UNIONBANK

Banka që dua

ANNUAL REPORT 2016

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Content

Message from the Board of Directors Chairman

"Sustainable growth" has been Union Bank's mantra for the first ten years of our existence. We continue with the same attitude in our second decade. The past year 2016 was one very good testimony to that.

During 2016, we achieved growth in all relevant business parameters: number of clients, volume of deposits and loans, in both segments of individual and business clients, for all such categories. We met and exceeded our business objectives for the year.

We achieved the business objectives of growth while preserving also the sustainable part. High integrity in all our dealings with the customers, as well as our staff, underpins our quest for sustainable growth in the long-term horizon. We proudly maintain, and achieve, our demands for excellent client service, responsible risk culture, and full compliance with the external legal and regulatory requirements, as well as internal operational ones. As this was our second consecutive year of double-digit ROE under the BoA accounting standards, we could finance the required growth through internal profit generation, without resorting to capital demands from shareholders.

Operating under the current Albanian, and wider, environment has its challenges. We keep ourselves constantly aware of the risks and uncertainties that we face. However, we have consistently proven to be able to meet those challenges and risk, and to achieve our growth objectives, with zero compromises on the sustainability side. We are looking forward to year 2017, expected to be our best year on record regarding both our growth and profitability, and beyond.

We base this confidence on the trust bestowed to us by our existing and new customers. They trust us because of the great work that our branch staff puts into their everyday interactions with them, supported by the work of our staff in Head Office.

On behalf of the Union Bank Board of Directors, I wholeheartedly thank our customers, and our staff across the bank, for their ongoing trust and contribution.

Edmond Leka

Chairman of the Board of Directors

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

2016 Growth of Funding and Lending is more than double of the systems growth parameters

2016 A strategic branch in Bllok area is opened bringing the no of outlets in 30;

2016 The 10 years strategic review process has started as a guide for the future

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 supporting the development of the private sector and market-based economies. The Bank has also been a pioneer in green financing with the development of financing facilities and investments in renewables. Today the EBRD is owned by 67 countries, the European Union and the European Investment Bank. The EBRD's investment in Union Bank supports 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 Tiranaand 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 Group Board since 2011.He is a Senior Banker at the European Bank for Reconstruction and Development, based in London.
Mr Nabavi's experience spans over thirty years in banking, finance and investments in different regions of the world. From 2007-2008 he was Director at ACTIS LLP (a leading emerging markets private equity firm) and from 2001 to 2008 he was Chief Executive of Caribbean Finance Investments Limited, based in Havana, Cuba.
Prior to that, Mr Nabavi worked for many years at the CDC Group (the UK's development finance institution) where he became Director for the financial institutions team, responsible for new investments and loans to CDC's FI clients in Asia, Africa and Latin America. His early career was spent in corporate finance advisory work and auditing.

Sokol Marishta

Mr. Sokol Marishta has been a member of the Union Group 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 plus 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.

Flutura Veipi

Mrs.Veipi is currently a consultant and managing partner in Arché Consulting which focuses on company restructuring, strategy building, implementation and strengthening of finance department and more. She brings to the table an experience of the executive caliber of more than fifteen years in banking, finance, investments and projects on strategic managements and leadership. She has worked from 2000-2014 with the bank of ProCredit Holding Group (a German based entity) and held several key directing positions including that of the Deputy of CEO and as Member and Spokesperson of the Management Board.

In addition, Mrs.Veipi's other involvements and expertise includes, but not limited to, honorable and important positions such as Member of the Board of the American Chamber of Commerce in Albania during 2012 - April 2014, Head of the Committee "Woman Active in Business" during 2012 –April 2014, and as a Member of the Executive Council of the Albanian Association of Banks during 2011-2013

Mrs. Veipi graduated from the University of Tirana with a Bachelor Degree in Finance and Accounting in 2000, and is currently completing her MBA degree with the University of Roehampton, London

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 2016, Mr. Genc Turku was replaced by Mrs Flutura Veipi**.**

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.

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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 ProcreditBank of Albania and in 2007-2010 he served in KEP Trust, a MFI in Kosovo in the capacity of Deputy Executive Director.

Mrs Enkeleda Hasho,
Chief Credit Officer

Berati, 1975

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

Mrs Hasho'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.

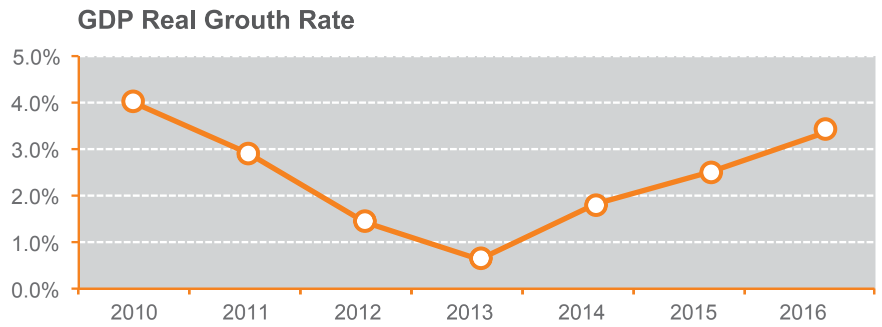
Mrs. Hasho is a Member of Credit Committee and Bank Administrator since 2006.

3. Economy Overview during 2016

3.1. Key Macroeconomic indicators of Albania

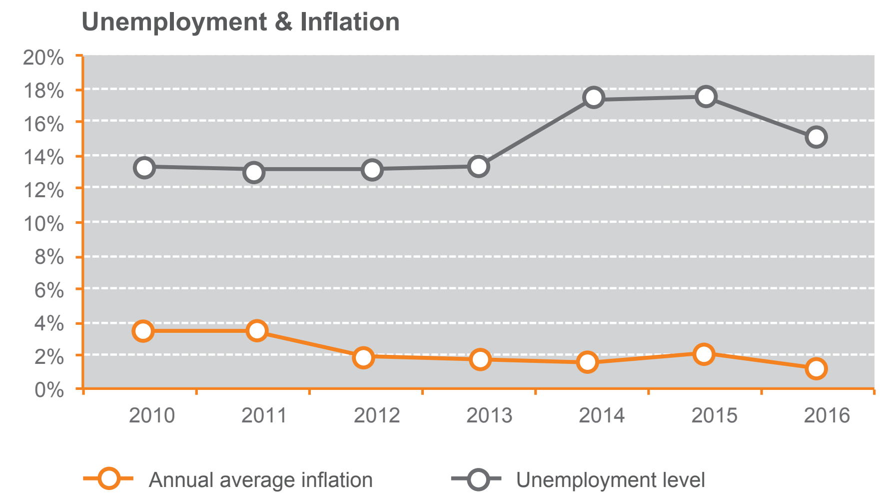
The Albanian economy during 2016 presented an overall stable performance with a real GDP growth rate of 3.5% against the 2.6% of the previous year, noting visible signs of economic recovery when compared to the low-bracket levels a few years back with figures being slightly above or under 1.0%[1].

The main macroeconomic indicators show for a general progress with CPI year-end inflation rate of 2.2% at the end of 2016, while the average yearly inflation rate is at 1.3% (practically unchanged from a year ago) still being below the Bank of Albania's (BoA) medium term target of 3% (with a tolerance band of ±1 percentage point). The core inflation is still driven by relatively high processed food and consumer prices. The year was characterized by great efforts to battle the general low inflationary pressures which are indirectly imported to the country from the Eurozone.



General economic developments positively affected the unemployment rate, as another main indicator, which at the end of the year has dropped to 15.2% from 17.7% in Y2015 and 17.74% before that.

In the IMF publication of "Ninth and tenth reviews under the extended arrangement, and proposal for post program monitoring-press release, staff report and statement by the executive director for Albania" it is cited that: **"Albania has been successful in achieving the program objectives despite external headwinds.**



GDP growth has recovered, albeit by less than initially projected. Inflation remains low, helped by lower commodity prices and external disinflationary pressures.

1 Source of Data: Ministry of Finance of Albania

Public finances have been strengthened through a sizable fiscal adjustment, and fiscal vulnerabilities reduced. Spillovers from the Greek banking crisis have been contained. Key structural reforms were implemented, including comprehensive pension and electricity sector reforms, and an overhaul of bankruptcy legislation"

According to the above mention publication, the economic growth is considerably supported by consumption and substantial energy-related FDI projects (7% of GDP), such as the TransAdriatic Pipeline (TAP) and the Statkraft/Devoll hydropower project to name a few. The service sector still continues to largely support the outcome, while the industry one has smaller weight and the agriculture segment though making some steps forwards is still underdeveloped. Last year tourism sector enjoyed some boosted income figures and remittances stayed somewhat steady, whereas low commodity prices, although competitive, bring low-level revenues on exports net value and other trade markets which also reflect lower oil prices.

Parallel to these progressive developments, the consumer spending and public investments stay on the low side, and Central Government Debt Stock at the level of 72.1% (almost the same as in 2015, 2014: 69.7%, 2013: 65.5 %,)[2] it is considered to be high. There is still work to be done with the tax administration, public finances and property legislation. Also, there is a strong need for business sector to experience growth and competitiveness. In addition, the political and socio-economic situation is heavily impacted by the ongoing changes within the frame of financial and judicial reforms implementations, in particular the prospect of the vetting process for prosecutors and judges which entails many obstacles in itself and represents serious challenges for the country.

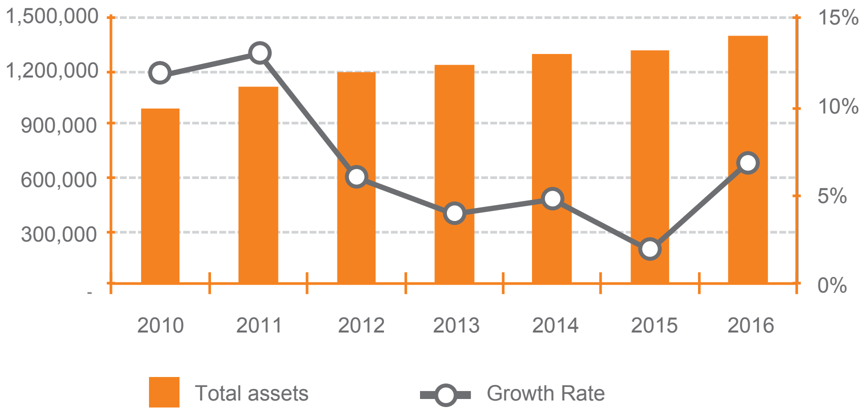
On the other side, the general outlook for the world economy and that of Eurozone was relatively positive. While evaluating the overall 2016 yearly performance of the regions' economy, EBRD states that there is "Return to modest growth and recovery of oil prices… Capital flows into emerging markets have partially recovered in the aftermath of the UK referendum on EU membership. On the other hand, weakness of global trade has persisted and the recovery in advanced economies has remained slow. Geopolitical risks, both external and domestic, have remained elevated, with the situation in the Middle East and Eastern Ukraine being volatile [3].

3.2. Banking System in Albania

The Banking system total assets at the end of 2016, reached the amount of Lek 1,407.3 Billion reflecting a yearly increase rate of 6.8% (versus the 1.9% rate of 2015) characterized by a general steadiness and higher rhythms of growth. The exposure to various credit risks remained controlled, and other elements such as liquidity, capitalization and profitability serve as an evidence of its full capacity to handle all risks in normal conditions[4]. In the context where the international interest exchange rates have fluctuated more, especially toward the year-end, the developments in Albania were nevertheless positive as well as in the Eurozone.

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

The banking sector remains the segment with the most significant weight and crucially important for the national economic activity, its weight fell to 94.9% (from 91.3 percent in 2015) within the total figure of GDP.



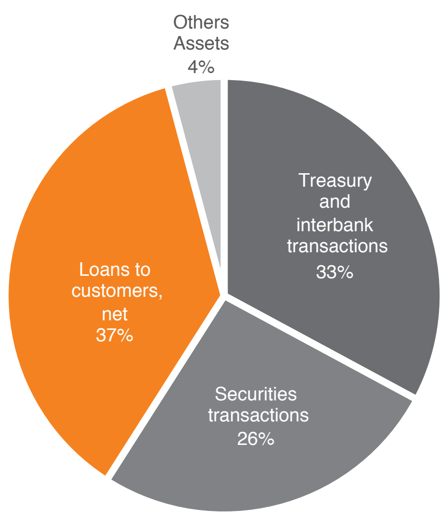
The value of NPL which reflects the quality of the portfolio at 18.3% is almost the same as in 2015 of 18.2% (22.8% in 2014) and the absolute amount of LLP reduced by Lek 4.7 Million or by 1.3% compared to the prior year.

According to the Regulatory, the regular stress tests performed by Bank of Albania and the banks, show that the systemic risk is present, but it's seriously and closely managed and 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 entities.

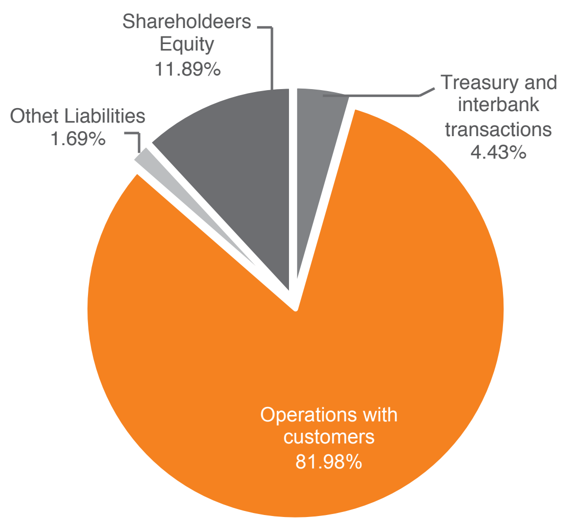
Prolonging of Macro-prudential measures and the of the interest base rate to minimum historical levels, Bank of Albania lowered the interest rates twice by 25 bases points in April and May than afterwards kept the interest rates unchanged, applying an "wait-and-see" policy that is deemed to be appropriate by the international financial and banking institutions.

The highest relative increase in the development of assets is the volume of Security Transactions which grew to Lek 368.4Billion by 60.8Billion or 19.8% (in yearly terms), though portraying some the lowest historical investments yields.

Loans at 517.9 Billion in gross value, increased by 12.2 Million or 2.4% were characterized by a continuing process of written-off assets which has had a positive effect on bad loans rate. The segments that experienced the highest growth rate were



Banking Sector Assets Structure 2016



Banking Sector Liabilities Structure 2016

retail in Lcy, while Business loans and advancements in fcy developed with lower pace.

