

Raiffeisen Bank Group

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2015

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GENERAL INFORMATION

Directors and Management as of 31 December 2015 and 31 December 2014

Board of Directors (Supervisory Board)

Helmut Breit	Chairman
Heinz Hodl	Member
Razvan Munteanu	Member
Harald Kreuzmair	Member
Andreas Engels	Member

Audit Committee

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Benoit	Member

Management Board

Christian Canacaris	Chief Executive Officer
Alexander Zsolnai	Vice-chairman of the Management Board
John McNaughton	Member
Elona Mullahi	Member

Registered office

Kavaja Street, Building 71, Apt. 4
Tirana, Albania
Telephone: +355 4 2381 381
Facsimile +355 4 2275 599

Auditor

Deloitte Audit Albania sh.p.k.
Str. Elbasanit, Pallati poshte Fakultetit Gjeologji - Miniera, Tirana, Albania
Telephone: +355 (4) 451 7920/ 451 7954
Facsimile: +355 (4) 451 7990

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of Raiffeisen Bank Sh.a.:

We have audited the accompanying consolidated financial statements of Raiffeisen Bank Sh.a. at its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group as at and for the year ended December 31, 2014 were audited by another auditor who expresses an unmodified opinion on those statements on April 14, 2015.

Deloitte Audit Albania sh.p.k.

March 10, 2016
Tirana, Albania

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Elvis Ziu
Engagement Partner

DELOITTE AUDIT ALBANIA
Ad.Rr.Elbasanit, Pll. nr.1, Nr.2, poshte Fakulteti Gjeologji- Miniera
Tel: 044517920
NIPT: L 41709002 H TIRANA - ALBANIA

RAIFFEISEN BANK GROUP

Consolidated Statement of Financial Position as at 31 December 2015

*(amounts in LEK '000)***CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

Assets	Note	31 December 2015	31 December 2014
Cash and cash equivalents	7	78,056,475	40,638,657
Restricted balances	8	28,632,318	22,850,572
Investments held for trading	9.1	20,998,043	28,517,255
Held-to-maturity investment securities	9.2	51,955,158	59,579,093
Other securities designated at fair value	9.3	3,423,858	6,841,526
Loans and advances to customers, net	10	100,896,697	112,216,171
Current income tax prepayment		614,274	118,504
Deferred income tax asset	11	33,271	44,629
Goodwill	12	92,783	92,783
Intangible assets	13	1,601,633	1,518,912
Premises and equipment	14	1,587,464	1,652,506
Other assets	15	2,565,730	2,375,913
Total assets		290,457,704	276,446,521
Liabilities			
Due to financial institutions	16	2,232,929	3,555,166
Due to customers	17	246,784,805	233,719,383
Other liabilities	18	2,121,884	2,118,160
Subordinated debt	19	9,107,088	7,149,792
Total liabilities		260,246,706	246,542,501
Equity			
Share capital	20	14,178,593	14,178,593
Retained earnings		12,795,084	12,788,710
Other reserves	21	3,135,352	2,835,352
Net assets attributable to the Bank owners		30,109,029	29,802,655
Non-controlling interest	22	101,969	101,365
Total equity		30,210,998	29,904,020
Total liabilities and equity		290,457,704	276,446,521

These consolidated financial statements have been approved by the Supervisory Board of the Bank.



Christian Canacaris
Chief Executive Officer



Alexander Zsolnai
Vice Chairman of Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 73.

RAIFFEISEN BANK GROUPConsolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2015*(amounts in LEK '000)***CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	23	10,479,384	12,669,923
Interest expense	24	(664,947)	(1,472,518)
Net interest income		9,814,437	11,197,405
Provision for impairment of loans to customers	10,18	(4,251,269)	(4,099,839)
Net interest income after provision for loan impairment		5,563,168	7,097,566
Fee and commission income	25	2,539,209	2,415,136
Fee and commission expense	26	(449,397)	(375,012)
Net fee and commission income		2,089,812	2,040,124
Gains/losses from Economic Hedge		(5,871)	-
Net income from investments	9.3	120,053	4,496
Net trading income	27	2,130,729	2,546,883
Net other operating income	28	(926,976)	306,114
		1,317,935	2,857,493
Deposit insurance premium	29	(675,379)	(745,867)
Personnel expenses	30	(2,498,988)	(2,423,966)
Depreciation and amortisation	13,14	(686,422)	(666,359)
General and administrative expenses	31	(2,621,489)	(2,208,240)
		(6,482,278)	(6,044,432)
Profit before income tax		2,488,637	5,950,751
Income tax	32	(441,822)	(912,189)
Profit for the year		2,046,815	5,038,562
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale investments:			
- Gains less losses arising during the year		-	-
- Gains less losses reclassified to profit or loss upon disposal or impairment		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		2,046,815	5,038,562

