such as:

- Supporting, advocating and sponsoring the foundation "Down Syndrome Albania". UB was one of the largest donators and contributors to this cause by participating in the fundraising event of the "Presidential Ball" non-profit activity with the purpose to increase awareness and attention to the children and their families touched by this syndrome.
- Sponsoring, helping and participating in the regional conference held by the "Office of the Commissioner" in Korca, Shkodra and Vlora, etc related to the implementation and enforcement of nation laws in regards to the new mechanism, authorities' power and the businesses involvement for information distribution and data protection.
- Helping disabled individuals with the year-end festivities in the "Residential and Development Center" in Berat.
- Donating a number of "Independence Albums" to schools for the 101 year-anniversary of the Independence Day through Ministry of Education.

In cooperation with IFC, Union Bank has also helped encourage the disbursements of client-favourable interest rates loans or so-called "green loans" related to products and equipments that are energy-efficient and less harmful to the environment.

8. Financial Results

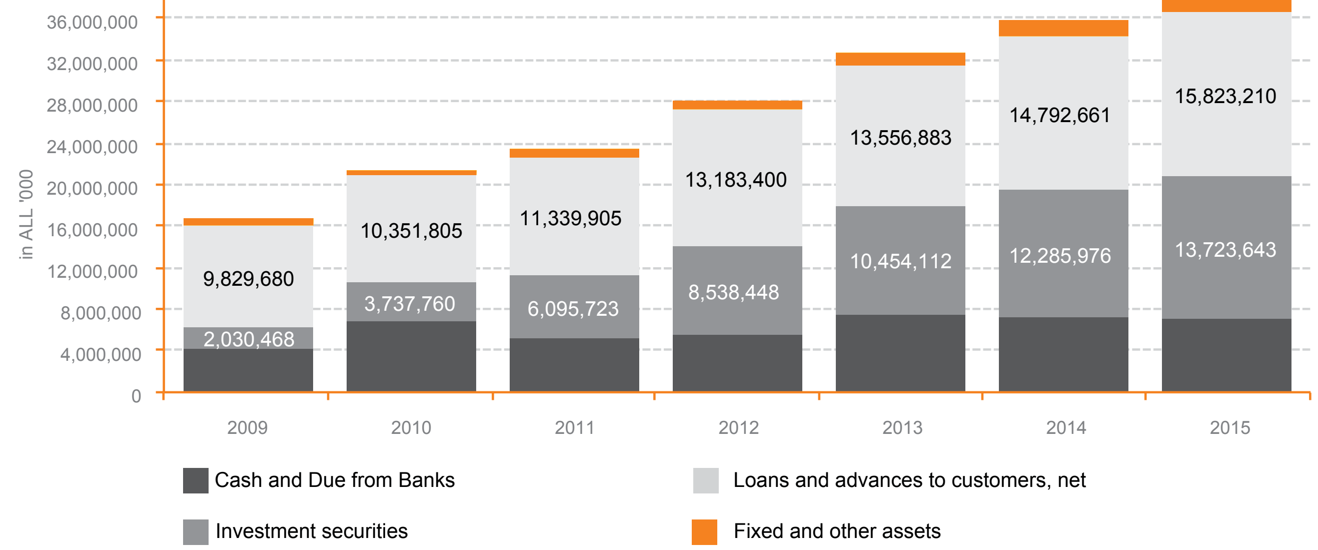
Main results of the year

	in Lek '000		in Euro '000		Change	
	2015	2014	2015	2014	2015	2014
Balance Sheet						
Total assets	38,166,191	35,824,183	278,017	255,631	6,5%	9,6%
Gross loans portfolio	17,014,988	15,772,077	123,944	112,545	7,9%	10,7%
Investments in securities	13,723,643	12,285,976	99,968	87,669	11,7%	17,5%
Placements with banks	4,147,632	3,461,311	30,213	24,699	19,8%	5,2%
Customer accounts	31,618,267	29,941,272	230,320	213,653	5,6%	10,0%
Paid in capital	2,717,813	2,579,853	19,798	18,409	5,3%	4,0%
Profit and Loss						
Net interest income	1,561,239	1,231,232	11,373	8,786	26,8%	28,2%
Net fee and commission income	167,005	147,124	1,217	1,050	13,5%	5,1%
Other operating income	109,804	86,390	800	616	27,1%	18,6%
Operating income	1,838,048	1,464,746	13,389	10,452	25,5%	24,8%
Total operating expenses	(1,380,565)	(1,111,549)	(10,057)	(7,932)	24,2%	0,7%
Net Profit before taxes	457,483	353,197	3,332	2,520	29,5%	408,1%
Statistics						
Numbers of staff	337	317			6,3%	3,6%
Number of outlets	29	28			3,6%	-3,4%
Number of Loans outstanding	14,022	13,185			6,3%	18,2%
Number of Clients	98,402	95,000			3,6%	10,3%
Key ratios						
Return on Equity	11,6%	11,4%			1,7%	359,5%
Cost to Banking Income Ratio	58,1%	67,1%			-13,5%	-10,7%
Loans to Deposits ratio	50,0%	49,4%			1,3%	-0,8%
Assets Growth Rate	6,5%	9,6%			-32,2%	-41,1%
Customer Deposit Growth Rate	5,6%	10,0%			-43,8%	-25,1%
Loans Growth Rate	7,9%	10,7%			-26,5%	134,2%
LLP to Loan portfolio	6,8%	6,0%			13,2%	18,5%
Net Interest Margin	4,2%	3,6%			17,4%	13,7%
Capital Adequacy ratio	12,98%	12,98%			0,0%	0,0%
Asset to Employee Ratio	113,253	113,010			0,2%	5,8%
Assets to Branch ratio	1,316,076	1,279,435			2,9%	13,6%

* - All figures, including capital are translated using year and Exchange rate

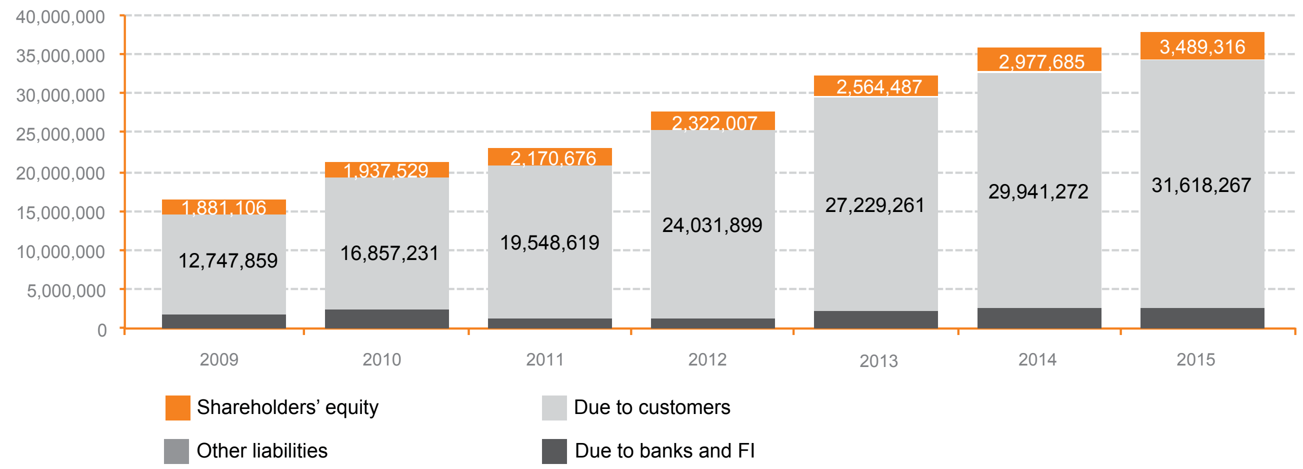
At the end of Y2015, Bank's assets reached the value of Lek 38.2Billion reflecting a yearly increase of more than Lek 2.3 Billion or 6.5percent higher than 2014. The assets structure is firstly composed by Loans and Advances to Customers, being 41.5 percent (41.3 percent in Y2014), followed by Investment Securities increased their weight to 36.0 percent (34.3 percent in 2014) that are made of Treasury Bills, Albanian Government Bonds and few foreign high investment grade Corporate/Government bonds, and Cash and Due from Banks with 18.6 percent (2014: 20.2 percent) of total assets.