The main component of liabilities continues to be the Customer Funds making up for 82% of total assets. They reached a figure near Lek 1,153.7 Billion or 4.8% higher than the prior year (+0.9% in 2015) showing a much higher rate of increase supported mostly by the highest-growth segment in foreign currency and a tendency to fo toward the current and saving accounts.

Shareholders Equity is near 167.9 Billion, with Lek 41.9 Billion or 33.3%, the most highlighted increase value of all Liabilities versus 13.1% of the previous year making up for 11.9% of total Assets (9.5% in 2015).

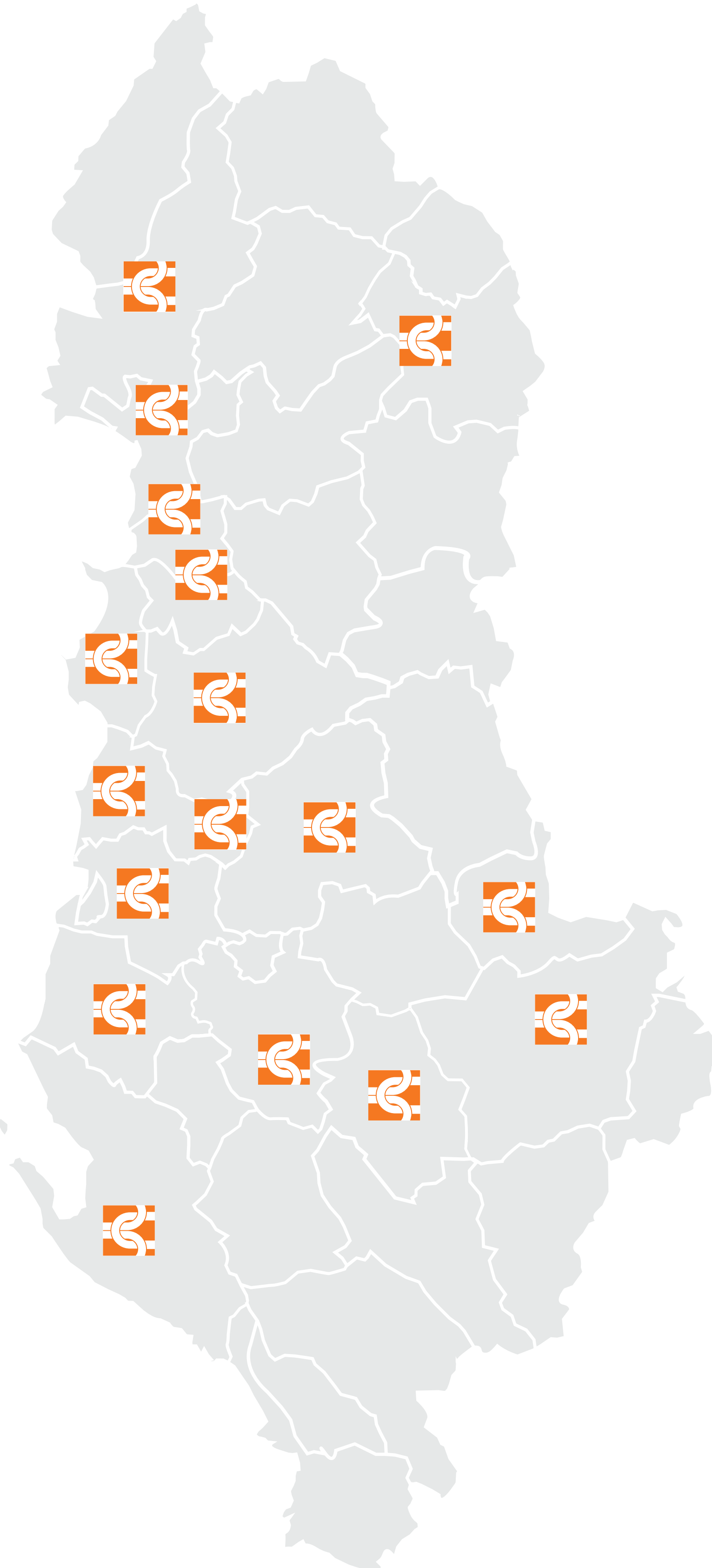
The yearly profit of the Banking system came to about Lek 9.3 Billion, 6.4 Billion lower or 41% compared to a year ago (15.7Billion in 2015), Resulting in a ROE of 7.2% (2015: 13.2%).

4. Bank Network Development

In 2016 Union Bank reached its 10th anniversary of its creation and activity with a well-established and firm nation-wide network of branches which at the end of December 2016 included 30 physical branches and outlet structures, 40 outlets in ATM network and other electronic channels. The network consists of locations in the Tirana, in the central, north and south parts of the entire country.

Another strategic branch location in central "Bllok" was added to UB's Tirana region network. It started its operations in November of 2016 strengthening our geographic position in this location. This branch is conveniently located near the most frequented sites, business centers, headquarters and popular areas of Tirana city. It is fully equipped and furnished with upscale and contemporary appliances and experienced staff members to better serve our clients in that area. We might mention that this happened in a time when the country's Banking System outlet network showed that at least 18 outlets closed during Y2016.

The network represents the core strategic channel for deepening the customer relationship and constantly allows the clients to have access to banking services, not only through the basic channels such as over-the-counter operations and traditional retail banking within the branches, but also through other venues like on-line distribution digital channels, such as the mobile established internet and banking applications. Its main goal is to help and accelerate the collective practices and shorten the time and distance by contributing to the overall completion of services and the growth of the activities and customers.



Bank Network

www.unionbank.al

04 238 9111

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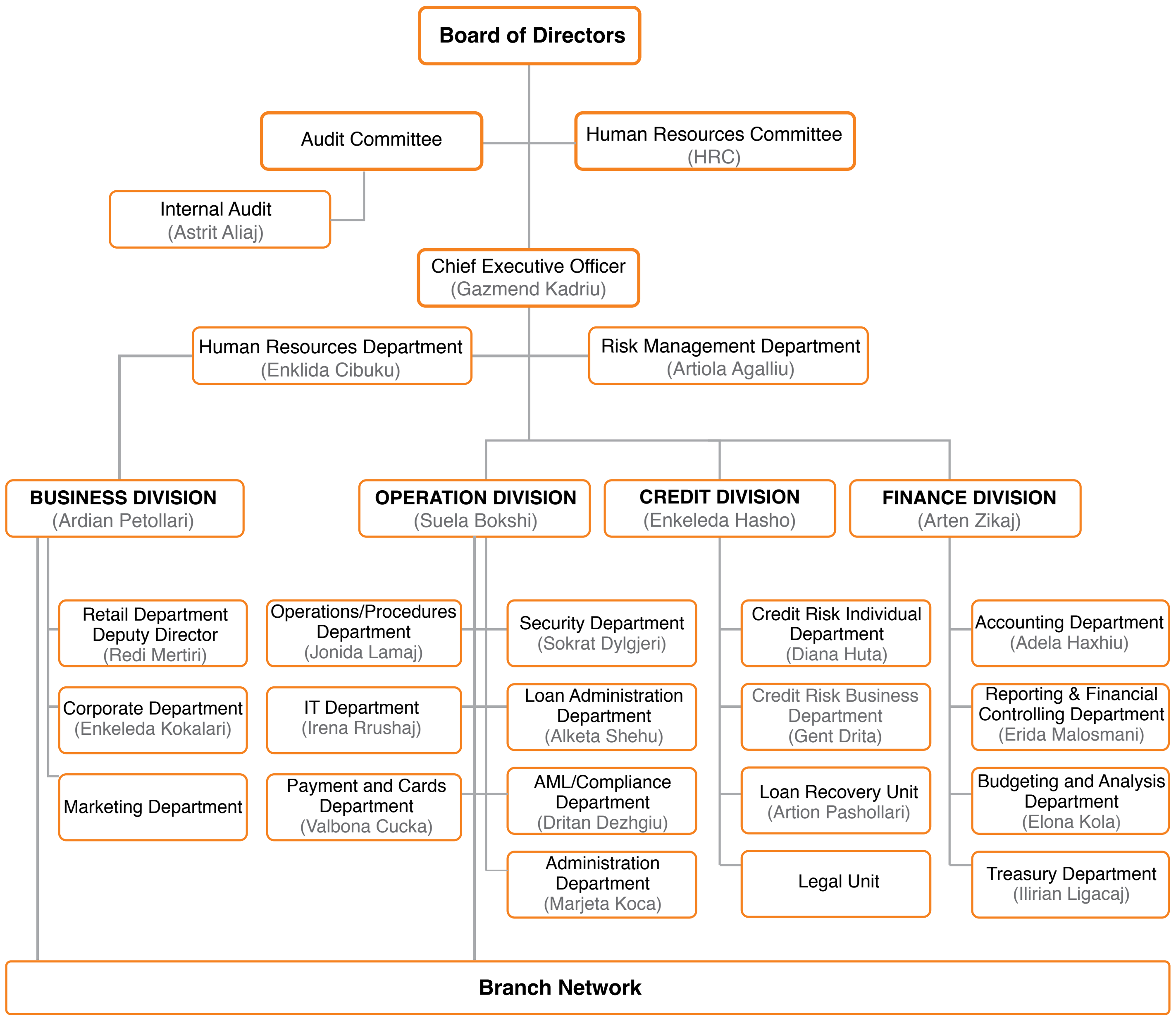
5. Organisation Structure and Human Resources Developments

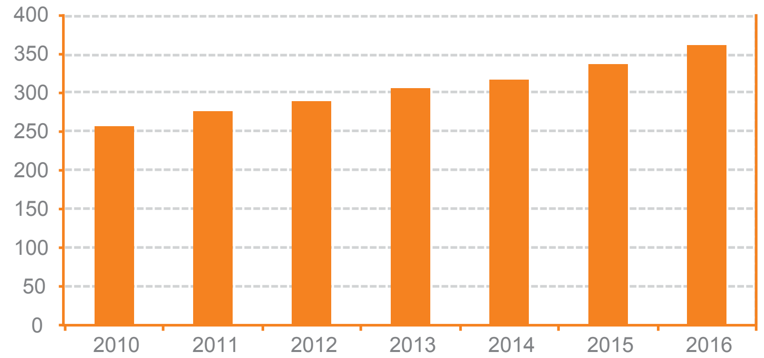
5.1. Organisation structure



5.2. Human Resources development

In relation to the process of selection, recruiting and promoting, HR practices are in full compliance with current labor laws, government guidelines and regulations. All its policies and their applications are fair, non-discriminatory as well as open and giving equal opportunity to everyone. All full-time employees enjoy a complete packet which includes social, health, disability and pension benefits, vacations and holidays as well as other perks. These policies reflect the bank's overall business activity aligned with its main strategy and mission statement. Strategic staff planning is structured so it encourages existing members of the organization to try and maximize their efforts to explore the next step in their career path, provided that they successfully fulfill and go above their current duties. Positive and finalized recommendations from the bank's staff members are monetary rewarded since they are considered as a factor which adds value into upholding and continuing the streamline of a healthy and functional organizational culture.

Numbers of staff



The organization of Union Bank, at the end of 2016 reached a total number of 362 members presenting a yearly addition of 25 new members or 7.4% increase rate. The composition is such that 126 are in Head Office and 236 in the Branch Network.

Promotion from within is main priority in HR hiring policies. About 10 vacant positions in HO were filled by existing head office and branches' staff members while in total approximately 18 employees were promoted in higher positions within their branch/region or department, including replacements. The turnover rate for 2016 was at 10.8% vs 14.8% in 2015

5.3. Training and Higher Learning

During 2016, approximately 44 training sessions (37 in Y2015) were organized; 13 internal and 31 with external interaction. They covered several technical areas for Head Office employees, as well as Sales Force Efficiency and Success, Customer Service and Operations, Management and Leadership, Security, Compliance and Anti Money-Laundering. The late one has received special focus and intense sessions of frequent training on new and updated national and international rules and regulations. 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.

During 2016, all the departments of UB underwent a thorough review and adjustment of all department manuals, regulations and standard procedures thus further consolidating the ground internal and statutory framework and dispositions. This also contributes to faster, easier and more standardized training procedures while firming the control systems.

UB staff members actively participates in on-going 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).

The organization culture of the Bank maintains a transparent and proactive approach in regards to professional and ethical standards, by presenting them throughout the whole work environment. In terms of hiring and training developments, the Bank sustains an efficient and appropriate attitude 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. 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. It is done so through continuous learning, first-rate customer service, team-work, and at the same time upholding and carrying a 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 regards this aspect to be highly important and one that has a significant impact on employee engagement, commitment and behavior. The Bank implements the following salary reviews, complying with respective rules: the initial review, the promotion review, annual performance review, and loyalty or continuation review, with the main focus in the performance review in order to reward the best ones. 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 appraisal process and standards.

As one part of a total reward and recognition package that includes the base pay, bonuses, and benefits for employees, compensation serves as a crucial 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 values and appreciates the safety of its employees and makes it a priority to ensure that the bank is a secure place to work and interact with clients. There is a constant effort and show of responsibility into making the bank's environments safer by always increasing controls that protect the customers' information. Every so often, the management clearly defines a plan to review and maintain the existing procedures without forgetting to invest in new security and technology equipment and applying fraud prevention programs. Current employees and the newly ones are continuously informed about updated security measures and procedures and they also take part in sessions accompanied with frequent adequate training to solidify and refresh the knowledge and practices throughout the bank network. Operations procedures are thoroughly re-examined in order to guarantee their full compliance with external and bank regulations that instill proper means to immediately respond to requests for assistance, emergencies or suspicious activity.

One of the primary bank's purposes is to ensure the health, wellbeing and safety of its employees on the job, although it does not end there. In terms of benefits, Health Insurance provided by Sigma InterAlbania is renewed every year for almost the entire staff offering some of the best schemes which covers regular check-ups and other treatments with reputational clinics and hospitals.

6. Risk Management

In its business activities, the Bank strives to achieve an optimum and prudent balance between the risks taken and returns realized.

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. Annual reviews of the risk profile and the related policies and procedures are already on place.