RAIFFEISEN BANK GROUPConsolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2015*(amounts in LEK '000)***CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(CONTINUED)**

	Year ended 31 December 2015	Year ended 31 December 2014
Profit is attributable to:		
- Owners of the Bank	2,031,506	5,023,857
- Non-controlling interest	15,309	14,705
Profit for the year	2,046,815	5,038,562
Total comprehensive income is attributable to:		
- Owners of the Bank	2,031,506	5,023,857
- Non-controlling interest	15,309	14,705
Total comprehensive income for the year	2,046,815	5,038,562
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in LEK per share)	290,215	717,694

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 73.

RAIFFEISEN BANK GROUP

Consolidated Statement of Changes in Equity for the year ended 31 December 2015

*(amounts in LEK '000)***CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to the owners of the Bank				Total	Non-controlling interest	Total equity
	Share capital	General reserves	Revaluation reserve	Retained earnings			
Balance as at 31 December 2013	14,178,593	2,835,352	-	13,233,130	30,247,075	102,548	30,349,623
Dividend payment	-	-	-	(5,468,277)	(5,468,277)	(15,888)	(5,484,165)
Profit for the year	-	-	-	5,023,857	5,023,857	14,705	5,038,562
Total comprehensive income for the year	-	-	-	5,023,857	5,023,857	14,705	5,038,562
Balance as at 31 December 2014	14,178,593	2,835,352	-	12,788,710	29,802,655	101,365	29,904,020
Transfer to General Reserves	-	300,000	-	(300,000)	-	-	-
Dividend payment	-	-	-	(1,725,132)	(1,725,132)	(14,705)	(1,739,837)
Profit for the year	-	-	-	2,031,506	2,031,506	15,309	2,046,815
Total comprehensive income for the year	-	-	-	2,031,506	2,031,506	15,309	2,046,815
Balance as at 31 December 2015	14,178,593	3,135,352	-	12,795,084	30,109,029	101,969	30,210,998

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 73.

RAIFFEISEN BANK GROUP

Consolidated Statement of Cash Flows for the year ended 31 December 2015

*(amounts in LEK '000)***CONSOLIDATED STATEMENT OF CASH FLOWS**

		Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit for the year before taxation		2,488,637	5,950,751
<i>Non-cash items in the statement of comprehensive income</i>			
Depreciation and amortization	13,14	686,422	666,358
Profit from sale of fixed assets	28	(54,959)	(420,872)
Net impairment loss on financial assets		4,231,536	4,099,839
Net Interest income		(10,727,978)	(11,997,596)
Net income from revaluation of trading securities		(631,509)	(111,449)
Net income from revaluation of other securities designated at fair value through profit or loss		(97,037)	(3,561)
Changes in provision for other debtors		(4,984)	173,381
Changes in provision for litigation		740,195	5,972
Revaluation effect of cash and cash equivalents		397,037	221,389
Operating cash flows before changes in working capital		(2,972,640)	(1,415,788)
(Increase) / Decrease in restricted balances		(5,780,768)	1,676,452
Decrease in loans and advances to customers		6,121,410	303,571
Decrease in trading securities		7,974,750	15,474,564
Net decrease / (increase) in other securities designated at fair value through profit or loss		3,594,837	(6,782,862)
Increase in other assets		(184,343)	(399,737)
Decrease in due to financial institutions		(603,594)	(1,453,157)
Increase / (Decrease) in due to customers		13,321,868	(10,959,407)
Decrease in other liabilities		(720,194)	(1,055,820)
Operating cash flows after changes in working capital		20,751,326	(4,612,184)
Interest received		11,573,587	13,506,752
Interest paid		(947,976)	(3,342,801)
Corporate income tax paid		(926,233)	(819,781)
Net cash generated from operating activities		30,450,704	4,731,986
Cash flows from investing activities			
Proceeds from sale of investment securities available for sale			-
Purchases of premises and equipment	14	(350,781)	(352,108)
Purchases of intangible assets	13	(314,680)	(277,277)
Proceeds from sale of fixed assets		16,318	536,339
Proceeds from matured financial assets held-to-maturity		74,788,563	46,707,962
Purchase of financial assets held-to-maturity		(66,951,632)	(40,397,522)
Net cash generated from investing activities		7,187,788	6,217,394
Cash flows from financing activities			
Dividends paid		(1,739,837)	(5,484,165)
Increase in Subordinated debt		1,916,200	-
Net cash generated from / (used in) financing activities		176,363	(5,484,165)
Increase in cash and cash equivalents during the year		37,814,855	5,465,215
Cash and cash equivalents at the beginning of the year	7	40,638,657	35,394,831
Revaluation effect of cash and cash equivalents		(397,037)	(221,389)
Cash and cash equivalents at the end of the year	7	78,056,475	40,638,657