Structure of Assets in Y2015



UB's Liabilities are more than Lek 34.7 Billion (2014: 32.9 Billion) and in their entirety they grew pretty much according to the Bank's plan. Customer Funds account for about 82.8 percent as opposed to 83.6 percent of the Bank's total assets in 2014, while Due to Banks and other Financial Institutions account for 6.9 percent.

Structure of Liabilities and Equity in Y2015

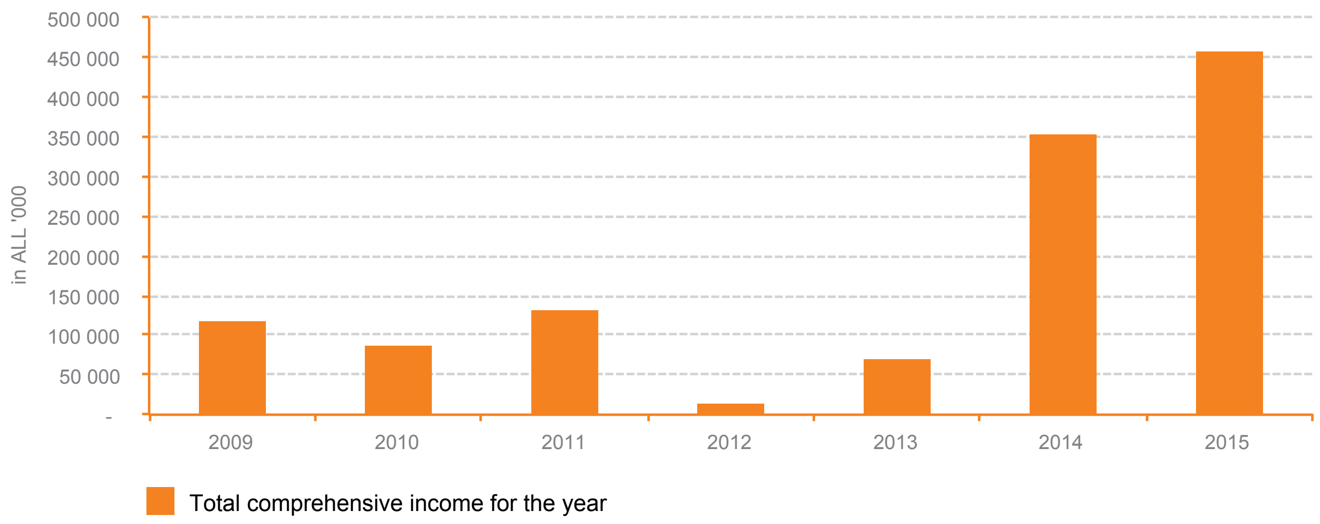


The Shareholders Equity close to Lek 3.5Billion grew to 9.1 percent of total assets of the Bank, versus 8.3 percent at the end of Y2014 as the result of the injection of new equity from the side of the shareholders and the positive result of the year..

In Y2015 UB turned a profit in the amount of Lek 373.7Million. Out of this, the Income from Operations is by Lek 373.3Milion or 26 percent higher than 2014.

Net Interest Income increased by 26.8 percent, and Net Fees income also increased by 13.5 percent. Total Operating Income has increased by 25.5 percent while the Operational Costs increased by 24.2 percent (LLP included) compared to the previous year.

Profit development line in years



9. Plans for 2016

Year 2016 marks the tenth anniversary of the Bank's establishment and the plans are to advance with clear ambitious and define goals and strategies. It intends to grow its business and widened the clientele base by being proactive, profitable and cautious at the same time.

The Bank will progress ahead keepin as a guiding line the mission statement and core strategies which for 2016 are that the Bank will continue to grow better than the system and increase its market share, profitability and quality of assets, and keep the overall sustainibility of its entire performance at the same time. 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. Paralell to this a high priority is given to consolidation and intensifyiung the work at the branch level since here lies the initial phase of every bank operation.

Being very close and in-tune with the government and statutory regulations, while evaluating the market opportunities at the same time, the bank will uphold a tight and well-defined structured process, safe-guarding the quality of the loan portfolio and assess the resources needed to support such transactions.

Lending

Union Bank has anticipated approximately 12 percent Loan Portfolio yearly growth rate. The target is the increase and consolidation of the existing portfolio while keeping healthy overall parameters of the actual portfolio and go ahead by adding up to its value with special focus to the Retail side and SME. At the same time, the Bank will strictly consider and regularly monitor all the risk factors and exposures which faces on daily bases by trying to keep up the good quality of the loan portfolio.

In a same manner as to the previous year, 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 2016 is to increase by more than 13 percent in yearly terms. The pertaining marketing campaigns will put maximum efforts to support these goals.

The business loans segment continues to be the largest segment of the portfolio, a 11 percent yearly increase target is aimed for 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. I'm 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

For the upcoming year, UB plans to increase total Customer Funds more than 12 percent. The main target intentions are on one side to improve the balance sheet structure toward interest bearing assets, loans to deposit ratios and net interest

margins, and on the other side keeping the necessarily liquidity level and supporting the budgeted Lending and Securities growth as well.
The product pricing strategy is closely related to the main goals of the Bank for growth and increasing the client base and market share, accompanied with the strict monitoring of yhe net interest margins to sustain the profitability. The campaings and efforts that will unfold during the year for the implementation and adaptations of these strategies will firstly consist in supporting the main product range, and then improving and finding ways for creation of new or hybrid product characteristics. The focus will be on taking advantage of cross-sale opportunities not only day-to-day operating busines, but keeping an eye on the "big picture" for Bank's yearly objectives also.

Key Marketing Projects

While celebrating its tenth anniversary, during the upcoming year the Bank will have important marketing projects and plans and all of them tie in to the main strategy of the Bank to increase market share by strengthening and improving Bank's products, services and moreover its image and longevity. 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.

In close cooperation with well-known and accredited publishers, the Bank will start an "electronic magazine" in the form of a newsletter which will frequently reflect the most highlighted developments and announce to its members the Bank's successful and most interesting endeavors through media and intranet channels. The marketing campaigns will support and be part of the yearly motto "Near branches, Near communities" to make the Bank even more known and friendly to people. The Bank's staff will directly participate in social and media events, gatherings, local and national festivities in order to ensure the increase of the Bank's awareness.

During 2016, UB will continue to actively participate in national and local celebrations and events, and proudly and dynamically sponsor the Albanian National Soccer Team up to Y2018, In this framework, as part of the qualifying games for the "UEFA EURO 2016" cup in France, the campaigns intend to take the Bank closer to the team's fans since they represent a very important part of the community.

In lieu of more traditional campaigns that the Bank has undertaken over the years, and in order to support the realization of branches' targets and its business plans, the Marketing department has budgeted some essential campaigns which some of them are:

- Retail Mortgage Loans "Shtepia per Familjen" promotional campaign that will enjoy a full coverage in the media and on the web, complete local support and be done through live communication to individuals through cross-selling, on-line applications and the Direct Sales unit; planned for the first half of the year.
- "Business Loans" promotional campaign that will tend to promote and present the ways and convenient process of applying and qualifying for such loans. It aims to broaden the clientele base through Direct Sales combined with in-house cross-sales which will help with the refinancing of several existing loans as well.

In addition to these engagements that will concentrate on sales of Loans and Advancements, there will be some other selected projects in relation to boosting the Cards sales and improving the ways cards are received and utilized.

- The promotion of a Credit Card in Lcy.
- The promotion of a very special Credit Card called "Kuq e Zi" in Euro co-branded with FSHF with combined beneficiary features of a Master Card and options to be a member of the nation fans club called " Klub i Tifozave te Kombetares".

Branches Network

During the next year, UB plans to open another branch in the "Bllok" area of Tirana city. This branch will further assist and facilitate its clients with a full range of products and services by giving them extra beneficiary elements, quick and better reach to complete their monetary and financial operations.

Parallel to this, there are plans and projects to continue upgrading the existing branches and the rest of the network system. Several projects include the replacements of interior and exterior fixed assets and other, expanding and refurbishing of certain areas, improving internal and outward appearance with more up-to-date equipment and facilities while enhancing the expenditure amounts needed for the business continuation and marketing campaigns.