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. Financial Key highlights

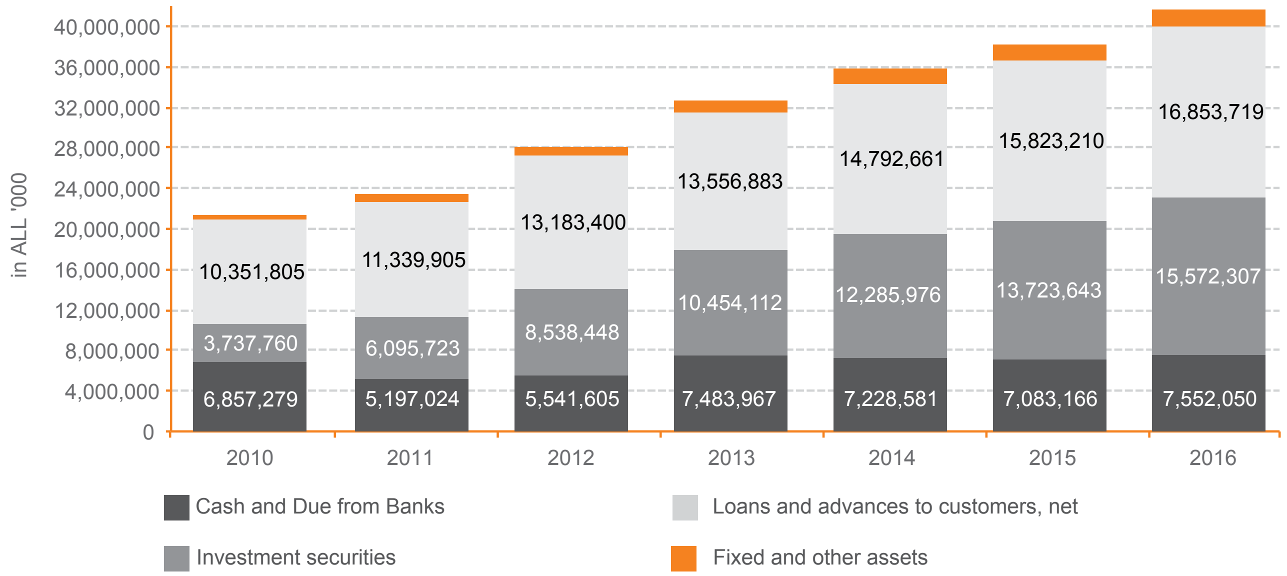
Financial Main Results of the Year

	in Lek '000		in Euro '000		Change	
	2016	2015	2016	2015	2016	2015
Balance Sheet						
Total assets	41,615,106	38,166,191	307,736	278,017	9.0%	6.5%
Gross loans portfolio	18,184,139	17,014,988	134,468	123,944	6.9%	7.9%
Investments in securities	15,572,307	13,723,643	115,154	99,968	13.5%	11.7%
Placements with banks	2,926,633	4,147,632	21,642	30,213	-29.4%	19.8%
Customer accounts	34,093,972	31,618,267	252,118	230,320	7.8%	5.6%
Paid in capital	2,717,813	2,717,813	20,098	19,798	0,0%	5.3%
Profit and Loss						
Net interest income	1,639,543	1,561,239	12,124.11	11,373	5.0%	26.8%
Net fee and commission income	195,707	167,005	1,447.22	1,217	17.2%	13.5%
Other operating income	26,179	109,804	193.59	800	-76.2%	27.1%
Operating income	1,861,429	1,838,048	13,764.91	13,389	1.3%	25.5%
Total operating expenses	(1,615,999)	(1,380,565)	(11,950)	(10,057)	17.1%	24.2%
Net Profit before taxes	245,430	457,483	1,814.91	3,332	-46.4%	29.5%
Statistics						
Numbers of staff	362	337			7.4%	6.3%
Number of outlets	30	29			3.4%	3.6%
Number of Loans outstanding	16,858	14,022			6.5%	7.5%
Number of Clients	109,797	98,402			11.6%	4.1%
Key ratios						
Return on Equity	5.7%	11.6%			-5.9%	0.2%
Cost to Banking Income Ratio	61.9%	59.1%			2.9%	-8.1%
Loans to Deposits ratio	53.3%	53.8%			-0.5%	1.1%
Assets Growth Rate	9.0%	6.5%			2.5%	-3.1%
Customer Deposit Growth Rate	7.8%	5.6%			2.2%	-4.4%
Loans Growth Rate	6.9%	7.9%			-1.0%	-2.8%
LLP to Loan portfolio	8.5%	6.8%			1.7%	0.8%
Net Interest Margin	4.1%	4.2%			-0.1%	0.6%
Capital Adequacy ratio	14.80%	14.46%			0.3%	1.5%
Asset to Employee Ratio	114,959	113.253			1.5%	0.2%
Assets to Branch ratio	1.387.170	1.316.076			5.4%	2.9%

UB Bank's assets at the end of Y2016 reached the value of Lek 41.6Billion reflecting a yearly increase of more than Lek 3.5Billion or 9.0% higher than 2015. The assets structure continued to support and upkeep healthy ratios for important indicators such as Loans to Assets, and Investments to Assets.

They are firstly composed by Loans and Advances to Customers and Financial Institution, net being 40.5% (41.5% in Y2015), followed by Investment Securities which increased their weight to 37.4% (36.0% in 2015) 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 18.1% (2015: 18.6%) of total assets. Fixed and other assets are approximately 4% of the total assets.

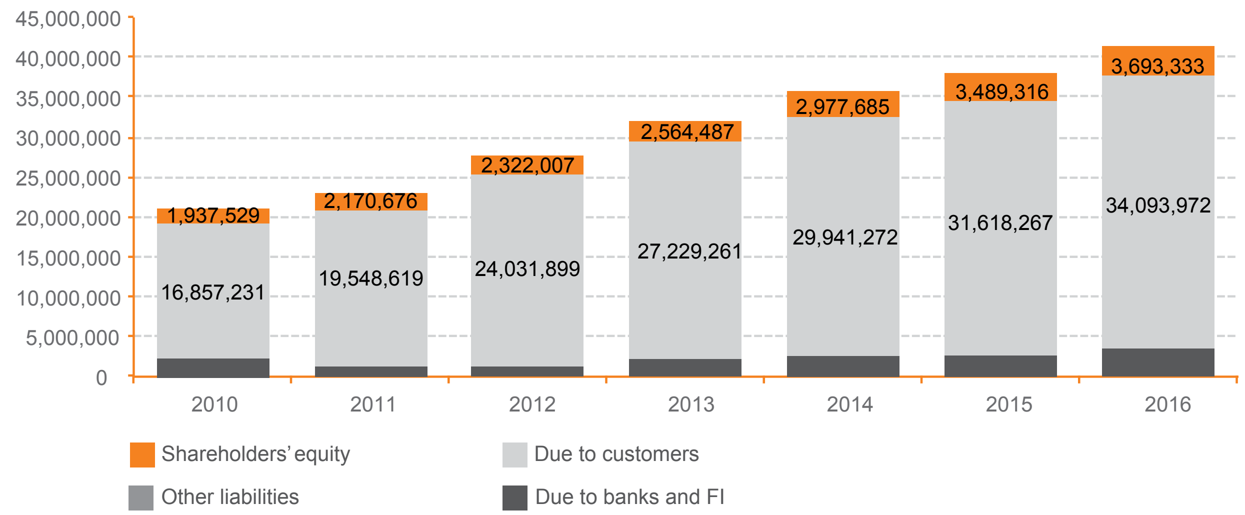
Structure of Assets in Y2016



UB's Liabilities are more than Lek 37.9Billion (2015: 34.7 Billion) presenting a yearly increase amount of close to Lek 3.4Billion or 9.4%. Their yearly development generally went according to the Bank's plan, and the structure remained pretty much intended and relatively similar to previous years only with a slight gradual decreasing flare of the Customer Fund which account for about 81.9% as opposed to 82.8% of the Bank's total assets in 2015, while Due to Banks and other Financial Institutions account for 6.9%

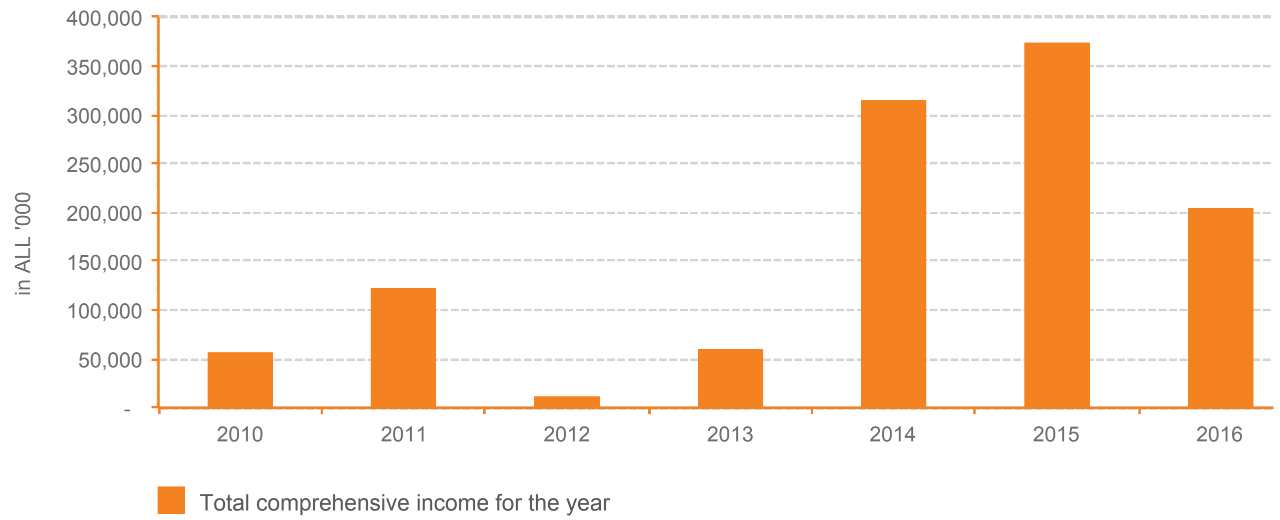
The Shareholders Equity close to Lek 3.7Billion grew by Lek 205Million or 5.8% higher than the previous year, being the first year with no capital injection. It makes up for 8.9% of total Bank's assets versus 8.3% of Y2015.

Structure of Liabilities and Equity in Y2016



UB's Profit in Y2016 reached the amount of Lek 204.0Million as a combination of the Income from Operations Lek ~1.9Billion and Total Expenses by Lek 1.6Billion. Net Interest Income at more than 1.6Billion is Lek 78.3Million Lek or 5% higher than 2015, and Net Fees Income also increased by 28.7Milion Lek or 17.2%. Total Operating Income increased by Lek 23.4Million or 1.3% while the Operational Costs increased by Lek 235.4Million or 17.1% (LLP included) compared to the previous year.

Profit development line in years



8. Products and Services

8.1. Products of Retail and Commercial Banking

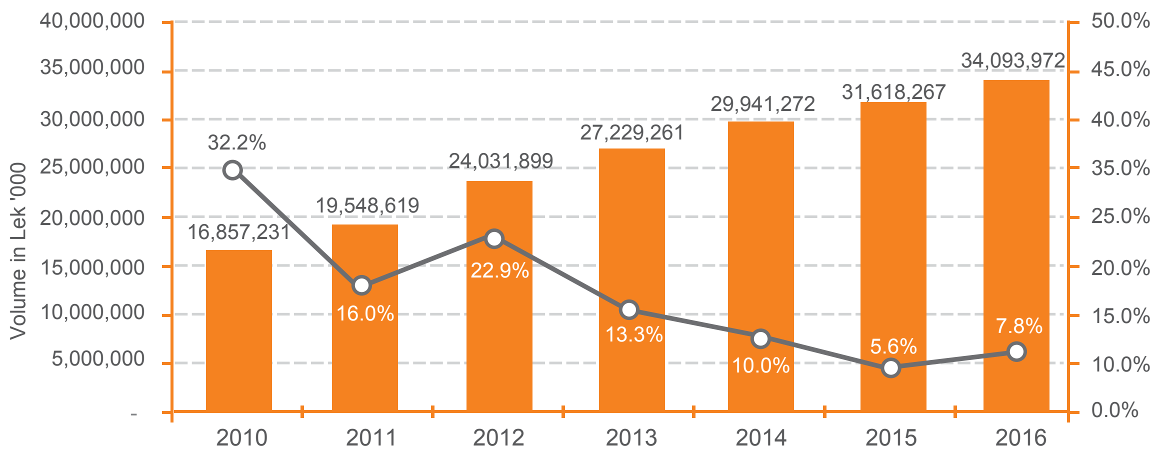
UB offers a wide range of banking retail and commercial products and services to more than 100 thousands customers. The features and parameters of these products are provided to clients based on a continuous and transparent line established upon a 10-year successful and close relationship. Along with the main goal of ensuring financial growth and security, establish and sustain credit lines as well as offering other products such as international and domestic transfers, payments, guarantees, credit and debit card services and so much more, the Bank also focuses on convenient and flexible ways to satisfy customers with utility, pension or insurance payments, student tuitions, local and business tax declarations, etc.

Union Bank has become a recognized name for all its clients by being present with its services on branches, ATM-s, 24-hour live answering help-desk, telephone or on-line banking throughout all the regions that it covers.

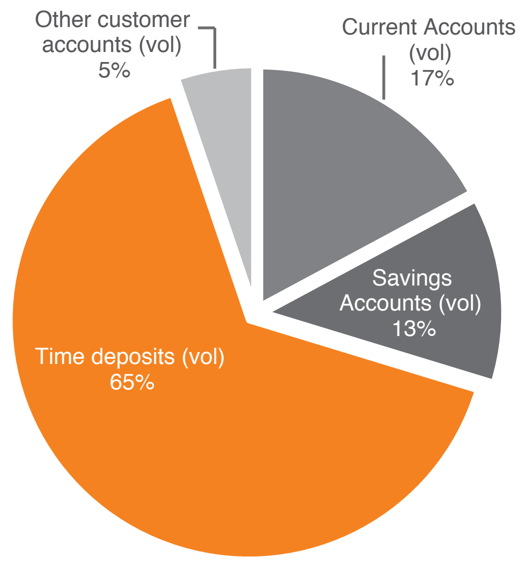
8.2. Customer Funds

The Customer Funds during 2016 reached the amount of Lek 34.1Billion increasing nearly by 2.5 Billion Lek or 7.8% higher than the previous year and in relative terms almost double when compared to System funds yearly growth (as far as core funds are considered), and at the same time sustaining the level 3% of the market share and the number 8-th in banks ranking in terms of this indicator. As we will further below, the growth was in all products, including Time deposits and Savings accounts that compose 78% of the customer funds.

Customer Accounts developments



In respect to the development line of Customers Funds which make up for 90% of Liabilities, we could say that all main elements incurred growth at times, pretty much according to the planned line considering the all-around national and international tendency of low interest rate.