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 73.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for Raiffeisen Bank sh.a. (the “Bank”) and its subsidiaries (the “Group”).

Raiffeisen Bank Sh.a. (the “Bank”) is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 “On Entrepreneurs and Commercial Companies”, and Law 9662, dated 18 December 2006 “On Banks in the Republic of Albania”, as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen Bank International AG, Austria, which is the ultimate controlling party.

Principal activity. The Group’s principal business activity is retail banking operations within the Republic of Albania. The Bank operates through a banking network of 89 service points, as of 31 December 2015, (31 December 2014: 90 service points) throughout Albania, which are managed through 8 Districts and has no overseas operations.

The consolidated financial statements for the year ended 31 December 2015 were authorized for issue by the Board of Directors on March 9, 2016. Approval of the financial statements by the Shareholders will take place in the Annual General Meeting of the Shareholders.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.

Presentation currency. These consolidated financial statements are presented in Albanian Lek (“LEK”), unless otherwise stated. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all the periods presented, unless otherwise stated.

(a) Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidated financial statements (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Based on the nature of the activity, the Groups' subsidiaries have several specific accounting policies which are detailed in note 3(n) for Raiffeisen Leasing sh.a. and in notes 3 (t) and 3 (u), for Raiffeisen INVEST.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidated financial statements (continued)

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the 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 period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2015 and 31 December 2014, according to Bank of Albania were as below:

	31 December 2015		31 December 2014	
	<i>Period end</i>	<i>Average</i>	<i>Year end</i>	<i>Average</i>
United States dollar (USD)	125.79	105.75	115.23	105.75
European Union currency unit (EUR)	137.28	139.93	140.14	139.93

(c) Interest

Interest income and expense are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income 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 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 as profit or loss in the consolidated statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Fees and commission

Fees and commission income and expenses 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, sales commission, placement fees, are recognised as the related services are performed. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(f) Operating lease payments and other operating expenses

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. The operating expenses are recognised when incurred.

(g) 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.

- *Paid annual leave*

The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

- *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.

- *Termination benefits*

For termination benefits, the Company specified that amounts payable are recognised when, and only when, the Company is demonstrably committed to either:

- terminated the employment of an employee or group of employees before the normal retirement date, or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Company is demonstrably committed to a termination when, and when, it has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

(h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Income tax expense (continued)**

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

(i) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 37.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(i) Financial instruments - key measurement terms (continued)***

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to 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.

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of the portfolio that is managed together for the short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of the trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(l) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

(m) Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

(n) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of financial assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

(o) Finance lease receivables

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease). The difference between the gross receivable and the present value represents unearned finance income.

This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other operating income in profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables.

The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

i Held-to-maturity

Held-to-maturity investments are 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 at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

ii Fair value through profit or loss

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3 (i).

iii Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

iv Other securities at fair value through profit or loss.

Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading assets.