UNION BANK SH.A.

Independent Auditor's Report

and Consolidated Financial Statements

as at and for the year ended 31 December 2015

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Deloitte.

Deloitte Audit Albania sh.p.k.
Rr. Elbasanit.
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Union Bank sh.a (the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the bank'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 bank'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 Union Bank sh.a. as at December 31, 2015, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Union Bank Sh.a for the year ended December 31, 2014 were audited by another auditor who expressed an unqualified opinion on those statements on March 31, 2015.

Deloitte Audit Albania sh.p.k.
March 31, 2016
Tirana, Albania

Engagement Partner
Elvis Ziu

DELOITTE AUDIT ALBANIA
Ad.Rr.Elbasanit, Pll.nr1, kt2, pohte Fakultetit Gjeologji Miniera
Tel:044517920
NIPT: L41709002 H TIRANA - ALBANIA

Union Bank sh.a
Consolidated Statement of Financial Position as at 31 December 2015
(Amounts in LEK'000)

	Notes	As at December 31, 2015	As at December 31, 2014
Assets			
Cash and balances with Central Bank	6	2,935,534	3,767,270
Placements and balances with banks	7	4,147,632	3,461,311
Treasury Bills held-to-maturity	8	1,760,774	2,112,909
Bonds held-to-maturity	9	11,962,869	10,173,067
Loans and advances to customers	10	15,823,210	14,792,661
Intangible assets	11	120,438	144,272
Property and equipment	12	199,804	187,504
Non-current assets held for sale	13	407,718	346,245
Investment property	14	347,944	641,592
Other assets	15	455,170	184,686
Deferred tax asset	30	5,098	12,666
Total assets		**38,166,191**	**35,824,183**
Liabilities			
Due to Central Bank	16	1,317,562	1,125,249
Due to banks and financial institutions	17	1,313,966	1,516,807
Due to customers	18	31,618,267	29,941,272
Other liabilities	19	380,987	246,707
Income tax payable	30	46,093	15,412
Subordinated Debt	20	-	1,051
Total liabilities		**34,676,875**	**32,846,498**
Shareholders' equity			
Share capital	21	2,717,813	2,579,853
Share premium		175,600	175,600
Legal Reserve		126,232	-
Retained earnings		469,671	222,232
Total shareholders' equity		**3,489,316**	**2,977,685**
Total liabilities and shareholders' equity		**38,166,191**	**35,824,183**

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 51.

These consolidated financial statements have been approved by Executive Management on 30 March 2016 and signed on its behalf by:

UNION BANK TIRANE

Gazmend Kadriu
Chief Executive Officer

Arten Zikaj
Chief Financial Officer

Union Bank sh.a
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015
(Amounts in LEK'000)

	Notes	For the year ended December 31, 2015	For the year ended December 31, 2014
Interest income	22	2,108,522	2,052,752
Interest expense	23	(547,283)	(821,520)
Net interest income		**1,561,239**	**1,231,232**
Fee and commission income	24	196,730	171,113
Fee and commission expenses	25	(29,725)	(23,989)
Net fee and commission income		**167,005**	**147,124**
Gain on acquisition of the Subsidiary	5	-	104,499
Net foreign exchange gain	26	(16,580)	57,720
Change in fair value of investment property	14	(12,143)	(1,380)
Impairment of assets held for sale	13	(19,765)	(1,206)
Income from leased investment property	14	20,161	14,823
Other income, net	27	106,223	13,847
Net impairment loss on loans and advances	10	(281,151)	(230,012)
Other charges for provisions		5,970	-
Amortization of intangible assets	11	(32,871)	(35,481)
Depreciation of property and equipment	12	(39,858)	(38,215)
Personnel costs	28	(403,674)	(367,818)
Other operating expenses	29	(597,073)	(541,936)
Profit before tax		**457,483**	**353,197**
Income tax expense	30	(83,812)	(38,188)
Profit for the year		**373,671**	**315,009**
Other comprehensive income, net of income tax		**-**	**-**
Total comprehensive income for the year		**373,671**	**315,009**

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 51.

Union Bank sh.a
Consolidated Statement of Changes in Equity for the year ended 31 December 2015
(Amounts in LEK'000)

	Share capital	Share premium	Legal Reserve	Retained Earnings	Total
Balance at 1 January 2014	**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**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners					
Increase in share capital	137,960	-	-	-	**137,960**
Legal Reserve	-	-	126,232	(126,232)	**-**
Total contributions by and distributions to owners	**137,960**	**-**	**126,232**	**(126,232)**	**137,960**
Total comprehensive income for the year					
Profit for the year	-	-	-	373,671	**373,671**
Other comprehensive income, net of income tax	-	-	-	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**373,671**	**373,671**
Balance at 31 December 2015	**2,717,813**	**175,600**	**126,232**	**469,671**	**3,489,316**

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 51.

Union Bank sh.a
Consolidated Statement of Cash Flows for the year ended 31 December 2015
(Amounts in LEK'000)

	Notes	For the year ended December 31, 2015	For the year ended December 31, 2014
Cash flows from operating activities			
Profit before tax		457,483	353,197
Adjustments for non-cash items:			
Interest income	22	(2,108,522)	(2,052,752)
Interest expense	23	547,283	821,520
Income from investment in subsidiary		-	(104,499)
Depreciation of property and equipment	12	39,858	38,215
Amortization of intangible assets	11	32,871	35,481
Impairment loss	10	281,151	230,012
Impairment of assets held for sale	13	19,765	1,206
Change in fair value of investment property	14	12,143	1,380
Revaluation effect of cash and cash equivalents		(1,728)	(193,272)
Other revaluation effects		14,149	201
Written of property and equipment		11,632	733
Reversal of fines and penalties		-	(682)
Effect of written off loans and advances to customers		-	3,842
Other charges for provisions		(5,970)	-
Net gain from sale of non-current assets held for sale		(95,407)	(7,317)
		(795,292)	**(872,735)**
Changes in:			
Placements and balances with banks		(232,211)	(42,785)
Loans and advances to customers		(1,506,264)	(1,056,360)
Other assets		(274,217)	(91,778)
Due to banks and financial institutions		76,740	(975,780)
Due to customers		1,672,231	2,819,152
Due to Central Bank		191,767	1,088,118
Other liabilities		185,088	(432,505)
Interest received		2,145,690	2,017,306
Interest paid		(565,383)	(928,880)
Income tax paid	30	(45,563)	(41,009)
Net cash generated from operating activities		**852,586**	**1,482,744**
Cash flows from investing activities			
Purchases of intangible assets	11	(18,002)	(43,201)
Purchases of property and equipment	12	(56,259)	(30,984)
Investment in subsidiaries		(41,184)	(342,960)
Purchases of assets held for sale		(233,376)	-
Proceeds from sale of property and equipment		1,434	34
Proceeds from sale of non-current assets held for sale		676,471	60,274
Sales of treasury bills held to maturity		352,069	(438,864)
Purchases of bonds held to maturity		(1,781,565)	(1,380,100)
Net cash used in investing activities		**(1,100,412)**	**(2,175,801)**
Cash flows from financing activities			
Repayment of borrowings		(268,373)	-
Subordinated debt		(1,051)	-
Proceeds from capital injection		137,960	98,189
Net cash generated from financing activities		**(131,464)**	**98,189**
Net increase in cash and cash equivalents during the year		**(379,290)**	**(594,868)**
Increase in cash and cash equivalents due to investment in Subsidiary		-	104,179
Revaluation effect of cash and cash equivalents		1,728	193,272
Cash and cash equivalents at the beginning of the year		**5,166,615**	**5,464,032**
Cash and cash equivalents at the end of the year	31	**4,789,053**	**5,166,615**

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 51.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2015
(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 2015

Board of Directors of the Bank

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranian	Member
Genc Turku	Member (due for replacement)
Paul Nabavi	Member
Gazmend Kadriu	Member
Sokol Marishta	Member

Mr. Sokol Marishta joined the Board on 9 October 2015, replacing Mr. Agim Xhaja

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.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2015
(Amounts in LEK '000 unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUE)

2.4 Use of estimates and judgments (continue)

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.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2015
(Amounts in LEK '000 unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency transactions

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.