Customers Accounts Structure 2016

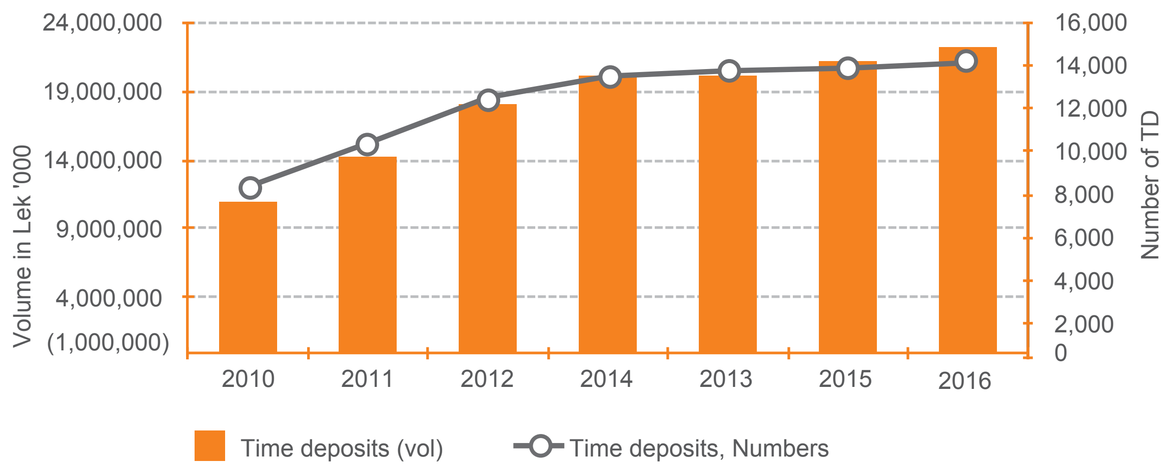
The strategy followed was to balance their growth in the light of business developments by responding to the market trends toward improving the net interest margins on one hand, and tackle the fragmentary high levels of liquidity created by the limited investments alternatives and lending growth on the other hand.

The national trend showed for long-term funds to grow much faster in Eur currency (in volumes and numbers) than that of Lek, so the Bank adjusted the rates in order to tailor the customers' needs and meet the investment targets on the other side. Current Accounts, although volatile in their nature grew by 16.7%. Saving Deposits' development line continued to show an upward trend-line during the recent periods in an evident way reflected by a yearly increase of 23.1% which led to the structure or composition of these Funds (Term, Savings and Current Accounts), to change more in favor of Saving Accounts that gained grounds from 11% to 13% compared to a year ago.

Time Deposits have decreased their portion compared to the prior year, from 67% of the total funds to 65% at the end of 2016, although they continue to be the key source of funds for the Bank as the strongest and long-term reliant component of Core Deposits and they continued to grow, despite the overall decreasing trend of the System's term deposits, in both Lcy and Fcy.

During the year they grew by 4.8%, while the number of customers showed for a yearly increase in number for these deposits by 2.3%. As far as the types of products developments it portrayed a tendency with depletion of deposits in short and mid-term funds and a push toward the longest term (especially during August)

Time Deposits developments



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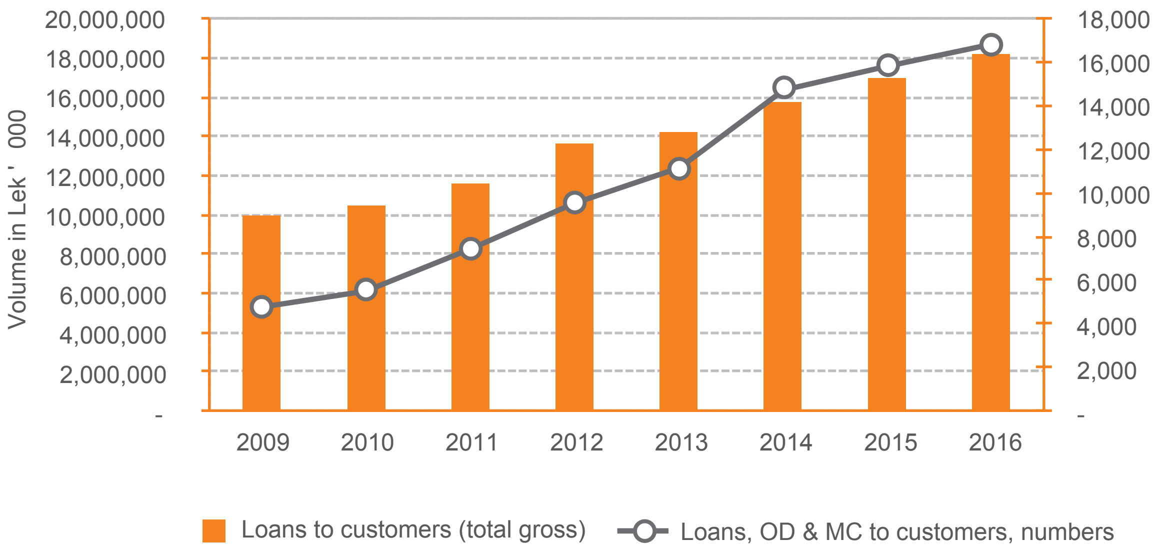
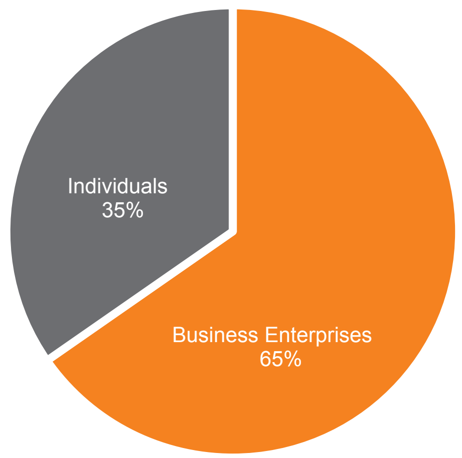
8.3. Lending Activity

The Bank total Loan portfolio reached a gross value near to Lek18.2Billion, reflecting a yearly increase of more than Lek 1.2Billion or approximately by 7%% higher. The Bank clearly showed a better growth rate in comparison to the banking system which as we mentioned grew by approximately 3%

The Bank's goal was to increase the entire value of its loan portfolio regardless of the market challenges. The Albanian credit system during 2016 experienced a series of concerns and a considerable level of vulnerability toward many aspects, as well as direct and indirect risks while the Bank constantly and prudently grew keeping the NPL at same levels and quite below the system NPL.



The yearly number of our individual and business clients (including the MC) grew by 6.1%, benefitting from a wide range of products and services for loans and other advances.

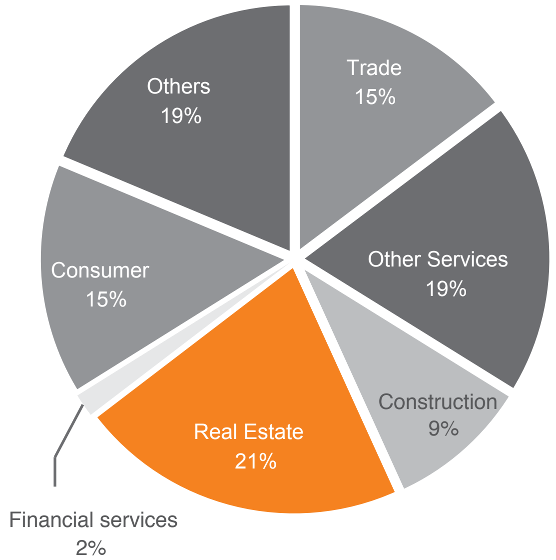


Individual va. Business loans structure

One the most highlighted and effective campaigns was the one called "The House for the Family" accompanied with a pre-launching phase within the Bank (with its staff) and broadly or mass-campaigning with the clients. In this way, clients were offered not only competitive interest rates, but also an accelerated and easier process that enabled the advancements of loans in much better ways. In addition, along with these offers, many clients also enjoyed line of credits for other financial needs in the future and credit cards as automatic limit amounts.

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 The portion of the retail segment is at 35% of the entire value at the end of 2016.

Some of the most productive business loan campaigns during 2016 were the project that launched for the first time some special offers on Small Agro Business loans unexplored before, and the year-end special campaign for SME loans. Both of these campaigns was successful and increased the level of the portfolio amount to the projected levels.



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 2016, the sectors of Consumers and Real Estate grew to 17% and 22% respectively from 15% and 21% in 2015. Industries that have lost grounds are Other Services that went from 19% to 18% and Trade from 15% to 14%. 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 priority, and it is constantly done through close monitoring since it represents one of the current essential issues in lending.
During 2016, the NPL of the Bank manage to keep it at 13.2 % (same as in 2015) and at the same time below the banking system NPL of 18.3%. The Bank's Loan Loss Provisions fund grew from 7.0% to ~8.7% of` the total portfolio. NPL of the leasing is below 5%.

8.4. Card Products

During Y2016, the Bank undertook several projects and launched a few campaigns to boost the increase of card sales and their use. At the same time, the efforts to further improve the quality and the range of services provided to its clients continued extensively. One of the most effective sales campaign was the one intended for stimulation of credit cards usage, including a new card in Lek called "Kuq e Zi" in cooperation with Master Card International. Clients, for the first time had the opportunity to receive a bonus in the form of cash-back, and in addition to this, the top users received various gifts. The theme of some gifts was related to the national soccer team and their games.

There was noted progress, especially with Credit Card activity moving with considerably increasing rhythms, and we could say that it produced the highest satisfactory results since the time that UB started to launch cards and provide such services. This growth went in both directions: the slaes numbers of cards and their use.

Credit cards considerably enable the customers with a full range of domestic and international purchasing and withdrawing options in most of the ATM and POS networks. The number of users has gone up by 33.3% in yearly terms increasing market share for Credit cards to the level of 3.5% from 2.8% in 2015. The Bank provides numerous services and helping lines in order to facilitate UB 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 successfully completed its first year agreement with “Paylink sh.a” the domestic vendor company that has provided the processing and all other aspects of cards services. It represents the first company in Albania to ever be licensed from Master Card and VISA to operate processing and personalization services.

- 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 marked a 32.4% growth rate compared to the prior year and 4.0% above the projected figures.

8.5. Transfers and Payments

The total number of transfers and payments (in and out) reached an amount close to 29,600 representing a yearly growth rate of 19%. Both numbers of International and Domestic Payments grew with more than 18%. Furthermore when viewed in seasonal terms and based on the quarterly and yearly average figures, the development line of these products also stands at higher levels showing positive increments for all elements when compared to those of previous years.

We are also proud to mention that in regards to these services’ fees, our bank offers some of the most competitive prices in the market at most convenience conditions. The continuing growing number of the clientele base and the escalation of cross-sale attempts directly affect the number of these transfers and their related income fees by further increasing the penetration rate on these products.

The revenues from this segment surpassed the revenues from last year’s with about 18% and 8% above the anticipated figures.

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8.7. Operations’ Internal Developments and Customer Service

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 analyzed and frequently checked upon.

Executive Directors and management team of UB initiated during Y2016 an internal process consisting of the entire review of the branches’ operations processes (BOR) and main procedures in order to identify room for a higher efficiency and better quality of work. All this was done in the framework of further improvement of customer service and advancement with sure steps toward the future Bank’s growth and achievement of business goals. This internal process came also as a result of combining these efforts and several considerations of the Bank’s strategic review process.

As a general work ethic, 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. 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.

9. Events and Social Responsibility

9.1. Sponsorship, Sporting and Other Events

UB'S volleyball and football teams: In the context of sportive and activities outside of the bank, there is already a tradition of UB's participation in national amateur volleyball and soccer championship tours between different institutions in regards to various sportive disciplines organized by Albanian Federation of Volleyball and Soccer (FSHV and FSHF). The staff members who participate in these sportive teams along with other commitments have been part of continuous intensive training sessions aiming to bring the teams toward having a wining spirit while trying hard to reach for victories and finals qualifications'. The beautiful games and the team's great results (reaching qualifications up to semi-finals) a very positive and exemplary model as being an important part of the educating process for the younger generations so they can lead healthy lives with sportive and active engagements.

UB the Official Sponsor of Albanian National Soccer Team. Continuing with the same spirit, where the sports aspects and activities have played an important part in supporting policies of the bank that have had their impact in the overall image, Union Bank has been the sponsor the Albania's National Football Team for four qualifying cycles in a row, including the historic first qualification for the European Championship "UEFA EURO 2016" cup in France. The accompanying fans cheered for the team's steady excellent games, providing such joy and happiness to the whole country and all Albanians around the world.

In this line, in May, 2016, UB renewed the sponsoring agreement with Albanian Soccer Federation (FSHF) thus being one of the early supporters of this team since the bank was created. The event, the sign-in ceremony and banquet received full media coverage with broadcasting minutes on main TV channels. This entailed a full campaign with TV spots, where the Bank also launched its credit card product "Kuq e Zi" as the only card offering such best prices and facilitation benefits and parameters at the same time, it automatically makes every holder a member of the "National Fan Club". This membership enables them with tickets and other products and services at discount prices related to soccer events.

Run 4 Autism: A special attention was paid to the increase and in the marathon, in April 2016, dedicated to the Day of Autism, where again the staff of UB became one of the protagonists of this activity. In this framework, of Social Engagements of 2016, about 40 members of Union Bank participated in this marathon organized in the city of Tirana in order to support the children and their families with the proceeds of promotion products sold for the marathon.

"Juventus Junior Camp": UB has long supported the search for talents by enabling the participation of orphan children from the school "Zyber Hallulli" in cooperation with of sports "Juventus Junior Camp". The process of their integration in the society, the tackling and softening of differentiations, the creation of equal opportunities and stimulation of a healthy and balanced life with lots of sports and other activities are the main reason for UB backing up these projects. Parallel to this, there was also a goal to contribute with the fulfillment of beautiful desires and dreams of these young people to be part of something bigger. Six children of this school are already training with their peers with qualified and professional trainers of the youth sport team "Juventus".

The marketing campaigns intertwined with all sorts of activities were also part of the yearly motto "Near branches, Near communities" to make the Bank even more known and friendly to people. The Bank's staff directly participated in social and media events, gatherings, local and national festivities in order to ensure the increase of the Bank's awareness.

During 2016, the Bank started an "electronic magazine" in the form of a newsletter which frequently reflects the most highlighted developments and announce to its members the Bank's successful and most interesting endeavors through media and intranet channels. This is done in close cooperation with staff's contribution and their input about sportive events, excursions, creativity and recreation happenings, artistic or other interests.

9.2. Donations and Sponsorship Programs.

Besides long-lasting sponsorship sportive activities, UB also is very active and takes part in numerous donation events, charity, beneficiary programs and fundraiser to help communities and be more socially responsible. We could mention some of them such as:

UB is Sponsor of the Foundation "Down Syndrome Albania". UB continues to advocate for this cause and is one of the sponsors for this foundation. By signing-up for the second year in the row and being one of the largest donators and contributors to this cause, it also participates in the fundraising events and non-profit activity with the purpose to increase awareness and attention to the children and their families touched by this syndrome. The contribution mainly consists of payed-therapy sessions during the entire year for children with this syndrom at the Center of Achievments and Development (DSA).