(q) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Premises and equipment

i Recognition and measurement

Items of premises and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are 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 asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of premises and equipment.

ii Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of premises and equipment are recognised in profit or loss as incurred.

iii Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of premises and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and work in progress are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	2015 (in years)	2014 (in years)
• Premises	20	20
• Computers and IT equipment	4	4
• Vehicles	5	5
• Leasehold improvements	1 to 10	1 to 10
• Other (Office furniture)	5	5

Useful lives and residual values are reassessed each reporting date.

(s) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets are 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 on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use.

The estimate useful life of intangible assets is eight years. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated statement of comprehensive income as an expense as incurred.

(t) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of auction value and fair value less costs to sell, recognised in the consolidated statement of financial position under 'Other assets'. Management intention on repossessed properties is to sale as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Voluntary pension fund and Investment Funds

Raiffeisen INVEST acts as a Management Company for the following Defined Contribution Funds:

- The Defined Contribution Fund “Raiffeisen Voluntary Pension Fund” which was approved by the Albanian Financial Supervisory Authority on October 18, 2010;
- “Raiffeisen Prestige” which was approved by the Albanian Financial Supervisory Authority on 13 December 2011;
- “Raiffeisen Invest Euro Investment Fund” which was approved by the Albanian Financial Supervisory Authority on 26 September 2014.

New law No. 10197 dated on 10 December 2009 “On voluntary pension funds” and law No. 10198 dated on 10 December 2009 “On collective investment undertakings” requirements, include responsibility of the Management Company to prepare separate financial statements for the Company and the Funds.

On 30 November 2011, based on decision of the General Assembly of the Sole Shareholder, the Management Company’s object of activity was extended to include:

- manage voluntary pension funds through collecting and investing funds based on the law no. 10197, dated 10 December 2009 “On Voluntary Pension Funds”, as well as in accordance with the principle of risk-spreading (diversification), for the purpose of providing retirement benefits for the persons that participate in the pension fund. The Company may provide also pensions delivery,
- to establish and/or manage the Collective Investment Undertakings based on the law no. 10198, dated 10 December 2009 “On collective investment undertakings”,
- other activities as defined in the law no. 10198, dated December 10, 2009 “On collective Investment undertakings”.

As at 31 December 2015, the net assets value of Raiffeisen voluntary pension fund amount to LEK 324,298 thousand (2014: LEK 232,855 thousand), Raiffeisen Prestige amount LEK 56,633,644 thousand (2014: LEK 52,548,055 thousand) and Raiffeisen Invest Euro amount LEK 10,355,508 thousand (2014: LEK 11,187,721 thousand).

(v) Defined contribution plans (Voluntary Pension Fund and Investment Funds)

Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid, and the investment earnings of the fund. Obligations are recognised in profit or loss when they are due and are disclosed as interest credited to the pension fund within investment income and income from transactions.

The Funds operate according to law No. 10197, dated 10 December 2009 “On the Voluntary Pension Fund” and law No. 10198, dated 10 December 2009 “On collective investment undertakings”. Also, the investment strategy of these Funds’ assets is based on the internal policy of investment of the Management Company and the regulation “For the permitted assets, the limitations and maximum limit of the investment of the pension fund” approved by the Albanian Financial Supervisory Authority.

As at 31 December 2015 and 2014 the investment portfolio of the Funds includes government bonds and treasury bills, short term deposits in the second tier Banks operating in Albania and other cash and cash equivalents. First Investment Bank Albania sh.a. acts as the custodian bank of all the Funds.

Net value of assets

The net value of assets is equal with the total of the net assets minus the Fund’s obligations.

The value of pension fund unit

The value of the unit is equal to the net value of assets divided with the number of units at the reporting date. Based in each Fund’s policy, the opening value of one unit has been equal to Lek 1,000.

Interest income

Interest income includes incomes from bonds’ coupons and interest from deposits. Interest income is presented based on accrual basis.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Defined contribution plans (Voluntary Pension Fund and Investment Funds)

The fee to the Management Company

Each Fund should pay to the Management Company a fee which differs for each Fund. Raiffeisen Invest Prestige Fund pays a fee of 1.25% (annually) of net assets value (2014: 1%) to the Management Company. Raiffeisen Invest Euro Fund pays a fee of 1.5% of net assets value (2014: 1.5%). Raiffeisen Voluntary Pension Fund pays a fee of 1.5 % on net assets value (2014: 1.5%).