3.3 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.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2015
(Amounts in LEK '000 unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2015
(Amounts in LEK '000 unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.3 Derecognition (continued)

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.

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.

3.7.3 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.

3.7.4 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.

3.7.5 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.6 Fair value measurements (continued)

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.

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.

3.7.6 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.6 Identification and measurement of impairment (continued)

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.

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 34). 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property plant and equipment (continued)

3.11.3 Depreciation (continued)

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.

3.13 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.18 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Adoption of new or revised standards and interpretations

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- **Amendments to IAS 19 "Employee Benefits" -** Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies.

3.20 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 01, 2016 or later, and which the Group has not early adopted.

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018) Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also will require a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss. The amendments from November 2013 bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. It allows the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments.
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 "Revenue from Contracts with Customers**" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 New accounting pronouncements (continued)

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 "Consolidate Financial Statements"** - Equity Method in Consolidate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Except for the impact of IFRS 9, which will be assessed by the Group during 2016, the Group anticipates that the adoption of the other standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

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 34).

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4. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

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 35.

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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	**385,002**
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), representing a warrantee retained from the purchase price of the Subsidiary (see Note 19), should be reduced accordingly in the event of claims related to the period before the purchase date of the Subsidiary. The amount was fully paid on due date.

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:

	As at 31 December 2015	As at 31 December 2014
Cash on hand	787,236	940,401
Central Bank:		
Current account	166,940	735,679
Compulsory reserves	1,981,093	2,090,783
Accrued interest	265	407
Total	**2,935,534**	**3,767,270**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with initial maturity up to 24 months with the Bank of Albania as a compulsory reserve account. This reserve is not available for use in the Bank's day to day operations, however according to the applicable regulations the Bank can make use of up to 40% of the compulsory reserve in LEK, 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:

	As at 31 December 2015	As at 31 December 2014
Current accounts:		
Resident	22,023	104,179
Non-resident	3,653,125	2,739,839
	3,675,148	**2,844,018**
Deposits:		
Resident	449,824	596,546
	449,824	**596,546**
Other accounts	22,642	20,741
Accrued interest	18	6
Total	**4,147,632**	**3,461,311**

Deposits with resident and non-resident banks mature in the range of 5 to 62 days (2014: 2 to 6 days) and bear interest in the range of 0.1%p.a. to 1.8%p.a. (2014: 0.15%p.a. to 2.25%p.a.).

8. TREASURY BILLS HELD-TO-MATURITY

Treasury Bills held-to-maturity ("T-Bills") at 31 December 2015 are issued by the Albanian Government.

T-Bills by original maturity are presented as follows:

	31 December 2015			31 December 2014		
	Nominal value	Remaining discount	Book Value	Nominal value	Remaining discount	Book Value
3 months	50,000	(95)	49,905	50,000	(29)	49,971
6 months	210,110	(1,022)	209,088	100,000	(592)	99,408
12 months	1,520,470	(18,689)	1,501,781	1,998,560	(35,030)	1,963,530
Total	**1,780,580**	**(19,806)**	**1,760,774**	**2,148,560**	**(35,651)**	**2,112,909**

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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 2015
	Nominal value	Remaining discount	Accrued interest	Book Value
Albanian Government	11,433,945	(430)	182,297	11,615,812
Foreign Governments	194,430	10,097	2,753	207,280
Foreign Corporate Bonds	137,280	734	1,763	139,777
Total	**11,765,655**	**10,401**	**186,813**	**11,962,869**

				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
Foreign Corporate Bonds	140,140	561	2,484	143,185
Total	**9,987,506**	**6,985**	**178,576**	**10,173,067**

Based on Moody's rating, Foreign Corporate Bonds as at 31 December 2015 are rated A1 - A2 (2014: Moody's A1 - A2), whereas Foreign Government bonds are rated A3 - A- (2014: A1 – A-). Based on Moody's rating, Albanian Government bonds are rated B+ (2014: S&P B+).

10. LOANS AND ADVANCES TO CUSTOMERS

	As at December 31, 2015	As at December 31, 2014
Loans and advances at amortized cost	16,312,420	15,108,213
Finance Lease	702,568	663,864
Allowance for Impairment	(1,191,778)	(979,416)
Total loans and advances to customers, net	**15,823,210**	**14,792,661**

Loans and advances to customers at amortized cost:

	As at December 31, 2015	As at December 31, 2014
Loans	13,884,631	12,326,658
Overdrafts	2,297,880	2,635,140
Other advances to customers	108,677	95,468
	16,291,188	**15,057,266**
Accrued interest	94,183	120,591
Allowances for losses on loans and advances	(1,156,701)	(947,301)
Deferred income	(72,951)	(69,644)
Total	**15,155,719**	**14,160,912**

Loans and advances to customers earn interest as follows:

Currency	As at December 31, 2015	As at December 31, 2014
LEK	2.50% - 20.0% p.a.	2.80% - 20.0% p.a.
EUR	1.40% - 15.0% p.a.	1.79% - 15.5% p.a.
USD	1.60% - 15.0% p.a.	1.90% - 15.0% p.a.
GBP	1.60% - 2.5% p.a.	N/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 7.5% 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:

	As at December 31, 2015	As at December 31, 2014
Less than one year	123,904	397,223
Between one and five years	684,329	360,765
Unearned future finance income	(105,665)	(94,124)
Net investment in finance lease	**702,568**	**663,864**
Less impairment allowance	(35,077)	(32,115)
Total	**667,491**	**631,749**

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

	As at December 31, 2015	As at December 31, 2014
As at 1 January	979,416	722,260
Net impairment charge for the year	281,151	230,012
Loans written-off during the period	(47,481)	(5,069)
Increase in impairment due to investment in Subsidiary	-	32,115
Translation differences	(21,308)	98
Balance at the end of the year	**1,191,778**	**979,416**

11. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
At 1 January 2014				
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**
Year ended December 2015				
Opening net book amount	105,926	11,802	26,544	144,272
Additions	1,749	37,066	(20,813)	18,002
Adjustments	(129)	-	-	(129)
Disposal	-	(14,943)	-	(14,943)
Amortization charge	(26,291)	(6,580)	-	(32,871)
Amortization charge for disposals	-	6,086	-	6,086
Adjustments of amortization charge	21	-	-	21
Closing net book amount	**81,276**	**33,431**	**5,731**	**120,438**
At 31 December 2015				
Cost	251,283	62,719	5,731	319,733
Accumulated amortization	(170,007)	(29,288)	-	(199,295)
Net book amount	**81,276**	**33,431**	**5,731**	**120,438**

Other intangible assets include payments made to Paylink sha for developing the ATM network supporting systems and the installation, customization, certification and on-line links between Paylink's ATM host system and the Bank's system, as well as payments made for SWIFT and CIS joining, interface and access fees. The unamortized part of payments made for previous provider First Data Hellas ("FDH"), were disposed during 2015 as the Bank moved to another provider.

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12. PROPERTY AND EQUIPMENT

	Computers	Electronic equipment	Office Furniture	Fixtures and Fittings	Fixed assets in progress	Leasehold improvements	Total
At 1 January 2014							
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**
Year ended December 2015							
Opening net book amount	44,816	37,977	17,967	3,220	4,827	78,697	187,504
Additions	17,492	17,741	4,500	-	7,897	8,629	56,259
Disposals	(2,208)	(6,191)	-	(2,626)	-	(4,338)	(15,363)
Depreciation charge	(13,836)	(9,507)	(3,398)	(352)	-	(12,765)	(39,858)
Depreciation charge for disposals	1,983	4,930	-	1,114	-	3,235	11,262
Closing net book amount	**48,247**	**44,950**	**19,069**	**1,356**	**12,724**	**73,458**	**199,804**
At 31 December 2015							
Cost	206,070	122,933	57,131	3,331	12,724	190,023	592,212
Accumulated depreciation	(157,823)	(77,983)	(38,062)	(1,975)	-	(116,565)	(392,408)
Net book amount	**48,247**	**44,950**	**19,069**	**1,356**	**12,724**	**73,458**	**199,804**

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

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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.