"Union Bank Dhuron" was a donation program helping family with less means and with low income levels by donating food, toys, clothes and other consumer products at different times and festivities. One of the cases was in cooperation with other institutional and partners where UB staff members visited and donated the goods to the children in their home on their first day to school

"Be a Hero in 20 Minutes" was a project where 28 members of UB's staff donated blood for children who suffer from thalassemia. In cooperation with Albanian Organization of Awareness and the Albanian Red Cross, UB undertook a mission that invited all possible blood donors to volunteer and be part of this project so that they could help children in need. This was also done to increase the general conscience and spread a movement that encourages people to donate blood for people who suffer from thalassemia and other diseases, hoping that this movement will grow everywhere in Tirana and other regions of Albania.

For Cities with More Bikes: UB during 2016 has invested in building several bike rails in order to directly facilitates its staff and the Bank's clients with their bike storage and easiness of movements. This was done in order to promote a higher bike usage rate from the citizens and furthermore, through this project it becomes a great supporter of the idea of a cleaner city with a better air and less vehicles which leads to less climate instability.

"Protect the Children": The staff of UB joined the nation-wide campaign of "I protect Children" where about 40 members of our organization donated money and agreed to pledge to this project by buying t-shirts with the campaign's logo. This operation was broadly supported from staff members in almost all the cities where UB has its branches. Our staff member communicated with many clients about the importance of the proper reaction and denouncements of any form of abuse upon children which was materialized in the application of #Report#Save or "call 116 111 129!"

Along with other business marketing campaigns, in cooperation with many environmental organizations and associations, Union Bank has also helped encourage the promotions of the importance of recycling, environment protections, saving the forests, greenery and watery spaces, continue the efforts against global warming and advancements of client-favorable interest rates loans or so-called "green loans" related to products and equipment that are energy-efficient and less harmful to the environment.

10. Plans for 2017

After a decade of successful banking business, starting no 16, actually ranked no 8, living behind banks that has started operations more than 200 years ago, UB is prepared to embark on new strategic plans and jump to the next level with new goals and determined future projects.

Y2017 is going to note more progressive and ambitious achievements on all aspects of the bank's business. While the main focus is going to be on comprehensive growth, with clear financial and business projections, UB will not compromise the quality of its entire work philosophy and will be the prudent and careful planning on every step. The growth intends to widen the clientele base by being proactive, aiming to increase the market share, consolidate and enhance the asset's foundation, and increase the profitability, while controlling all risk factors.

The Bank's management and its staff will follow the strategies and technical plans in order to achieve the organizational objectives and considering that the economic and politic environment is constantly moving. 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.

Parallel to this, customer service remains a high priority which is going to be even more improved through the intensification of work included in Branch Operation Review (BOR) process since here lays the core success of every operation.

Asset's growth

For 2017, UB has planned a broad plan of asset growth by increasing them with approximately 8%. 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. On the other side, many substantial projects aim to expend on the hardware and software assets which are going to serve and support the business plans and help to automatize and modernize most of major Bank operations in the Head Office and throughout the branch network.

Lending

Union Bank has forecasted above 10% Loan Portfolio yearly growth rate. The target figure intends to the increase and solidify 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 increases in the consumer segment and SME. At the same time, the Bank will firmly consider and regularly monitor all exposures the risk issues which faces on daily bases by trying to keep up the good quality of the loan portfolio. Lower concentration and risk and better yield are also going to be put affront with the BoA policy of the gradual de-eurozation of the market.
Retail lending in 2017 is to increase by more than 11% in yearly terms. The pertaining marketing campaigns will put maximum efforts to support these goals especially toward the segments of "Retail Consumer" that is planned to have a 12% yearly increase rate.

Business lending in 2017 is to increase by 9% and continues to be the largest segment of the portfolio. The segment that is planned to have the largest increase rate is that of SME. The lending process here will continue to support all sectors of the economy, facilitating mainly small and medium businesses by increasing the cross-sell efforts. I 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

UB plans to increase total Customer Funds for the upcoming year more than 8% where the segments that is going to experience the largest increase is that of Saving Accounts with more than 14% yearly growth rate. The currency structure of funds is also to be watched very carefully since the impact of exchange rates and foreign currencies fluctuating, in particular the concerns with Euro and USD is might have a direct or indirect impact on Albanian deposits as well.

The product pricing strategy, which for the most parts has a decreasing tendency on all "role players" 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 the net interest margins to sustain the profitability. The campaigns and efforts that will take place 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.

Key Marketing and Networking Projects for 2017

During the upcoming year the Bank will have important marketing projects and plans related to the main strategy of the Bank to increase market share by strengthening and improving Bank's products, services and likewise 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.
UB will continues to actively participate in national and local celebrations and events, and will proudly and dynamically sponsor the Albanian National Soccer Team up to Y2018 and be one of the main sponsors for the "Foundation of Down Syndrome Albania"
In the frame of more traditional campaigns 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 campaigns. Some of them are listed below:

- "Crediting" seasonal projects that will tend to promote through the campaign "Dua Kredi" for every client to apply and get an approval for loans in distance, without the need for them to be present in one of the branches. The application channels are diverse.
- Expansion of the cooperation network outside the Bank, it's another goal of 2017-s, in order to provide a more collective and powerful comprehensive cooperation.

- During 2017 there are also plans to increase the numbers of e-banking user numbers, and more importantly to strengthen and take advantage of the on-line channel usage. For this, the bank is developing several projects to enable application& authentication of clients 100% online, simplification of the services used and of course, a more aesthetic and configuration development.

Moreover, besides these engagements that will focus on a more effective networking and sales of core Bank's products, there will be some other additional projects in relation to boosting the Cards sales and improving the electronic and automatic ways for different sorts of transactions.

Branches Network

Parallel to this, the management has riconsidered there are plans and projects to continue upgrading the existing branches and the rest of the network system. Several projects include relocations of one of the Durres branches, the replacements of interior and exterior fixed assets on some other agencies, expanding and refurbishing of certain areas, improving exterior and internal appearance with more contemporary equipment and facilities while enhancing the expenditure amounts needed for the marketing campaigns and business operations.

11. Audited Consolidated Financial Statements

UNION BANK SH.A.
Independent Auditor's Report
and Consolidated Financial Statements
as at and for the year ended 31 December 2016

UNIONBANK
Banka që dua

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INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholders of Union Bank sh.a. and its subsidiary:

Opinion

We have audited the consolidated financial statements of Union Bank sh.a. and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

Deloitte Audit Albania sh.p.k.

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Identification number (NUIS): L41709002H

Elvis Ziu

Engagement Partner
Elvis Ziu

March 31, 2017

Union Bank sh.a

Consolidated Statement of Financial Position as at 31 December 2016

(Amounts in LEK'000)

	Notes	As at December 31, 2016	As at December 31, 2015
Assets			
Cash and balances with Central Bank	6	4,625,417	2,935,534
Placements and balances with banks	7	2,926,633	4,147,632
Treasury Bills held-to-maturity	8	1,539,380	1,760,774
Bonds held-to-maturity	9	14,032,927	11,962,869
Loans and advances to financial institutions	10	245,068	-
Loans and advances to customers	11	16,608,651	15,823,210
Intangible assets	12	104,869	120,438
Property and equipment	13	214,418	199,804
Investment property	14	372,790	347,944
Other assets	15	918,816	862,888
Income tax receivable	29	16,437	-
Deferred tax asset	29	9,700	5,098
Total assets		**41,615,106**	**38,166,191**
Liabilities			
Due to Central Bank	16	2,168,572	1,317,562
Due to banks and financial institutions	17	1,390,257	1,313,966
Due to customers	18	34,093,972	31,618,267
Other liabilities	19	268,972	380,987
Income tax payable	29	-	46,093
Total liabilities		**37,921,773**	**34,676,875**
Shareholders' equity			
Share capital	20	2,717,813	2,717,813
Share premium		175,600	175,600
Legal Reserve	20	280,405	126,232
Retained earnings		519,515	469,671
Total shareholders' equity		**3,693,333**	**3,489,316**
Total liabilities and shareholders' equity		**41,615,106**	**38,166,191**

The consolidated statement of financial position is to be read in conjunction with the notes set out on pages 5 to 53 integral part of the consolidated financial statements.

These consolidated financial statements have been approved by Executive Management on 29 March 2017 and signed on its behalf by:

Gazmend Kadriu
Chief Executive Officer

UNION BANK TIRANE

Arten Zikaj
Chief Financial Officer

Union Bank sh.a

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

(Amounts in LEK'000)

	Notes	For the year ended December 31, 2016	For the year ended December 31, 2015
Interest income	21	2,046,136	2,108,522
Interest expense	22	(406,593)	(547,283)
Net interest income		**1,639,543**	**1,561,239**
Net impairment loss on loans and advances	10,11	(428,157)	(281,151)
Net interest income after loan impairment		**1,211,386**	**1,280,088**
Fee and commission income	23	228,491	196,730
Fee and commission expenses	24	(32,784)	(29,725)
Net fee and commission income		**195,707**	**167,005**
Net foreign exchange gain	25	7,064	(16,580)
Change in fair value of investment property	14	(19,167)	(12,143)
Impairment of assets held for sale	15	756	(13,028)
Income from leased investment property	14	3,168	20,161
Write-down on NRV of repossessed collaterals	15	(9,445)	(6,737)
Other income, net	26	15,947	106,223
Other charges for provisions		(20,347)	5,970
Amortization of intangible assets	12	(26,324)	(32,871)
Depreciation of property and equipment	13	(41,441)	(39,858)
Personnel costs	27	(443,692)	(403,674)
Other operating expenses	28	(628,182)	(597,073)
Profit before tax		**245,430**	**457,483**
Income tax expense	29	(41,413)	(83,812)
Profit for the year		**204,017**	**373,671**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		**204,017**	**373,671**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes set out on pages 5 to 53 integral part of the consolidated financial statements.

Union Bank sh.a
Consolidated Statement of Changes in Equity for the year ended 31 December 2016
(Amounts in LEK'000)

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
Balance at 1 January 2015		**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	20	137,960	-	-	-	137,960
Legal Reserve	20	-	-	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**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital		-	-	-	-	-
Legal Reserve	20	-	-	154,173	(154,173)	-
Total contributions by and distributions to owners		**-**	**-**	**154,173**	**(154,173)**	**-**
Total comprehensive income for the year						
Profit for the year		-	-	-	204,017	204,017
Other comprehensive income, net of income tax		-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**204,017**	**204,017**
Balance at 31 December 2016		**2,717,813**	**175,600**	**280,405**	**519,515**	**3,693,333**

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 5 to 53 integral part of the consolidated financial statements.

Union Bank sh.a
Consolidated Statement of Cash Flows for the year ended 31 December 2016
(Amounts in LEK'000)

	Notes	For the year ended December 31, 2016	For the year ended December 31, 2015
Cash flows from operating activities			
Profit before tax		245,430	457,483
Adjustments for non-cash items:			
Interest income	21	(2,046,136)	(2,108,522)
Interest expense	22	406,593	547,283
Depreciation of property and equipment	13	41,441	39,858
Amortization of intangible assets	12	26,324	32,871
Impairment loss	10,11	428,157	281,151
Write-down on NRV of repossessed collaterals	15	9,445	6,737
Impairment of assets held for sale	15	(756)	13,028
Change in fair value of investment property	14	19,167	12,143
Revaluation effect of cash and cash equivalents		56,628	(1,728)
Other revaluation effects		23,406	14,149
Written of property and equipment		1,383	11,632
Effect of sale of property and equipment		(85)	-
Other charges for provisions		20,347	(5,970)
Net gain from sale of repossessed collaterals		(8,081)	(95,407)
		(776,737)	**(795,292)**
Changes in:			
Placements and balances with banks		64,607	(232,211)
Loans and advances to financial institutions		(254,036)	-
Loans and advances to customers		(1,248,432)	(1,506,264)
Other assets		(122,826)	(274,217)
Due to banks and financial institutions		77,312	76,740
Due to customers		2,578,072	1,672,231
Due to Central Bank		851,327	191,767
Other liabilities		(111,936)	185,088
Interest received		2,044,696	2,145,690
Interest paid		(510,298)	(565,383)
Income tax paid	29	(108,545)	(45,563)
Net cash generated from operating activities		**2,483,204**	**852,586**
Cash flows from investing activities			
Purchases of intangible assets	12	(10,755)	(18,002)
Purchases of property and equipment	13	(60,641)	(56,259)
Investment in subsidiaries		-	(41,184)
Purchases of repossessed collaterals	15	-	(233,376)
Proceeds from sale of property and equipment		1,440	1,434
Proceeds from sale of repossessed collaterals		20,114	676,471
Sales of treasury bills held to maturity		171,489	352,069
Purchases of bonds held to maturity		(2,064,532)	(1,781,565)
Net cash used in investing activities		**(1,942,885)**	**(1,100,412)**
Cash flows from financing activities			
Repayment of borrowings		-	(268,373)
Subordinated debt		-	(1,051)
Proceeds from capital injection		-	137,960
Net cash generated from financing activities		**-**	**(131,464)**
Net increase in cash and cash equivalents during the year		**540,319**	**(379,290)**
Revaluation effect of cash and cash equivalents		(56,628)	1,728
Cash and cash equivalents at the beginning of the year		**4,789,053**	**5,166,615**
Cash and cash equivalents at the end of the year	30	**5,272,744**	**4,789,053**

The consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 5 to 53 integral part of the consolidated financial statements.

Union Bank Sh.a
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2016
(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 2016

Board of Directors of the Bank (Supervisory Board)

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranjani	Member
Paul Nabavi	Member
Gazmend Kadriu	Member
Sokol Marishta	Member
Flutura Veipi	Member

Mrs. Flutura Veipi joined the Board on 5 October 2016, replacing Mr. Genc Turku

Board of Directors of the Subsidiary

Niko Leka	Chairman
Arten Zikaj	Vice-Chairman
Majlinda Hakani	Member
Varuzhan Piranjani	Member
Rezart Ferzaj	Member

Mr. Varuzhan Piranjani and Mr. Rezart Ferzaj joined the Board on 12 December 2016

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 2016
(Amounts in LEK '000 unless otherwise stated)

2. Basis of preparation (Continued)

2.4 Use of estimates and judgments (continued)

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.

2.5 Comparative

Certain reclassification is made in order to obtain better presentation and disclosure in the consolidated financial statements as at December 31, 2016.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency transactions (continued)

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Tax expense (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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.3 Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and financial liabilities (continued)

3.7.5 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. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

3.8 Cash and cash equivalents

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

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

3.9 Loans and advances

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

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Loans and advances also include finance lease receivable in which the Group is the lessor (see Note 3.5.2).