Realized gain / losses and unrealized gain / losses

Realized gain / losses are recognised based on the sale of the securities with a difference between the offered price with the value of principal and matured interest of securities bought with premium or discount. These differences are recognised in profit or loss when occurred. Unrealized gain/losses are recognised as the difference between the cost and the fair value. When the securities are sold the unrealized gain/loss is transferred in the profit and loss for the period.

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension funds and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2015 consolidated financial statements.

(w) Deposits and other financial liabilities

Deposits and other financial liabilities are the Group's main sources of debt funding. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Deposits and other financial liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(x) Sale and repurchase agreements and lending of securities

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) 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 or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. The recoverable amount of an asset or cash-generating unit 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 recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

(z) 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.

Loan loss provisions for contingent liabilities and commitments

Commitments and contingent are liabilities such as undrawn agreements to lend in case that they are formally binding and not just internal limits. Contingent liabilities may develop in a way not initially expected. Therefore they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. In case that the contingent liability results in a present obligation that can be measured reliably, a provision is recorded. Only irrevocable commitments give rise to a credit risk, therefore only irrevocable contingencies and commitments can be subject to provisioning. For significant exposures, the assessment is done individually. In case of portfolio based assessment the portfolio-building and calculation of portfolio-based provisions has to be made as indicated in the impairment of Loans and Advances to customers.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Albanian legislation identifies the basis of distribution as the current year net profit.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Credit related commitments.

The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

(bb) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(cc) Presentation of statement of financial position in order of liquidity.

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 33.

(dd) Comparability

All amounts are reported or disclosed with comparative information.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

i. Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of LEK 88,073 thousand (2014: LEK 759,596 thousand) or a decrease in loan impairment losses of LEK 76,583 thousand (2014: LEK 707,890 thousand) respectively.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

6. NEW ACCOUNTING PRONOUNCEMENTS

At the date of authorisation of these consolidated financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2015 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the new standard on its consolidated financial statements.

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),

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(amounts in LEK '000, unless otherwise stated)

6. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (CONTINUED)

- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 “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 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 is being assessed by the Group, 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.

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***7. CASH AND CASH EQUIVALENTS**

	31 December 2015	31 December 2014
<i>Cash on hand</i>	3,172,435	3,323,499
<i>Central Bank</i>		
Current accounts	33,252,590	373,399
Deposit accounts	-	7,000,000
Accrued interest in deposit account	-	96
<i>Banks</i>		
Current accounts with resident banks	6,818	6,438
Current accounts with non-resident banks	1,784,395	915,868
Deposits with resident banks of less than three months	2,404,099	2,853,975
Deposits with non-resident banks of less than three months	37,436,138	26,165,382
Total	78,056,475	40,638,657

Current accounts with the Bank of Albania bear no interest. The annual interest rates on term deposits with the Bank of Albania as at 31 December 2014 is 0.5%.

The annual interest rates on term deposits with resident banks as at 31 December 2015 varies from 1.20% to 1.75% (31 December 2014: 1.50% to 2.25%). The annual interest rates on term deposits with non-resident banks as at 31 December 2015 vary from -0.11% to 0.128% (31 December 2014: 0.05% to 0.8%).

The credit quality of cash at banks may be summarised based on Standard and Poor's ratings as follows at 31 December:

	2015	2014
Neither past due nor impaired		
A-1	11,744,571	5,976,492
A-1+	2,553,599	2,621,881
A-2	16,407,736	9,994,290
A-3	3,398	26,278
P-1	6,110,640	-
Unrated	41,236,531	22,019,716
Carrying amount	78,056,475	40,638,657

Included in unrated balances is cash on hand and balances with Central Bank.