The following table shows a reconciliation from the beginning balances to the closing balances for the Bank's non-current assets held for sale.

	As at 31 December 2015	As at 31 December 2014
Balance at 1 January	**346,245**	**591,494**
Transferred to investment property	(69,317)	(347,720)
Acquired during the year	210,737	5,764
Assets purchased during the year	233,376	-
Transferred from investment property	357,697	121,730
Refinanced during the year	(61,516)	-
Sold during the year	(581,064)	(52,957)
Net impairment charge for the year	(19,765)	(1,206)
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)
Foreign exchange revaluation differences	(8,675)	(202)
Balance at 31 December	**407,718**	**346,245**

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 was payable in 12 monthly installments. Due to uncertainties from buyers' side, this agreement was revoked in December 2015 and as a result, the contract guarantee in the amount of LEK 17,805 thousand was recognized as profit (note 27).

During the year, the Group entered into an agreement for the sale of one of the properties amounting LEK 568,340 thousand, which was partly co-owned by another bank. To finalize the sale transaction, the Group initially bought this part and finally sold the property with a premium of LEK 91,087 thousand recognized in the statement of profit or loss (note 27).

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 2015, was LEK 20,161 thousand (2014: 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.

(Amounts in LEK '000 unless otherwise stated)

14. INVESTMENT PROPERTY (CONTINUED)

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.

	As at 31 December 2015	As at 31 December 2014
Balance at 1 January	**641,592**	**180,968**
Transferred from non-current assets held for sale	69,317	347,720
Acquired during the year	12,349	236,014
Transferred to non-current assets held for sale	(357,697)	(121,730)
Net changes in fair value (unrealized)	(12,143)	(1,380)
Foreign exchange revaluation differences	(5,474)	-
Balance at 31 December	**347,944**	**641,592**

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.)

15. OTHER ASSETS

	As at 31 December 2015	As at 31 December 2014
Monetary values in transit	81,389	87,094
Prepayments	18,493	26,212
Accrued income	14,438	13,478
Clients' receivables	13,072	2,500
Vat receivable	10,237	-
Other	5,666	9,010
Inventory	3,304	5,073
Payment in transit	906	3,220
Guarantee deposit paid	686	701
Sundry debtors	306,979	37,398
Total	**455,170**	**184,686**

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

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. Sundry debtors include such amounts.

16. DUE TO CENTRAL BANK

	As at 31 December 2015	As at 31 December 2014
Treasury bills sold under repurchased agreements	1,315,740	1,123,973
Accrued interest	1,822	1,276
Total	**1,317,562**	**1,125,249**

Treasury bills sold under repurchase agreements "Repos" at 31 December 2015 are short term liquidity management instruments issued by the Central Bank to inject liquidity in the banking system. Repos at the end of of 2015, bear interest at market rates ranging from 1.77% p.a. to 2.16% p.a. (2014:2.29% 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:

	As at 31 December 2015	As at 31 December 2014
Current accounts		
Resident	634,784	874,597
Non-resident	290,477	14,465
	925,261	**889,062**
Term deposits		
Resident	235,326	-
Non-resident	43,930	45,460
	279,256	**45,460**
Borrowings		
Resident	-	328,157
Non-resident	-	253,475
	-	**581,632**
Other accounts		
Resident	106,765	20
	106,765	**20**
Accrued interest	2,684	633
Total	**1,313,966**	**1,516,807**

Current accounts from resident financial institutions include LEK 402 million (2014: LEK 669 million) deposited by Unioni Financiar Tirane ('UFT'), out of which LEK 103 million (2014: LEK 420 million) represent collateral for loans issued by the Bank to related parties.

Current accounts from non-resident financial institutions include balances deposited from 'Union of Financial Corners' and 'Unioni Financiar Prishtine', both related parties, of LEK 278 million, out of which LEK 151 million is held as collateral for loans issued to related parties.

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', of LEK 43,930 thousand (2014: LEK 45,460 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates 0.7% p.a. (2014: 1% p.a. to 2.5% p.a.).

As at 31 December 2014 borrowings includes an amount of LEK 281,632 thousand that represents secured borrowing that the Subsidiary has received from banks and financial institutions. These borrowings were secured by lease contracts with a carrying amount of LEK 463,419 thousand. During 2015, these borrowings were fully paid.

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18. DUE TO CUSTOMERS

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

	As at December 31, 2015	As at December 31, 2014
Government and public administration:		
Local currency	288,148	10,834
Foreign currency	109,437	29,416
	397,585	**40,250**
Current accounts:		
Local currency	2,365,722	2,444,303
Foreign currency	2,665,289	2,029,091
	5,031,011	**4,473,394**
Saving accounts:		
Local currency	1,126,370	1,420,570
Foreign currency	2,354,705	2,151,942
	3,481,075	**3,572,512**
Term deposits:		
Local currency	12,563,306	12,080,053
Foreign currency	8,603,139	8,310,757
	21,166,445	**20,390,810**
Other customer accounts:		
Local currency	307,916	251,090
Foreign currency	808,108	793,636
	1,116,024	**1,044,726**
Prepaid interest on customer deposits	(327)	(2,110)
Accrued interest	426,454	421,690
Total	**31,618,267**	**29,941,272**

Current and saving accounts bear interest in the range of 0.1% p.a. to 1% p.a. (2014: 0.1% p.a. to 1.5% p.a.) and term deposits bear interest as follows:

Currency	**2015**	**2014**
LEK	0.90% p.a. to 7.60% p.a.	0.80% p.a. to 7.60% p.a.
EUR	0.10% p.a. to 4.40% p.a.	0.20% p.a. to 4.50% p.a.
USD	0.20% p.a. to 1.90% p.a.	0.20% p.a. to 3.00% p.a.
GBP	0.20% p.a. to 0.70% p.a.	0.30% p.a. to 1.20% p.a.

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

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18. DUE TO CUSTOMERS (CONTINUED)

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

	31 December 2015			31 December 2014		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
Government and admin accounts						
On demand	278,148	33,708	311,856	10,834	29,416	40,250
Twelve months	10,000	75,729	85,729	-	-	-
Total government and admin accounts	**288,148**	**109,437**	**397,585**	**10,834**	**29,416**	**40,250**
Current accounts	**2,365,722**	**2,665,289**	**5,031,011**	**2,444,303**	**2,029,091**	**4,473,394**
Saving accounts	**1,126,370**	**2,354,705**	**3,481,075**	**1,420,570**	**2,151,942**	**3,572,512**
Term deposits:						
One month	-	-	-	37,719	56,334	94,053
Three months	434,197	481,087	915,284	440,269	367,808	808,077
Six months	672,521	480,051	1,152,572	504,045	453,108	957,153
Twelve months	3,477,715	3,545,969	7,023,684	3,463,335	3,585,944	7,049,279
Fourteen months	1,265,857	897,575	2,163,432	1,510,313	932,194	2,442,507
Twenty-five months	2,020,616	1,096,885	3,117,501	2,409,368	1,430,871	3,840,239
Sixty months	1,183,148	709,026	1,892,174	-	-	-
Other	3,509,252	1,392,546	4,901,798	3,715,004	1,484,498	5,199,502
Total deposits	**12,563,306**	**8,603,139**	**21,166,445**	**12,080,053**	**8,310,757**	**20,390,810**
Other customer accounts:						
On demand	25,141	11,394	36,535	34,770	123,470	158,240
Three months	12,736	-	12,736	3,200	-	3,200
Six months	1,120	-	1,120	2,400	-	2,400
Twelve months	14,058	57,514	71,572	15,056	389,096	404,152
Other	254,861	739,200	994,061	195,664	281,070	476,734
Total other customer accounts	**307,916**	**808,108**	**1,116,024**	**251,090**	**793,636**	**1,044,726**
Total	**16,651,462**	**14,540,678**	**31,192,140**	**16,206,850**	**13,314,842**	**29,521,692**

"Other" includes deposits with initial maturities of 4 months, 7 months, 11 months, 21 months, 24 months and 35 months.