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

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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 3.7.6). 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.

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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 Repossessed collaterals

Repossessed collaterals are properties acquired through enforcement of security over loans and advances to customers. These assets are held for sale as their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Repossessed collaterals are measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the period in which write-down occurs. Any reversal is recognised in profit and loss statement in the period in which reversal occurs.

3.16 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.

3.17 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.

3.18 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.

3.19 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

Short-term benefits

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

3.20 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).
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **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 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 "Separate Financial Statements"** - Equity Method in Separate 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 adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 01, 2017 or later, and which the Bank has not early adopted.

- **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 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),
- **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 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 IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

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 2017, 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.

(Amounts in LEK '000 unless otherwise stated)

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

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

4.1 Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.7.6.

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 3.7.5. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

4. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Fair value (continued)

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

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

The estimation of the fair value is disclosed in note 34.

5. CONSOLIDATION

The table below shows Bank's and Subsidiary's main figures before consolidation:

	Bank	**Subsidiary**
Total assets	41,555,815	1,061,122
Total liabilities	37,902,898	765,469
Shareholder's equity	3,652,917	295,653
Total banking income	1,764,722	77,540
Profit before tax	210,062	35,368

6. CASH AND BALANCES WITH CENTRAL BANK

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

	As at 31 December 2016	**As at 31 December 2015**
Cash on hand	957,043	787,236
Central Bank:		
Current account	1,412,198	166,940
Compulsory reserves	2,256,057	1,981,093
Accrued interest	119	265
Total	**4,625,417**	**2,935,534**

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.

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7. PLACEMENTS AND BALANCES WITH BANKS

Placements and balances with banks are detailed as follows:

	As at 31 December 2016	As at 31 December 2015
Current accounts:		
Resident	27,258	22,023
Non-resident	2,573,400	3,653,125
	2,600,658	**3,675,148**
Deposits:		
Resident	302,845	449,824
	302,845	**449,824**
Other accounts	23,071	22,642
Accrued interest	59	18
Total	**2,926,633**	**4,147,632**

Deposits with resident and non-resident banks mature in the range of 4 to 20 days (2015: 5 to 62 days) and bear interest in the range 0.2%p.a. to 1.3%p.a. (2015: 0.1%p.a. to 1.8%p.a.).

8. TREASURY BILLS HELD-TO-MATURITY

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

T-Bills by original maturity are presented as follows:

	31 December 2016			31 December 2015		
	Nominal value	Remaining discount	Book Value	Nominal value	Remaining discount	Book Value
3 months	-	-	-	50,000	(95)	49,905
6 months	-	-	-	210,110	(1,022)	209,088
12 months	1,548,550	(9,170)	1,539,380	1,520,470	(18,689)	1,501,781
Total	**1,548,550**	**(9,170)**	**1,539,380**	**1,780,580**	**(19,806)**	**1,760,774**

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 2016			
	Nominal value	Remaining discount	Accrued interest	Book Value
Albanian Government	13,047,440	(13,414)	182,139	13,216,165
Foreign Governments	590,885	19,025	8,825	618,735
Foreign Corporate Bonds	195,785	867	1,375	198,027
Total	**13,834,110**	**6,478**	**192,339**	**14,032,927**

	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**

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9 BONDS HELD TO MATURITY (CONTINUED)

Bonds held to maturity are rated as follows:

Moody's Ratings or equivalents	As at December 31, 2016	As at December 31, 2015
Albanian Government		
Rated B+	902,507	915,514
Not rated	12,313,658	10,700,298
Foreign Governments		
Rated Aaa	131,487	-
Rated Aa2	71,780	-
Rated A1	70,435	-
Rated A2	142,461	-
Rated A3	202,572	207,280
Corporate Bonds		
Rated Aa2	64,728	-
Rated A1	133,299	69,671
Rated A2	-	70,106
Total	**14,032,927**	**11,962,869**

10. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

Loans and advances to financial institutions are detailed as follows:

	As at December 31, 2016	As at December 31, 2015
Loans	255,309	-
Accrued interest	858	-
Allowances for losses on loans and advances	(9,626)	-
Deferred income	(1,473)	-
Total	**245,068**	-

The Bank has granted loans to resident financial institutions. These loans mature in the range of 1 to 4 years and bear interest rates ranging from 5.2% p.a. to 5.4% p.a.

11. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are detailed as follows:

	As at December 31, 2016	As at December 31, 2015
Loans and advances at amortized cost	17,224,573	16,312,420
Finance Lease	959,566	702,568
Allowance for Impairment	(1,575,488)	(1,191,778)
Total loans and advances to customers, net	**16,608,651**	**15,823,210**

Loans and advances to customers at amortized cost:

	As at December 31, 2016	As at December 31, 2015
Loans	14,562,949	13,884,631
Overdrafts	2,519,268	2,297,880
Other advances to customers	128,935	108,677
	17,211,152	**16,291,188**
Accrued interest	89,344	94,183
Allowances for losses on loans and advances	(1,538,265)	(1,156,701)
Deferred income	(75,923)	(72,951)
Total	**15,686,308**	**15,155,719**

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11. LOANS AND ADVANCES TO CUTOMERS (CONTINUED)

Loans and advances to customers earn interest as follows:

Currency	As at December 31, 2016	As at December 31, 2015
LEK	2.10% - 20.0% p.a.	2.50% - 20.0% p.a.
EUR	1.17% - 15.0% p.a.	1.40% - 15.0% p.a.
USD	1.70% - 15.0% p.a.	1.60% - 15.0% p.a.
GBP	N/A	1.60% - 2.5% p.a.

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

Interest rates of the finance lease portfolio vary from 7% p.a. to 10% p.a.(2015: 7.5% p.a. to 13% p.a.)

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, 2016	As at December 31, 2015
Less than one year	128,188	123,904
Between one and five years	976,163	684,329
Unearned future finance income	(144,785)	(105,665)
Net investment in finance lease	**959,566**	**702,568**
Less impairment allowance	(37,223)	(35,077)
Total	**922,343**	**667,491**

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

	As at December 31, 2016	As at December 31, 2015
As at 1 January	1,191,778	979,416
Net impairment charge for the year	418,531	281,151
Loans written-off during the period	(16,359)	(47,481)
Translation differences	(18,462)	(21,308)
Balance at the end of the year	**1,575,488**	**1,191,778**

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12. INTANGIBLE ASSETS

Intangible assets are detailed as follows:

	Software	Other intangible assets	Intangible assets in progress	Total
At 1 January 2015				
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**
Year ended December 2016				
Opening net book amount	81,276	33,431	5,731	120,438
Additions	6,293	-	4,462	10,755
Amortization charge	(20,454)	(5,870)	-	(26,324)
Closing net book amount	**67,115**	**27,561**	**10,193**	**104,869**
At 31 December 2016				
Cost	257,576	62,719	10,193	330,488
Accumulated amortization	(190,461)	(35,158)	-	(225,619)
Net book amount	**67,115**	**27,561**	**10,193**	**104,869**

Other intangible assets include payments for developing the ATM network supporting systems and the installation, customization, certification and on-line links between Bank's ATM host system and the Bank's system, as well as payments made for SWIFT interface and access fees. Disposals made during 2015 for the value of 14,943 represent the unamortized part of payments made for previous card processing service provider.

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13. PROPERTY AND EQUIPMENT

	Computers	Electronic equipment	Office Furniture	Other	Fixed assets in progress	Leasehold improvements	Total
At 1 January 2015							
Cost	190,785	111,382	52,573	5,957	4,827	185,732	551,256
Accumulated depreciation	(146,285)	(73,199)	(34,497)	(2,737)	-	(107,035)	(363,753)
Net book amount	**44,500**	**38,183**	**18,076**	**3,220**	**4,827**	**78,697**	**187,503**
Year ended December 2015							
Opening net book amount	44,500	38,183	18,076	3,220	4,827	78,697	187,503
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	**47,931**	**45,156**	**19,178**	**1,356**	**12,724**	**73,458**	**199,803**
At 31 December 2015							
Cost	206,069	122,932	57,073	3,331	12,724	190,023	592,152
Accumulated depreciation	(158,138)	(77,776)	(37,895)	(1,975)	-	(116,565)	(392,349)
Net book amount	**47,931**	**45,156**	**19,178**	**1,356**	**12,724**	**73,458**	**199,803**
Year ended December 2016							
Opening net book amount	47,931	45,156	19,178	1,356	12,724	73,458	199,803
Additions	15,565	12,631	8,242	-	(3,971)	28,174	60,641
Disposals	(42,362)	(3,133)	(2,304)	-	-	(4,689)	(52,488)
Adjustments	-	25	59	-	-	-	84
Depreciation charge	(13,772)	(9,975)	(4,458)	(55)	-	(13,181)	(41,441)
Depreciation charge for disposals	39,171	2,645	1,964	-	-	4,123	47,903
Adjustments for depreciation	290	(207)	(167)	-	-	-	(84)
Closing net book amount	**46,823**	**47,142**	**22,514**	**1,301**	**8,753**	**87,885**	**214,418**
At 31 December 2016							
Cost	179,272	132,455	63,070	3,331	8,753	213,508	600,389
Accumulated depreciation	(132,449)	(85,313)	(40,556)	(2,030)	-	(125,623)	(385,971)
Net book amount	**46,823**	**47,142**	**22,514**	**1,301**	**8,753**	**87,885**	**214,418**

Leasehold improvements relate to expenditures made by the Group for the reconstruction of leased premises used for the branches. No pledges or collateral have been placed as at December 31, 2016 (2015: nil).

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14. INVESTMENT PROPERTY

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

Total income from leased investment property in 2016 was LEK 3,168 thousand (2015: LEK 20,161 thousand).

Measurement of fair value - Fair value hierarchy

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

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

Level 3 fair value

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

	2016	2015
Balance at 1 January	**347,944**	**641,592**
Transferred from repossessed collaterals (note 14)	82,082	69,317
Acquired during the year	10,458	12,349
Transferred to repossessed collaterals (note 14)	(45,062)	(357,697)
Net changes in fair value (unrealized)	(19,167)	(12,143)
Foreign exchange revaluation differences	(3,465)	(5,474)
Balance at 31 December	**372,790**	**347,944**

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

Other assets are detailed as follows:

	As at 31 December 2016	As at 31 December 2015
Repossessed collaterals	354,020	403,550
Monetary values in transit	154,218	81,389
Vat receivable	58,775	10,237
Clients' receivables	31,114	13,072
Accrued income	21,183	14,438
Prepayments	12,216	18,493
Assets held for sale	5,164	4,168
Guarantee deposit paid	4,208	686
Inventory	3,511	3,304
Other	7,687	6,572
Sundry debtors	266,720	306,979
Total	**918,816**	**862,888**

15. OTHER ASSETS (CONTINUED)

Repossessed collaterals 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.

The following table shows a reconciliation from the beginning balances to the closing balances for the Bank's repossessed collaterals.

	2016	2015
Balance at 1 January	**403,550**	**316,903**
Transferred to investment property (Note 13)	(82,082)	(69,317)
Acquired during the year	12,208	160,482
Assets purchased during the year	-	233,376
Transferred from investment property (Note 13)	45,062	357,697
Assets sold during the year	(12,032)	(581,064)
Net write-down of NRV for the year	(9,445)	(6,737)
Foreign exchange revaluation differences	(3,241)	(7,790)
Balance at 31 December	**354,020**	**403,550**

During 2015, the Bank entered into an agreement for the sale of one of the properties amounting LEK 568,340 thousand, which was partly owned by another bank. To finalize the transaction, the Bank initially bought this part and finally sold the property with a premium of LEK 91,087 thousand recognized in the consolidated statement of profit or loss of that year (note 25).

In December 2014, the Bank entered into a sale agreement for one of repossessed collateral 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 and as a result, the contract guarantee in the amount of LEK 17,805 thousand was recognized as profit in the consolidated statement of profit or loss of 2015 (note 25).

Assets held for sale are properties acquired through enforcement of security over leased assets of the Subsidiary.

The following table shows a reconciliation from the beginning balances to the closing balances for the assets held for sale.

	2016	2015
Balance at 1 January	**4,168**	**29,342**
Repossessed during the year	9,656	50,255
Assets sold during the year	(9,995)	(61,516)
Impairment of assets held for sale	756	(13,028)
Foreign exchange revaluation differences	579	(885)
Balance at 31 December	**5,164**	**4,168**

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 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 amount not yet recovered will be recovered in full. Sundry debtors include such amounts.

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16. DUE TO CENTRAL BANK

	As at 31 December 2016	As at 31 December 2015
Treasury bills sold under repurchased agreements	2,167,067	1,315,740
Accrued interest	1,505	1,822
Total	**2,168,572**	**1,317,562**

Treasury bills sold under repurchase agreements "Repos" are short term liquidity management instruments issued by the Central Bank to inject liquidity in the banking system. Repos at the end of 2016 bear interest at market rates ranging from 1.35% p.a. to 1.40% p.a. (2015: 1.77% p.a. to 2.16% 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 2016	As at 31 December 2015
Current accounts		
Resident	639,400	634,784
Non-resident	343,115	290,477
	982,515	**925,261**
Term deposits		
Resident	232,520	235,326
Non-resident	43,531	43,930
	276,051	**279,256**
Borrowings		
Resident	128,170	-
	128,170	**-**
Other accounts		
Resident	1,858	106,765
	1,858	**106,765**
Accrued interest	1,663	2,684
Total	**1,390,257**	**1,313,966**

Current accounts from resident financial institutions include LEK 377 million (2015: LEK 402 million) deposited by Unioni Financiar Tirane ('UFT'), out of which LEK 101 million (2015: LEK 103 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 207 million (2015: LEK 278 million).

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', a related party, of LEK 43,274 thousand (2015: LEK 43,930 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates 0.6% p.a. (2015: 0.7% p.a.).

Borrowings represents short term borrowings from resident banks in USD, amounting at LEK 128 million (2015: nil) with an initial maturity of 7 days and bearing interest from 0.7%p.a. to 09% p.a.