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Notes to the consolidated financial statements for the year ended 31 December 2015
(amounts in LEK '000, unless otherwise stated)

8. RESTRICTED BALANCES

	31 December 2015	31 December 2014
<i>Central Bank</i>		
Obligatory reserves	23,342,882	22,146,997
<i>Banks</i>		
Deposits with non-resident banks with original maturities of more than three months	3,432,978	-
Guarantee accounts	1,856,458	703,575
Total	28,632,318	22,850,572

Obligatory reserves with Central Bank are not for everyday use by the Bank and represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 10% of the average amount of deposits for the month owed to banks and customers, and are both in LEK and in foreign currency (USD and EUR). The annual interest rates on term deposits with non-resident banks as at 31 December 2015 vary from -1% to 1.85% (31 December 2014: none).

The credit quality of cash at banks and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December:

	2015	2014
	Neither past due nor impaired	
A-1	-	63,953
A-2	5,263,353	612,996
B	26,083	26,627
Unrated	23,342,882	22,146,997
Carrying amount	28,632,318	22,850,572

Included in unrated balances is the Obligatory reserve held at the Central Bank.

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

Investments held for trading comprise treasury bills and bonds of Albanian Government as follows:

	31 December 2015	31 December 2014
Government Bonds	20,996,111	28,481,561
Treasury bills	1,932	35,694
Total	20,998,043	28,517,255

Treasury bills as at 31 December 2015 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 2.45% to 3.64% per annum (31 December 2014: from 3.21% to 3.9%).

Government bonds as at 31 December 2015 represent 2-year, 3-year, 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 4.82% to 10.85% per annum (31 December 2014: from 4.04% to 10.85%).

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*(amounts in LEK '000, unless otherwise stated)***9. INVESTMENT SECURITIES (CONTINUED)****9.2 Held-to-maturity investment securities**

The held-to-maturity investment securities comprise treasury bills and bonds of Albanian Government as follows:

	31 December 2015	31 December 2014
Treasury Bills (9.2.1)	17,686,691	17,566,041
Government Bonds (9.2.2)	30,153,216	33,270,569
Government bonds non-resident (note 9.2.3)	-	5,802,783
Corporate Bonds (9.2.4)	4,115,251	2,939,700
Total	51,955,158	59,579,093

As at 31 December 2015, no treasury bills were pledged as security for the repurchase agreements portfolio (2014: none)

9.2.1 Treasury bills

Treasury bills as at 31 December 2015 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 2.3% to 4.5% per annum (31 December 2014: from 2.27% to 4.85%).

	31 December 2015	31 December 2014
Nominal value of treasury bills	17,864,231	17,815,230
Unamortised discount	(177,540)	(249,189)
Total	17,686,691	17,566,041

9.2.2 Government bonds

Government bonds as at 31 December 2015 represent 2-year, 3-year, 5-year, 7-year and 10-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 4.59% to 10.85% per annum (31 December 2014: from 4.04% to 10.85%).

	31 December 2015	31 December 2014
Nominal value of bonds	29,700,425	32,724,194
Unamortised discount	3,304	3,717
Accrued interest	449,487	542,658
Total	30,153,216	33,270,569

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*(amounts in LEK '000, unless otherwise stated)***9. INVESTMENT SECURITIES (CONTINUED)****9.2 Held-to-maturity investment securities (continued)****9.2.3 Government bonds non-resident**

There are no Government bonds non-resident as at 31 December 2015 (31 December 2014: 3.5%).

	31 December 2015	31 December 2014
Nominal value of bonds	-	5,605,600
Unamortised premium	-	62,265
Accrued interest	-	134,918
Total	-	5,802,783

9.2.4 Corporate bonds

Corporate bonds as at 31 December 2015 represent 1 year bonds denominated in EUR with coupon rates ranging from 0.75% to 5.88% per annum (31 December 2014: 3.25% to 5.88%).

	31 December 2015	31 December 2014
Nominal value of bonds	3,981,120	2,799,997
Unamortised discount	105,700	11,916
Accrued interest	28,431	127,787
Total	4,115,251	2,939,700

9.3 Other securities designated at fair value through profit or loss

Other securities designated at fair value through profit or loss comprise bonds from Albania Government whose performance is managed and evaluated on a fair value basis, in accordance with the Bank's investment strategy. The information on that basis is regularly provided to and reviewed by the Group's Board of Directors.