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19. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2015	As at December 31, 2014
Payments in transit	291,380	120,216
Other payables	48,631	21,210
Invoices to be received	24,979	36,106
Deferred income and accrued expenses	8,143	1,547
Advances from clients	6,870	6,152
Other provisions for risk and expenses	984	11,818
Guarantees	-	42,042
Payables to tax authorities	-	7,616
Total	**380,987**	**246,707**

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

Guarantees of LEK 42,042 thousand (equivalent of EUR 300 thousand) at 31 December 2014, represented a warrantee retained from the purchase price of the Subsidiary (see Note 1). As agreed, the guarantee was fully paid during 2015.

20. SUBORDINATED DEBT

The amount of subordinated debt represented 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. The approved capital increase was fully paid in cash (Note 22), therefore the remaining balance of the subordinated loan amounting at EUR 7,500, was fully paid to the respective shareholders.

21. SHARE CAPITAL

Based on Shareholders' Decision dated 30 June 2015, the subscribed capital was increased by 100 thousand shares using the contributions of UFT (the main shareholder of the Bank). This contribution was paid in three trenches as follows:

- 8 July 2015: 25 thousand shares with a total value of LEK 34,905 thousand;
- 27 November 2015: 30 thousand shares with a total value of LEK 41,445 thousand; and
- 24 December 2015: 45 thousand shares with a total value of LEK 61,610 thousand

At 31 December 2015, the subscribed capital was divided into 2,097,143 shares (2014: 1,997,143 shares) with a nominal value of EUR 10 each.

The movements in the paid up share capital in 2015 and 2014 were as follows:

	31 December 2015		31 December 2014	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	1,997,143	2,579,853	1,927,143	2,481,664
Capital increase	100,000	137,960	70,000	98,189
Paid-up share capital	**2,097,143**	**2,717,813**	**1,997,143**	**2,579,853**

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21. SHARE CAPITAL (CONTINUED)

The structure of subscribed capital is as follows:

	As at December 31, 2015	As at December 31, 2014
Unioni Financiar Tirane (UFT) Sh.p.k	86.34%	85.66%
European Bank for Reconstruction and Development (EBRD)	10.12%	10.62%
Edmond Leka	1.77%	1.86%
Niko Leka	1.77%	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:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Loans and advances to customers	1,343,114	1,311,927
Investment securities	749,362	716,575
Placements and balances with banks	16,046	24,250
Total	**2,108,522**	**2,052,752**

23. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Due to customers	506,040	792,590
Due to banks and financial institutions	16,841	16,303
Repurchase agreements	24,387	12,609
Subordinated debt	15	18
Total	**547,283**	**821,520**

24. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Banking services	152,385	136,248
Lending activity	12,190	11,626
Other	32,155	23,239
Total	**196,730**	**171,113**

25. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Fee charged for services offered from the agents	4,000	9,232
Treasury operations	6,995	5,703
Banking services	7,793	5,364
Other	10,937	3,690
Total	**29,725**	**23,989**

26. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain includes net gains from trading activities and foreign currency differences arising on open position revaluation at the year end. Net foreign exchange result in 2015, is loss of LEK 16,580 thousand (2014: gain of LEK 57,720 thousand). The net foreign exchange loss in 2015 is mostly due to the effect of loss of LEK 61,883 thousand (2014: gain of LEK 1,444 thousand) from the open position revaluation at the year-end for the paid-up share capital which is denominated in Eur.

27. OTHER INCOME, NET

Other income includes income and expenses on other banking activities, income or loss on sale of fixed assets, repayment form written off loans etc. Other income in the amount of LEK 106,223 thousand (2014: LEK 13,847 thousand) includes the profit realized on the sale of an asset amounting at LEK 95,407 thousand (note 14) (2014: LEK 6,676 thousand) and the execution of the guarantee for a sale agreement revoked by the buyer amounting at LEK 17,805 thousand (2-14: nil) (note 13).

28. PERSONNEL COSTS

	For the year ended December 31, 2015	For the year ended December 31, 2014
Salaries and other compensations	360,294	328,760
Social insurance	43,380	39,058
Total	**403,674**	**367,818**

As at 31 December 2015 the Group had 349 employees (2014: 327).

29. OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Rent	175,396	156,171
Other external services	91,062	75,141
Premium insurance of deposits	82,604	78,788
Communication expenses	43,637	42,243
Software maintenance	33,394	28,794
Marketing	32,083	40,100
Security services	31,116	28,893
Consulting and Legal fees	28,918	18,097
Utilities energy, water etc.	22,674	19,955
Office supplies	17,922	20,512
Maintenance and repairs	17,400	13,142
Transportation and business trip expense	9,006	9,053
Board remuneration	4,569	4,090
Insurance	4,114	3,615
Representation	1,736	1,082
Trainings	1,442	2,260
Total	**597,073**	**541,936**

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30. INCOME TAX

	For the year ended December 31, 2015	For the year ended December 31, 2014
Current tax expense	76,244	38,475
Deferred tax income	7,568	(287)
Total tax expense	**83,812**	**38,188**

Income tax in Albania is assessed at the rate of 15% (2014: 15%) of taxable income. The following represents a reconciliation of the accounting profit to the income tax:

	Effective Tax rate	2015	Effective Tax rate	2014
Profit before tax		**457,483**		**353,197**
Income tax at 15% (2014: 15%)	15.00%	68,622	15.00%	52,980
Non-deductible expenses	1.03%	4,705	0.55%	1,932
Income exempted from income tax	1%	2,917	(4.74%)	(16,724)
Income tax expense	**16.67%**	**76,244**	**10.81%**	**38,188**

Deferred tax is calculated based on the enacted tax rate for 2015 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:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Deferred tax asset at the beginning of the year	12,872	1,410
Recognized in profit or loss	(7,774)	287
Additions due to investment in Subsidiary	-	11,175
Deferred tax asset at the end of the year	**5,098**	**12,872**
Deferred tax liability at the beginning of the year	206	-
Recognized in profit or loss	(206)	-
Additions due to investment in Subsidiary	-	206
Deferred tax liability at the end of the year	**-**	**206**
Net deferred tax asset	**5,098**	**12,666**

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

	2015	Recognized in Profit or loss	2014	Subsidiary	Recognized in Profit or loss	2013
Deferred tax asset:						
Non-current assets held for sale	1,673	580	1,093	-	(285)	1,378
Investment property	2,437	1,833	604	-	572	32
Finance lease receivable	988	(4,534)	5,522	5,522	-	-
Other provisions	-	(5,653)	5,653	5,653	-	-
	5,098	**(7,774)**	**12,872**	**11,175**	**287**	**1,410**
Deferred tax liability:						
Loans and other borrowings	-	(206)	(206)	(206)	-	-
	-	**(206)**	**(206)**	**(206)**	**-**	**-**

30. 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. Due to application of elimination of double taxation treatment, income tax resulted from transactions with non residents (foreign tax credit) is prepaid to nonresident authorities and is held from nonresidents in monthly 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.

	2015	2014
Income tax payable as at 1 January	**15,412**	**12,034**
Income tax paid (due as at the end of previous year)	(20,423)	(12,034)
Income tax prepaid	(24,327)	(18,052)
Income tax prepaid to nonresidents (due to elimination of double taxation)	(813)	
Current tax	76,244	38,475
Income tax prepaid by the Subsidiary	-	(5,011)
Income tax payable as at 31 December	**46,093**	**15,412**

31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	2015	2014
Cash on hand	787,236	940,401
Accounts with Central Bank	166,940	735,679
Financial institutions with maturity of 3 months or less	3,784,972	3,440,564
Treasury bills with maturity of 3 months or less	49,905	49,971
Total	**4,789,053**	**5,166,615**

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32. 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 2015 and 2014 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, United Transport, Union Group Shpk, Uni-Com Sha, Albanian Cargo Service Shpk, Auto Master Sha, United Motors Shpk, S-Systems Sha, Atex Shpk, Auto City Sha, Pluton Investor Shpk, Arch Investor Shpk, Plus Communication, Auto Net Shpk, Press Point El, Uni-Cons Shpk, Union Net Shpk, Paylink Sha, Union of Financial Corners sa, Unioni Financiar Prishtine, Expo City shpk, ASL Construction 2 shpk.