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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, 2016	As at December 31, 2015
Government and public administration:		
Local currency	349,053	288,148
Foreign currency	29,155	109,437
	378,208	**397,585**
Current accounts:		
Local currency	2,525,457	2,365,722
Foreign currency	3,322,654	2,665,289
	5,848,111	**5,031,011**
Saving accounts:		
Local currency	1,238,776	1,126,370
Foreign currency	3,044,890	2,354,705
	4,283,666	**3,481,075**
Term deposits:		
Local currency	12,556,932	12,563,306
Foreign currency	9,631,788	8,603,139
	22,188,720	**21,166,445**
Other customer accounts:		
Local currency	361,813	307,916
Foreign currency	709,505	808,108
	1,071,318	**1,116,024**
Prepaid interest on customer deposits	(138)	(327)
Accrued interest	324,087	426,454
Total	**34,093,972**	**31,618,267**

Current and saving accounts bear interest in the range of 0.1% p.a. to 07% p.a. (2015: 0.1% p.a. to 1% p.a.) and term deposits bear interest as follows:

Currency	2016	2015
LEK	0.20% p.a. to 4.60% p.a.	0.90% p.a. to 7.60% p.a.
EUR	0.05% p.a. to 2.50% p.a.	0.10% p.a. to 4.40% p.a.
USD	0.10% p.a. to 1.20% p.a.	0.20% p.a. to 1.90% p.a.
GBP	0.05% p.a. to 0.50% p.a.	0.20% p.a. to 0.70% 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 2016			31 December 2015		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
Government and admin accounts						
On demand	349,053	29,155	378,208	278,148	33,708	311,856
Twelve months	-	-	-	10,000	75,729	85,729
Total government and admin accounts	**349,053**	**29,155**	**378,208**	**288,148**	**109,437**	**397,585**
Current accounts	**2,525,457**	**3,322,654**	**5,848,111**	**2,365,722**	**2,665,289**	**5,031,011**
Saving accounts	**1,238,776**	**3,044,890**	**4,283,666**	**1,126,370**	**2,354,705**	**3,481,075**
Term deposits:						
Three months	301,746	429,412	731,158	434,197	481,087	915,284
Six months	560,672	517,571	1,078,243	672,521	480,051	1,152,572
Twelve months	3,004,365	3,517,979	6,522,344	3,477,715	3,545,969	7,023,684
Fourteen months	1,052,312	741,761	1,794,073	1,265,857	897,575	2,163,432
Twenty-five months	1,445,473	822,632	2,268,105	2,020,616	1,096,885	3,117,501
Thirty-five months	3,114,105	1,516,031	4,630,136	3,164,686	1,281,421	4,446,107
Sixty months	1,820,255	1,016,880	2,837,135	1,183,148	709,026	1,892,174
Other deposits	1,258,004	1,069,522	2,327,526	344,566	111,125	455,691
Total deposits	**12,556,932**	**9,631,788**	**22,188,720**	**12,563,306**	**8,603,139**	**21,166,445**
Other customer accounts:						
On demand	39,404	10,954	50,358	25,141	11,394	36,535
Three months	12,736	135	12,871	12,736	-	12,736
Six months	-	-	-	1,120	-	1,120
Twelve months	23,130	49,806	72,936	14,058	57,514	71,572
Other	286,543	648,610	935,153	254,861	739,200	994,061
Total other customer accounts	**361,813**	**709,505**	**1,071,318**	**307,916**	**808,108**	**1,116,024**
Total	**17,032,031**	**16,737,992**	**33,770,023**	**16,651,462**	**14,540,678**	**31,192,140**

"Other deposits" includes deposits with initial maturities of 10 months, 11 months and 24 months.
"Other" includes accounts of notary offices that are used to perform transactions with Mortgage Office.

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19. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2016	As at December 31, 2015
Payments in transit	176,988	291,380
Other payables	26,238	48,631
Invoices to be received	30,058	24,979
Deferred income and accrued expenses	12,290	8,143
Advances from clients	10,350	6,870
Other provisions for risk and expenses	961	984
Loans from government	12,087	-
Total	**268,972**	**380,987**

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

The Group, as part of the "Programme for Development of the Albanian Private Sector" received funds as a loan from Ministry of Economy for the purpose of financing projects of SME's in Albania. The amount under "Loans from government" represents the outstanding balance of such loans. This loan has an initial maturity of 5 years and bears interest of 0.5% p.a.

20. 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 2016, the subscribed capital was divided into 2,097,143 shares (2015: 2,097,143 shares) with a nominal value of EUR 10 each.

The movements in the paid up share capital in 2016 and 2015 were as follows:

	31 December 2016		31 December 2015	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	2,097,143	2,717,813	1,997,143	2,579,853
Capital increase	-	-	100,000	137,960
Paid-up share capital	**2,097,143**	**2,717,813**	**2,097,143**	**2,717,813**

The structure of subscribed capital is as follows:

	As at December 31, 2016	As at December 31, 2015
Unioni Financiar Tirane (UFT) Sh.p.k	86.34%	86.34%
European Bank for Reconstruction and Development (EBRD)	10.12%	10.12%
Edmond Leka	1.77%	1.77%
Niko Leka	1.77%	1.77%

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

Based on Shareholders' Decision dated 30 June 2016, a legal reserve of LEK 154,173 thousand (2015: LEK 126,322 thousand) was created from the profit of 2015. The remaining amount of this profit was decided to be retained for investments.

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21. INTEREST INCOME

Interest income was earned on the following assets:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Loans and advances to customers	1,283,618	1,343,114
Investment securities	744,147	749,362
Loans and advances to financial institutions	7,521	-
Placements and balances with banks	10,850	16,046
Total	**2,046,136**	**2,108,522**

22. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Due to customers	386,210	506,040
Due to banks and financial institutions	10,293	16,841
Repurchase agreements	10,005	24,387
Other	85	15
Total	**406,593**	**547,283**

23. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Banking services	185,083	152,385
Lending activity	19,515	12,190
Other	23,893	32,155
Total	**228,491**	**196,730**

24. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Treasury operations	2,815	8,648
Banking services	18,437	9,974
Other	11,532	11,103
Total	**32,784**	**29,725**

25. NET FOREIGN EXCHANGE RESULT

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 2016, is a gain of LEK 7,064 thousand (2015: loss of LEK 16,580 thousand). The effect of the open position revaluation at the year-end for the paid-up share capital (denominated in Eur) was loss of LEK 45,920 thousand (2015: loss of LEK 61,883 thousand).

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26. 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 15,947 thousand (2015: LEK 106,223 thousand) includes the profit realized on the sale of an asset amounting at LEK 8,081 thousand (note 14) (2015: LEK 91,087 thousand and profit realized on the execution of the guarantee for a sale agreement revoked by the buyer amounting at LEK 17,805 thousand (note 14)).

27. PERSONNEL COSTS

Personnel costs were comprised as follows:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Salaries and other compensations	397,127	360,294
Social insurance	46,565	43,380
Total	**443,692**	**403,674**

As at 31 December 2016 the Group had 371 employees (2015: 349).

28. OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Rent	195,970	175,396
Other external services	108,494	91,062
Premium insurance of deposits	88,242	82,604
Marketing	38,342	32,083
Software maintenance	36,795	33,394
Communication expenses	36,188	43,637
Security services	31,874	31,116
Utilities energy, water etc.	22,550	22,674
Office supplies	17,955	17,922
Maintenance and repairs	15,326	17,400
Consulting and Legal fees	13,289	28,918
Transportation and business trip expense	9,563	9,006
Insurance	4,616	4,114
Board remuneration	4,434	4,569
Representation	2,532	1,736
Trainings	2,012	1,442
Total	**628,182**	**597,073**

Other external services include expenses made for services related to debit and credit cards offered by MasteCard Europe SA, expenses for customization of cards, expenses made for local taxes, expenses made for personalized printing etc.

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29. INCOME TAX

	For the year ended December 31, 2016	For the year ended December 31, 2015
Current tax expense	46,015	76,244
Deferred tax income/expense	(4,602)	7,568
Total tax expense	**41,413**	**83,812**

Income tax in Albania is assessed at the rate of 15% (2015: 15%) of taxable income. The following represents a reconciliation of the accounting profit to the income tax:

	Effective Tax rate	2016	Effective Tax rate	2015
Profit before tax		**245,430**		**457,483**
Income tax at 15% (2015: 15%)	15.00%	36,814	15.00%	68,622
Non-deductible expenses	2.04%	5,001	1.03%	4,705
Income exempted from income tax	2%	4,200	1%	2,917
Income tax expense	**18.75%**	**46,015**	**16.67%**	**76,244**

Deferred tax is calculated based on the enacted tax rate for 2016 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, 2016	For the year ended December 31, 2015
Deferred tax asset at the beginning of the year	**5,098**	12,872
Recognized in profit or loss	4,602	(7,774)
Deferred tax asset at the end of the year	**9,700**	**5,098**
Deferred tax liability at the beginning of the year	-	206
Recognized in profit or loss	-	(206)
Deferred tax liability at the end of the year	**-**	**-**
Net deferred tax asset	**9,700**	**5,098**

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

	2016	Recognized in Profit or loss	2015	Recognized in Profit or loss	2014
Deferred tax asset:					
Non-current assets held for sale	3,307	1,634	1,673	580	1,093
Investment property	5,006	2,569	2,437	1,833	604
Finance lease receivable	1,387	399	988	(4,534)	5,522
Other provisions	-	-	-	(5,653)	5,653
	9,700	**4,602**	**5,098**	**(7,774)**	**12,872**
Deferred tax liability:					
Loans and other borrowings	-	-	-	(206)	(206)
	-	**-**	**-**	**(206)**	**(206)**

29. INCOME TAX (CONTINUED)

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

Income tax is prepaid in monthly 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.

	2016	2015
Income tax payable as at 1 January	**46,093**	**15,412**
Income tax paid (due as at the end of previous year)	(56,933)	(20,423)
Income tax prepaid	(51,401)	(24,327)
Income tax prepaid to nonresidents (due to elimination of double taxation)	(211)	(813)
Current tax	46,015	76,244
Income tax (receivable)/payable as at 31 December	**(16,437)**	**46,093**

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	2016	2015
Cash on hand	957,043	787,236
Accounts with Central Bank	1,412,198	166,940
Financial institutions with maturity of 3 months or less	2,903,503	3,784,972
Treasury bills with maturity of 3 months or less	-	49,905
Total	**5,272,744**	**4,789,053**

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31. RELATED PARTIES

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

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

The Group has related party relationships with its shareholders and affiliates, directors and executive officers. The shareholding structure of the Group as at 31 December 2016 and 2015 is presented in Note 19. 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 Construc 2 shpk, E-ticketing systems, Union net Kroaci, Prestige Service Shpk, Digit-alb sha.

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

	2016	2015
Assets:		
Loans and advances to customers:		
Other Shareholders	1,694	1,271
Associated entities	1,343,998	1,358,077
Key management personnel of the entity and their relatives	96,910	107,702
Other Assets:		
Parent company	186	420
Other Shareholders	3	1
Associated entities	2,266	996
Key management personnel of the entity and their relatives	19	6
Liabilities:		
Due to banks and financial institutions:		
Parent company	376,964	402,459
Associated entities	250,384	322,524
Due to customers:		
Other Shareholders	66,371	74,205
Associated entities	403,939	378,765
Key management personnel of the entity and their relatives	211,340	181,915
Other Liabilities:		
Parent company	203	206
Other Shareholders	203	206
Associated entities	8,460	18,265
Key management personnel of the entity and their relatives	585	1

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31. RELATED PARTY (CONTINUED)

Loans to associated entities in the amount of LEK 1,343,998 thousand (2015: LEK 1,358,077 thousand) are covered by cash collateral of LEK 548,491 thousand (2015: LEK 727,605 thousand) and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

Off balance sheet commitments	**2016**	**2015**
Un-drawn credit facilities from the Bank:		
Other Shareholders	10,152	8,749
Associated entities	16,013	14,070
Key management personnel of the entity and their relatives	9,861	8,209
Guarantees received:		
Parent company	101,443	102,980
Other Shareholders	188,716	197,292
Associated entities	2,242,865	1,673,085
Key management personnel of the entity and their relatives	173,718	208,316
Guarantees given:		
Parent company	20	20
Associated entities	10,657	1,561

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

	2016	**2015**
Interest income:		
Other Shareholders	228	386
Associated entities	59,475	68,596
Key management personnel of the entity and their relatives	5,573	5,985
Interest expense:		
Parent company	-	15
Other Shareholders	93	124
Associated entities	2,755	3,127
Key management personnel of the entity and their relatives	856	1,932
Fees and commission income:		
Parent company	2,522	4,431
Other Shareholders	254	142
Associated entities	4,697	3,225
Key management personnel of the entity and their relatives	394	328
Operating income:		
Associated entities	1,943	162
Operating expense:		
Parent company	2,470	2,511
Other shareholders	4,712	73,631
Associated entities	143,889	34,924
Key management personnel of the entity and their relatives	78,366	51,549
Sale of Fixed assets:		
Associated entities	246	-
Purchase of Fixed assets:		
Associated entities	13,128	6,644

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32. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2016	**2015**
Guarantees given in favor of customers	236,462	280,321
Un-drawn credit facilities	1,028,867	1,082,736
Commitments for LC	24,209	22,785

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 2016. 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:

	2016	**2015**
Not later than 1 year	109,860	104,762
Total	**109,860**	**104,762**

33. FINANCIAL RISK MANAGEMENT

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

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

The most important types of risk are discussed further.