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

	2015	2014
Assets:		
Loans and advances to customers:		
Other Shareholders	1,271	2,665
Associated entities	1,358,077	1,040,085
Key management personnel of the entity and their relatives	107,702	117,581
Other Assets:		
Parent company	420	428
Other Shareholders	1	5,456
Associated entities	996	3,051
Key management personnel of the entity and their relatives	6	3
Liabilities:		
Due to banks and financial institutions:		
Parent company	402,459	852,482
Associated entities	322,524	48,788
Due to customers:		
Other Shareholders	74,205	183,875
Associated entities	378,765	208,269
Key management personnel of the entity and their relatives	181,915	218,992
Other Liabilities:		
Parent company	206	210
Other Shareholders	206	490
Associated entities	18,265	4,978
Key management personnel of the entity and their relatives	1	-
Subordinated debt:		
Parent company	-	1,051

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32. RELATED PARTY (CONTINUED)

Loans to associated entities in the amount of LEK 895,885 thousand (2014: LEK 640,440 thousand) are covered by cash collateral of LEK 727,605 thousand (2014: LEK 674,571 thousand) and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

Off balance sheet commitments	**2015**	**2014**
Un-drawn credit facilities from the Bank:		
Other Shareholders	8,749	4,891
Associated entities	14,070	8,135
Key management personnel of the entity and their relatives	8,209	6,455
Guarantees received:		
Parent company	102,980	420,420
Other Shareholders	197,292	188,713
Associated entities	1,673,085	1,462,844
Key management personnel of the entity and their relatives	208,316	296,140
Guarantees given:		
Parent company	20	20
Associated entities	1,561	4,938

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

	2015	**2014**
Interest income:		
Parent company	-	2
Other Shareholders	386	844
Associated entities	68,596	47,812
Key management personnel of the entity and their relatives	5,985	5,077
Interest expense:		
Parent company	15	2,842
Other Shareholders	124	1,738
Associated entities	3,127	2,000
Key management personnel of the entity and their relatives	1,932	3,286
Fees and commission income:		
Parent company	4,431	5,473
Other Shareholders	142	117
Associated entities	3,225	2,616
Key management personnel of the entity and their relatives	328	536
Operating income:		
Associated entities	162	34
Operating expense:		
Parent company	2,511	2,518
Other shareholders	73,631	72,835
Associated entities	34,924	55,675
Key management personnel of the entity and their relatives	51,549	57,707

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33. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2015	**2014**
Guarantees given in favor of customers	280,321	659,957
Un-drawn credit facilities	1,082,736	864,791
Commitments for LC	22,785	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 2015. 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:

	2015	**2014**
Not later than 1 year	104,762	102,281
Total	**104,762**	**102,281**

34. 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.

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34. 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 and investment 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.

Based on the policies approved by the Board of Directors, the Bank Credit Committee is responsible for the management of credit risk In addition, a separate Bank Credit Department for the Bank, reporting to the Bank Chief Executive Officer; 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.

Based on the policies approved by the by the Board of Directors, the Bank's Assets and Liabilities Management Committee is responsible for the management of credit risk related to investments.. In addition, the Treasury Department, Reporting to the Bank Chief Financial Officer and a separate Bank Risk Department, reporting to the Bank Chief Executive Officer are also responsible for monitoring of the Bank's credit risk related to investments.

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34 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:

	2015	**2014**
Treasury Bills held-to-maturity	1,760,774	2,112,909
Bonds held-to-maturity	11,962,869	10,173,067
Placements and balances with banks	4,147,632	3,461,311
Loans and advances to customers	15,823,210	14,792,661
Financial guarantees	280,321	659,957
Standby letters of credit	22,785	48,368
Commitments to extend credit	1,082,736	864,791
Maximum exposures to credit risk	**35,080,327**	**32,113,064**

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.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances are summarized as follows:

As at 31 December 2015	Retail	Corporate	Advances	Finance Lease	Total Loans	Placements and balances with banks
	Loans and advances to customers					
Neither past due nor impaired	4,499,994	4,705,465	1,895,965	402,091	11,503,515	4,125,609
Past due but not impaired	970,530	1,823,223	122,534	273,829	3,190,116	
Individually impaired	367,257	1,524,308	403,144	26,648	2,321,357	
Total Gross	**5,837,781**	**8,052,996**	**2,421,643**	**702,568**	**17,014,988**	**4,125,609**
Less: allowance for individually impaired loans	142,514	477,965	238,404	11,405	870,288	
Less: allowance for collectively impaired loans	58,772	190,454	48,592	23,672	321,490	-
Total Allowance for impairment	**201,286**	**668,419**	**286,996**	**35,077**	**1,191,778**	**-**

As at 31 December 2014	Retail	Corporate	Advances	Finance Lease	Total Loans	Placements and balances with banks
	Loans and advances to customers					
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**	**-**

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34. 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:

Rating	Retail	Corporate	Advances	Finance Lease	Total Loans	Placements and balances with banks
	Loans and advances to customers					As at 31 December 2015
Good	4,456,114	4,616,396	1,863,689	402,091	11,338,290	4,125,609
Acceptable	43,880	89,069	32,276		165,225	-
Close monitoring	-	-	-	-	-	-
Unacceptable	-	-	-	-	-	-
Total	**4,499,994**	**4,705,465**	**1,895,965**	**402,091**	**11,503,515**	**4,125,609**

Rating	Retail	Corporate	Advances	Finance Lease	Total Loans	Placements and balances with banks
	Loans and advances to customers					As at 31 December 2014
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**

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 2015 Time band	Retail	Corporate	Advances	Finance Lease	Total Loans
	Loans and advances to customers				
Past due up to 30 days	683,271	1,340,111	15,403	196,394	2,235,179
Past due 31-60 days	155,518	278,897	53,316	17,813	505,544
Past due 61-90 days	127,437	204,215	35,704	32,790	400,146
Past due 91-180 days	4,219		11,216	21,148	36,583
Past due over 180 days	85		6,895	5,684	12,664
Total	**970,530**	**1,823,223**	**122,534**	**273,829**	**3,190,116**
Estimation of fair value of collateral	**3,067,270**	**6,771,105**	**259,383**	**200,126**	**10,297,884**

As at 31 December 2014 Time band	Retail	Corporate	Advances	Finance Lease	Total Loans
	Loans and advances to customers				
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	**2,873,594**	**6,621,071**	**4,947,518**	**226,833**	**14,669,016**

Loans and advances past due over 90 days are collateralized by cash amounting to LEK 794 thousand (2014: LEK 168,616 thousand).

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34. 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 2,321,357 thousand (2014: LEK 2,533,718 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 2015	Loans and advances to customers				
	Retail	Corporate	Advances	Finance Lease	Total Loans
Individually impaired	367,257	1,524,308	403,144	26,648	2,321,357
Collateral	886,270	9,193,799	650,027	12,194	10,742,290

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

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 1,480,185 thousand (2014: LEK 1,491,315 thousand). The increase in the total restructured portfolio in 2015 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 2015, is LEK 47,481 thousand (2014: LEK 8,911 thousand).

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 2015	Against individually impaired	Against collectively impaired	Total
Property	9,711,160	34,822,639	**44,533,799**
Pledge	1,024,279	16,923,251	**17,947,529**
Cash	6,850	2,497,553	**2,504,403**
Total	**10,742,289**	**54,243,442**	**64,985,732**

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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**

(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.

<u>For the Bank</u>

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.

<u>For the Subsidiary</u>

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.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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

31 December 2015	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	2,935,534	-	-	-	-	-	2,935,534
Placements and balances with banks	4,015,164	109,825	-	-	-	22,643	4,147,632
Treasury Bills held-to-maturity	399,542	427,022	356,678	577,532	-	-	1,760,774
Bonds held-to-maturity	592,002	588,309	651,345	1,357,291	5,994,687	2,779,235	11,962,869
Loans and advances to customers	1,368,270	820,827	1,407,269	2,616,934	6,303,457	3,306,453	15,823,210
Other assets	413,948	18,739	-	-	-	686	433,373
Total	**9,724,460**	**1,964,722**	**2,415,292**	**4,551,757**	**12,298,144**	**6,109,017**	**37,063,392**
Liabilities							
Due to Central Bank	1,317,562	-	-	-	-	-	1,317,562
Due to banks and Financial institutions	970,791	52,893	135,698	154,584	-	-	1,313,966
Due to customers	11,487,787	2,707,577	2,830,630	7,411,130	7,181,143	-	31,618,267
Other liabilities	372,844	-	-	-	-	-	372,844
Income tax payable	-	46,093					46,093
Total	**14,148,984**	**2,806,563**	**2,966,328**	**7,565,714**	**7,181,143**	**-**	**34,668,732**
Liquidity risk at 31 December 2015	**(4,424,524)**	**(841,841)**	**(551,036)**	**(3,013,957)**	**5,117,001**	**6,109,017**	**2,394,660**
Cumulative	**(4,424,524)**	**(5,266,365)**	**(5,817,401)**	**(8,831,358)**	**(3,714,357)**	**2,394,660**	

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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
Treasury 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 2013	**(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**	

(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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34. 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:

	2015	2014
EUR:LEK	137.28	140.14
USD:LEK	125.79	115.23

The analysis of monetary assets and liabilities as at 31 December 2015 and 2014 by the foreign currencies in which they were denominated is shown below:

31 December 2015	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	1,318,396	170,467	1,370,248	76,423	**2,935,534**
Placements and balances with banks	340,466	794,147	2,910,053	102,966	**4,147,632**
Treasury Bills held-to-maturity	1,760,774	-	-	-	**1,760,774**
Bonds held-to-maturity	10,700,298	133,735	1,128,836	-	**11,962,869**
Loans and advances to customers	3,717,981	168,289	11,917,501	19,439	**15,823,210**
Other assets	53,349	64,311	296,402	19,311	**433,373**
Total	**17,891,264**	**1,330,949**	**17,623,040**	**218,139**	**37,063,392**
Liabilities					
Due to Central Bank	1,317,562	-	-	-	**1,317,562**
Due to banks and financial institutions	202,009	84,525	1,005,070	22,362	**1,313,966**
Due to customers	16,996,302	1,124,716	13,334,471	162,778	**31,618,267**
Other liabilities	159,218	16,707	196,666	253	**372,844**
Income tax payable	46,093	-	-	-	**46,093**
Total	**18,721,184**	**1,225,948**	**14,536,207**	**185,393**	**34,668,732**
Net commitments and FX Spot	**94,669**	**(99,048)**	**142,264**	**(34,906)**	**102,979**
Net Position	**(735,251)**	**5,953**	**3,229,097**	**(2,160)**	**2,497,639**

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**

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34. 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 2015 is analyzed below. As at 31 December 2015, 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	
	2015	2014	2015	2014	2015	2014	2015	2014
Assets:								
Statutory reserves	1.23%	1.40%	N/A	N/A	N/A	N/A	N/A	N/A
Placements and balances with banks	1.80%	2.25%	N/A	N/A	0.10%	0.17%	N/A	N/A
Investment securities	5.96%	6.03%	5.19%	N/A	5.12%	5.57%	N/A	N/A
Loans to customers	9.34%	9.41%	6.52%	6.35%	6.75%	7.24%	2.47%	N/A
Liabilities:								
Due to banks	2.39%	2.30%	0.73%	N/A	0.68%	1.58%	N/A	N/A
Due to customers	2.72%	3.39%	0.81%	1.16%	1.00%	1.63%	0.49%	0.95%
T-Bills under Repos	1.87%	2.31%	N/A	N/A	N/A	N/A	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	N/A	1.53%	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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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk (continued)

31 December 2015	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	954,729	-	-	-	-	1,980,805	**2,935,534**
Placements and balances with banks	4,014,639	109,824	-	-	-	23,169	**4,147,632**
Treasury Bills held-to-maturity	399,542	427,022	356,678	577,532	-	-	**1,760,774**
Bonds held-to-maturity	533,333	668,800	700,000	2,011,535	7,862,388	186,813	**11,962,869**
Loans and advances to customers	6,114,784	810,308	2,381,594	4,819,985	2,961,269	(1,264,730)	**15,823,210**
Other assets	-	-	-	-	-	433,373	**433,373**
Total	**12,017,027**	**2,015,954**	**3,438,272**	**7,409,052**	**10,823,657**	**1,359,430**	**37,063,392**
Liabilities							
Due to Central Bank	1,315,740	-	-	-	-	1,822	**1,317,562**
Due to banks and financial institutions	640,177	52,437	134,675	154,137	-	332,540	**1,313,966**
Due to customers	10,126,575	2,649,219	2,783,554	7,283,073	7,059,507	1,716,339	**31,618,267**
Other liabilities	622	-	-	-	-	372,222	**372,844**
Income tax payable	-	-	-	-	-	46,093	**46,093**
Total	**12,083,114**	**2,701,656**	**2,918,229**	**7,437,210**	**7,059,507**	**2,469,016**	**34,668,732**
Gap	**(66,087)**	**(685,702)**	**520,043**	**(28,158)**	**3,764,150**	**(1,109,586)**	**2,394,660**
Cumulative gap	**(66,087)**	**(751,789)**	**(231,746)**	**(259,904)**	**3,504,246**	**2,394,660**	**-**

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34. 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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34. 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 2015	31 December 2014
Interest rate increases by 2%	70,085	19,467
Interest rate increases by 1.5%	52,564	14,600
Interest rate increases by 1%	35,042	9,733
Interest rate decreases by 1%	(35,042)	(9,733)
Interest rate decreases by 1.5%	(52,564)	(14,600)
Interest rate decreases by 2%	(70,085)	(19,467)

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 2015	31 December 2014
Lek depreciates by 5%	161,645	159,801
Lek appreciates by 5%	(161,645)	(159,801)

(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.

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35. 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 2015			As at 31 December 2014		
	Carrying amount	Fair value Level 1	Fair value Level 2	Carrying amount	Fair value Level 1	Fair value Level 2
Financial assets						
Treasury Bills held-to-maturity	**1,760,774**	-	1,766,027	**2,112,909**	-	2,111,245
Placements and balances with banks	**4,147,828**	-	4,147,828	**3,461,311**	-	3,461,311
Loans and advances to customers	**15,823,210**	-	15,823,210	**14,792,661**	-	14,792,661
Bonds held-to-maturity	**11,962,869**	1,275,182	10,893,248	**10,173,067**	728,320	9,483,434
Financial liabilities						
Due to Central Bank	**1,317,562**	-	1,317,562	**1,125,249**	-	1,125,249
Due to banks and financial institutions	**1,314,162**	-	1,313,627	**1,516,807**	-	1,235,050
Due to customers	**31,618,267**	-	31,207,031	**29,941,272**	-	29,593,655
Subordinated debt	**-**	-	-	**1,051**	-	1,051

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.

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35. DISCLOSURE AND ESTIMATION OF FAIR VALUE (CONTINUED)

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.

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.

36. CAPITAL MANAGEMENT

Regulatory capital

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

Capital Adequacy Ratio

Starting from 1 April 2015, the Capital Adequacy Ratio ("CSR") is the proportion of the regulatory capital to total risk weighted exposures, expressed as a percentage (2014: 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%.

Risk-Weighted Exposures (RWEs)

Risk- weighted exposures are calculated as a sum of the followings:

(a) risk weighted exposures due to credit and counterparty risk where the balance and off balance sheet exposures are weighted according to standardized approach of the BOA regulation on 'Capital Adequacy Ratio'. According to this method all exposures and possible exposures are grouped on certain exposure categories and within each of them into smaller groups according to risk associated to them.

(b) capital requirement to cover market risk

(c) capital requirement to cover operational risk, using the basic indicator approach

Based on amendments to the regulation effective from June 2013, the risk-weighted assets are adjusted to: (a) add the increase of balances due from/ (to) nonresident banks, net during the period from 31 March 2013 to the reporting date; and (b) deduct the annual increase in gross loans and advances to resident customers up to the maximum level of 10% increase, when such increase is at least 4% of the balances in the previous year.

The Bank's policy is to maintain a strong capital base so as to sustain future development of the business and to maintain market confidence. The impact of the level of capital on future shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing within regulatory and prudential limits and the advantages and security afforded by a sound capital position. The Bank monitors all externally imposed capital requirements throughout the period and anticipates future needs on an ongoing basis. The Group has complied with the minimum capital requirements during 2015 and 2014.

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37. EVENTS AFTER THE REPORTING DATE

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