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to repay the obligation and cause the Group to incur a loss. The Group is subject to credit risk through its lending 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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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Maximum credit exposure

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

	2016	2015
Treasury Bills held-to-maturity	1,539,380	1,760,774
Bonds held-to-maturity	14,032,927	11,962,869
Placements and balances with banks	2,926,633	4,147,632
Loans and advances to financial institutions	245,068	-
Loans and advances to customers	16,608,651	15,823,210
Financial guarantees	236,462	280,321
Standby letters of credit	24,209	22,785
Commitments to extend credit	1,028,867	1,082,736
Maximum exposures to credit risk	**36,642,197**	**35,080,327**

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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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances are summarized as follows:

As at 31 December 2016	Loans and advances to customers					Loans and advances to financial institutions	Placements and balances with banks
	Retail	Corporate	Advances	Finance Lease	Total Loans		
Neither past due nor impaired	5,146,867	4,864,764	1,908,893	266,134	12,186,658	254,694	2,899,375
Past due but not impaired	1,041,015	1,094,617	411,857	656,665	3,204,154	-	-
Individually impaired	344,375	2,070,742	341,443	36,767	2,793,327	-	-
Total Gross	**6,532,257**	**8,030,123**	**2,662,193**	**959,566**	**18,184,139**	**254,694**	**2,899,375**
Less: allowance for individually impaired loans	151,549	778,156	237,708	11,161	1,178,574	-	-
Less: allowance for collectively impaired loans	66,223	219,380	85,249	26,062	396,914	9,626	-
Total Allowance for impairment	**217,772**	**997,536**	**322,957**	**37,223**	**1,575,488**	**9,626**	**-**

As at 31 December 2015	Loans and advances to customers					Loans and advances to financial institutions	Placements and balances with banks
	Retail	Corporate	Advances	Finance Lease	Total Loans		
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**	**-**	**-**

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances neither past due nor impaired

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

As at 31 December 2016

Rating	Loans and advances to customers					Loans and advances to financial institutions	Placements and balances with banks
	Retail	Corporate	Advances	Finance Lease	Total Loans		
Good	5,105,538	4,594,023	1,856,272	266,134	11,821,967	254,694	2,899,375
Acceptable	41,329	270,741	52,621	-	364,691	-	-
Close monitoring	-	-	-	-	-	-	-
Unacceptable	-	-	-	-	-	-	-
Total	**5,146,867**	**4,864,764**	**1,908,893**	**266,134**	**12,186,658**	**254,694**	**2,899,375**

As at 31 December 2015

Rating	Loans and advances to customers					Loans and advances to financial institutions	Placements and balances with banks
	Retail	Corporate	Advances	Finance Lease	Total Loans		
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**

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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 2016	Loans and advances to customers				
Time band	Retail	Corporate	Advances	Finance Lease	Total Loans
Past due up to 30 days	734,030	781,928	43,629	304,653	1,864,240
Past due 31-60 days	166,542	103,123	205,116	103,784	578,565
Past due 61-90 days	140,009	207,432	78,756	245,222	671,419
Past due 91-180 days	434	2,134	82,789	3,006	88,363
Past due over 180 days	-	-	1,567	-	1,567
Total	**1,041,015**	**1,094,617**	**411,857**	**656,665**	**3,204,154**
Estimation of fair value of collateral	**2,738,247**	**5,066,677**	**1,251,860**	**656,665**	**9,713,449**

As at 31 December 2015	Loans and advances to customers				
Time band	Retail	Corporate	Advances	Finance Lease	Total Loans
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**	**273,829**	**10,371,587**

Loans and advances past due over 90 days are collateralized by cash amounting to LEK 51 thousand (2015: LEK 794 thousand).

Loans and advances individually impaired
The individually impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 2,793,327 thousand (2015: LEK 2,321,357 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 2016	Loans and advances to customers				
	Retail	Corporate	Advances	Finance Lease	Total Loans
Individually impaired	344,375	2,070,742	341,443	36,767	2,793,327
Collateral	1,124,473	3,860,833	461,201	36,767	5,483,274

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	26,648	10,756,744

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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 during 2016 is LEK 684,980 thousand (2015: LEK 861,722 thousand). The increase in the total restructured portfolio in 2016 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 2016 is LEK 16,359 thousand (2015: LEK 47,481 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 2016	Against individually impaired	Against collectively impaired	Total
Property	4,484,144	36,508,129	**40,992,273**
Pledge	979,878	10,250,768	**11,230,646**
Cash	19,254	1,635,252	**1,654,506**
Total	**5,483,276**	**48,394,149**	**53,877,425**

31 December 2015	Against individually impaired	Against collectively impaired	Total
Property	9,711,160	31,349,119	**41,060,279**
Pledge	1,038,733	15,282,372	**16,321,105**
Cash	6,851	2,004,329	**2,011,180**
Total	**10,756,744**	**48,635,820**	**59,392,564**

The table below shows the breakdown of the carrying amount of loans and advances given to customers and financial institution by ranges of their collateral coverage:

31 December 2016	Over-collateralized portfolio		Under-collateralized portfolio	
	Carrying amount of portfolio	Fair value of collateral	Carrying amount of portfolio	Fair value of collateral
Retail	5,099,652	18,808,329	1,580,050	149,131
Businesses	8,318,827	33,717,654	1,647,345	745,910
Financial institutions	245,027	456,401	40	
Total	**13,663,506**	**52,982,384**	**3,227,435**	**895,041**

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

31 December 2015	Over-collateralized portfolio		Under-collateralized portfolio	
	Carrying amount of portfolio	Fair value of collateral	Carrying amount of portfolio	Fair value of collateral
Retail	4,231,813	15,708,525	1,636,405	123,646
Businesses	7,062,923	42,831,927	2,224,578	701,817
Financial institutions	-	-	-	-
Total	**11,997,304**	**58,540,452**	**3,860,983**	**825,463**

(b) Liquidity risk

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

For the Bank

On an operational basis, the Bank monitors the performance of its customer deposits, and on that basis adjusts the balance of its current assets' access to funding, in order to maintain a satisfactory payment capability. On a more strategic level, the Bank through its Asset and Liability Committee ("ALCO") manages this risk by continually monitoring expected cash flows from financial instruments and adjusting its investments to match the timing of payments and receipts.

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

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

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

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

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

The monitoring and control function for the Bank's investments are performed by ALCO. Bank's ALCO policy includes sets of daily, weekly and monthly reports to be prepared and analyzed. Daily report, "Liquidity Position Report", controls respectively daily inflows/outflows of liquidity till 1-year maturity, under business usual scenario. Monthly reports include ratio, gap and simulated 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. Specific limits are set and monthly monitored on liquidity and simulated maturity gap result.

For the Subsidiary

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

Union Bank Sh.a
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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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.

An analysis of contractual maturities of undiscounted cash flows of financial assets and liabilities is as follows:

31 December 2016	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	2,766,708	-	-	-	-	-	2,766,708
Placements and balances with banks	2,903,562	-	-	-	-	23,071	2,926,633
Treasury Bills held-to-maturity	149,964	389,398	465,818	534,200	-	-	1,539,380
Bonds held-to-maturity	410,159	362,030	363,639	986,985	8,174,858	3,735,256	14,032,927
Loans and advances to financial institutions	3,008	7,423	78,054	22,848	133,735	-	245,068
Loans and advances to customers	1,395,387	764,615	1,275,624	2,995,991	6,752,654	3,424,380	16,608,651
Income tax receivable	16,437	-	-	-	-	-	16,437
Other assets	505,629	34,068	-	-	-	4,208	543,905
Total financial assets	**8,150,854**	**1,557,534**	**2,183,135**	**4,540,024**	**15,061,247**	**7,186,915**	**38,679,709**
Liabilities							
Due to Central Bank	809,592	1,363,347	-	-	-	-	2,172,939
Due to banks and Financial institutions	1,117,531	25,383	109,528	139,503	-	-	1,391,945
Due to customers	13,296,148	2,135,576	2,841,838	8,820,669	7,587,292	-	34,681,523
Other liabilities	246,353	5,939	582	1,161	9,908	-	263,943
Total undiscounted financial liabilities	**15,469,624**	**3,530,245**	**2,951,948**	**8,961,333**	**7,597,200**	**-**	**38,510,350**
Net financial assets/ undiscounted liabilities	**(7,318,770)**	**(1,972,711)**	**(768,813)**	**(4,421,309)**	**7,464,047**	**7,186,915**	**169,359**

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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	1,336,333	-	-	-	-	-	1,336,333
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
Treasury 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 financial assets	**8,125,259**	**1,964,722**	**2,415,292**	**4,551,757**	**12,298,144**	**6,109,017**	**35,464,191**
Liabilities							
Due to Central Bank	1,318,651	-	-	-	-	-	1,318,651
Due to banks and Financial institutions	961,141	53,027	136,400	156,342	-	-	1,306,910
Due to customers	11,489,020	2,715,824	2,850,155	7,537,951	7,677,056	-	32,270,006
Other liabilities	245,160	-	-	-	-	-	245,160
Income tax payable	-	15,412	-	-	-	-	15,412
Total undiscounted financial liabilities	**14,013,972**	**2,784,263**	**2,986,555**	**7,694,293**	**7,677,056**	**-**	**35,156,139**
Net financial assets/ undiscounted liabilities	**(6,023,725)**	**(819,541)**	**(571,263)**	**(3,142,536)**	**4,621,088**	**6,109,017**	**795,459**

(c) Market risk

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

Currency risk

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

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Currency risk (continued)

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

	2016	2015
EUR:LEK	135.23	137.28
USD:LEK	128.17	125.79

The analysis of monetary assets and liabilities as at 31 December 2016 and 2015 by the foreign currencies in which they were denominated is shown below:

31 December 2016	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	1,485,229	304,550	2,731,112	104,526	**4,625,417**
Placements and balances with banks	103,244	89,101	2,534,942	199,346	**2,926,633**
Treasury Bills held-to-maturity	1,539,380	-	-	-	**1,539,380**
Bonds held-to-maturity	12,043,034	465,564	1,524,329	-	**14,032,927**
Loans and advances to financial institutions	-	-	245,068	-	**245,068**
Loans and advances to customers	4,142,717	242,122	12,223,812	-	**16,608,651**
Income tax receivable	16,437	-	-	-	**16,437**
Other assets	106,475	62,185	281,987	93,258	**543,905**
Total	**19,436,516**	**1,163,522**	**19,541,250**	**397,130**	**40,538,418**
Liabilities					
Due to Central Bank	2,168,572	-	-	-	2,168,572
Due to banks and financial institutions	261,022	211,847	914,641	2,747	1,390,257
Due to customers	17,293,429	1,055,075	15,426,672	318,796	34,093,972
Other liabilities	98,547	9,923	145,544	2,668	256,682
Total	**19,821,570**	**1,276,845**	**16,486,857**	**324,211**	**37,909,483**
Net commitments and FX Spot	**87,525**	**25,665**	**131,405**	**(57,079)**	**187,516**
Net Position	**(297,529)**	**(87,658)**	**3,185,798**	**15,840**	**2,816,451**

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**

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk

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

The Group's interest rate gap as at 31 December 2016 is analyzed below. As at 31 December 2016, majority of the Group's short-term financial assets and liabilities, except for the loan portfolio, carry fixed interest rates.

i. Interest rate information

The weighted average interest rate of significant categories of financial assets and liabilities of the Group were as follows:

	Weighted average interest rate							
	LEK		USD		EUR		Other	
	2016	2015	2016	2015	2016	2015	2016	2015
Assets:								
Statutory reserves	0.88%	1.23%	N/A	N/A	N/A	N/A	N/A	N/A
Placements and balances with banks	1.30%	1.80%	N/A	N/A	0.23%	0.10%	N/A	N/A
Investment securities	5.06%	5.96%	3.60%	5.19%	4.05%	5.12%	N/A	N/A
Loans to financial institutions	N/A	N/A	N/A	N/A	5.35%	N/A	N/A	N/A
Loans to customers	8.91%	9.34%	5.88%	6.52%	6.19%	6.59%	N/A	2.47%
Liabilities:								
Due to banks	2.39%	2.39%	0.73%	0.73%	0.68%	0.68%	N/A	N/A
Due to customers	2.72%	2.72%	0.81%	0.81%	1.00%	1.00%	0.49%	0.49%
T-Bills under Repos	1.87%	1.87%	N/A	N/A	N/A	N/A	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

ii. Interest rate repricing analysis

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

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk (continued)

31 December 2016	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	3,510,651	-	-	-	-	1,114,766	**4,625,417**
Placements and balances with banks	2,876,245	-	-	-	-	50,388	**2,926,633**
Treasury Bills held-to-maturity	149,964	389,398	465,818	534,200	-	-	**1,539,380**
Bonds held-to-maturity	3,783,917	432,629	417,755	1,541,429	7,664,858	192,339	**14,032,927**
Loans and advances to financial institutions	859	-	67,615	42	187,651	(11,099)	**245,068**
Loans and advances to customers	4,825,732	1,027,198	2,573,096	5,761,146	4,072,890	(1,651,411)	**16,608,651**
Income tax receivable	-	-	-	-	-	16,437	**16,437**
Other assets	-	-	-	-	-	543,905	**543,905**
Total	**15,147,368**	**1,849,225**	**3,524,284**	**7,836,817**	**11,925,399**	**255,325**	**40,538,418**
Liabilities							
Due to Central Bank	807,754	1,359,313	-	-	-	1,505	**2,168,572**
Due to banks and financial institutions	134,794	25,007	108,454	138,042	-	983,960	**1,390,257**
Due to customers	11,913,455	2,098,942	2,803,695	8,584,665	7,082,319	1,610,896	**34,093,972**
Other liabilities	-	567	567	1,135	9,818	244,595	**256,682**
Total	**12,856,003**	**3,483,829**	**2,912,716**	**8,723,842**	**7,092,137**	**2,840,956**	**37,909,483**
Gap	**2,291,365**	**(1,634,604)**	**611,568**	**(887,025)**	**4,833,262**	**(2,585,631)**	**2,628,935**
Cumulative gap	**2,291,365**	**656,761**	**1,268,329**	**381,304**	**5,214,566**	**2,628,935**	

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33. 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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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Sensitivity analyses

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

	31 December 2016	31 December 2015
Interest rate increases by 2%	104,291	70,085
Interest rate increases by 1.5%	78,218	52,564
Interest rate increases by 1%	52,146	35,042
Interest rate decreases by 1%	(52,146)	(35,042)
Interest rate decreases by 1.5%	(78,218)	(52,564)
Interest rate decreases by 2%	(104,291)	(70,085)

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 2016	31 December 2015
Lek depreciates against Usd by 5%	(4,383)	298
Lek appreciates against Usd by 5%	4,383	(298)
Lek depreciates against Eur by 5%	159,290	149,382
Lek appreciates against Eur by 5%	(159,290)	(149,382)
Lek depreciates against other ccys by 5%	792	(108)
Lek appreciates against other ccys by 5%	(792)	108

(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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34. DISCLOSURE AND ESTIMATION OF FAIR VALUE

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

Financial instruments not measured at fair value – fair value hierarchy

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

	As at 31 December 2016			As at 31 December 2015		
	Carrying amount	**Fair value Level 1**	**Fair value Level 2**	**Carrying amount**	**Fair value Level 1**	**Fair value Level 2**
Financial assets						
Placements and balances with banks	**2,926,633**	-	2,926,633	**4,147,828**	-	4,147,828
Treasury Bills held-to-maturity	**1,539,380**	-	1,533,905	**1,760,774**	-	1,766,027
Loans and advances to financial institutions	**245,068**	-	245,068	**-**	-	-
Loans and advances to customers	**16,608,651**	-	16,608,651	**15,823,210**	-	15,823,210
Bonds held-to-maturity	**14,032,927**	1,786,707	12,618,555	**11,962,869**	1,275,182	10,893,248
Financial liabilities						
Due to Central Bank	**2,168,572**	-	2,168,572	**1,317,562**	-	1,317,562
Due to banks and financial institutions	**1,390,257**	-	1,389,469	**1,314,162**	-	1,313,627
Due to customers	**34,093,972**	-	33,720,997	**31,618,267**	-	31,207,031
Due to government	**12,087**	-	12,087	**-**	-	-

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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34. 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.

35. 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. 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 counterpart 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 exposures 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 50% of the annual increase in gross loans and advances to resident customers (2015: 100%) 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 2016 and 2015.