	31 December 2015	31 December 2014
Government bonds	3,423,858	6,841,526
Total	3,423,858	6,841,526

Government bonds as at 31 December 2015 represent 2-year, 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 4.89% to 7.85% per annum (31 December 2014: 4.89% to 7.85%).

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***9. INVESTMENT SECURITIES (CONTINUED)**

The credit quality of investment securities may be summarised based on Standard and Poor's ratings as follows at 31 December:

	Investments held for trading		Held-to-maturity investment securities		Other securities designated at fair value through profit or loss	
	2015	2014	2015	2014	2015	2014
Neither past due nor impaired	-	-	-	-	-	-
B	20,998,043	28,517,255	47,839,907	50,836,610	3,423,858	6,841,526
A1	-	-	724,085	-	-	-
A2	-	-	692,851	-	-	-
A3	-	-	715,152	-	-	-
A-	-	-	1,286,393	-	-	-
Aa2	-	-	553,592	-	-	-
AA	-	-	143,178	-	-	-
A	-	-	-	956,974	-	-
Aa1u	-	-	-	5,802,783	-	-
AA+	-	-	-	-	-	-
BBB+	-	-	-	-	-	-
BBB	-	-	-	1,982,726	-	-
Unrated	-	-	-	-	-	-
Carrying amount	20,998,043	28,517,255	51,955,158	59,579,093	3,423,858	6,841,526

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS**

	31 December 2015	31 December 2014
Loans and advances to customers	114,610,752	126,033,716
Allowance for loan loss impairment	(13,714,055)	(13,817,545)
Net carrying amount	100,896,697	112,216,171

Movements in net allowance for loan loss impairment are as follows:

	2015	2014
Balance at the beginning of the year	13,817,545	12,106,877
Allowance for loan loss impairment	6,652,888	5,933,851
Release for loan loss impairment	(2,407,882)	(1,736,663)
Reserve for the purchase of Tirana Leasing Portfolio	108,502	-
Loans written off	(4,456,998)	(2,486,520)
Balance at the end of the year	13,714,055	13,817,545

The interest rates of loans and advances to customers vary from 0.17% % to 12.17% p.a. in foreign currencies and from 3.77% to 15.64 % p.a. in LEK (31 December 2014: from 1.57% to 11.58% p.a. in foreign currencies and from 3.21% to 19.13% p.a. in LEK).

Loans and advances to customers detailed in business segments as at 31 December 2015 and 2014 are presented in the following tables:

	31 December 2015					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	2,005,399	46,337,285	4,246,007	620,927	68,776	53,278,394
Credit Card	469,748	10,668	11,337	-	51,123	542,876
Loans						
Short term	169,075	2,177,692	40,339	885	3,846	2,391,837
Medium term	4,588,310	14,726,220	2,110,138	340,708	136,844	21,902,220
Long term	6,891,439	10,275,529	2,506,845	338,794	351,057	20,363,664
	11,648,824	27,179,441	4,657,322	680,387	491,747	44,657,721
Mortgage	8,630,060	-	591,380	209,278	3,079,127	12,509,845
Other	446,481	2,391,420	681,187	507,266	16,343	4,042,697
<i>less Administrative Fee</i>	(175,785)	(196,624)	(38,291)	(10,081)	-	(420,781)
TOTAL	23,024,727	75,722,190	10,148,942	2,007,777	3,707,116	114,610,752

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	31 December 2014					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	1,797,341	47,450,801	4,435,749	635,739	70,605	54,390,235
Credit Card	439,661	2,267	4,690	-	47,290	493,908
Loans						
Short term	166,115	2,193,719	71,597	6,186	2,937	2,440,554
Medium term	3,852,706	19,463,517	2,380,273	456,045	119,320	26,271,861
Long term	6,428,316	18,239,668	2,500,360	406,230	252,515	27,827,089
	10,447,137	39,896,904	4,952,230	868,461	374,772	56,539,504
Mortgage	8,002,580	-	508,759	244,500	2,723,672	11,479,511
Other	313,101	2,367,112	634,926	211,722	22,665	3,549,526
<i>less Administrative Fee</i>	(154,975)	(212,847)	(40,756)	(10,390)	-	(418,968)
TOTAL	20,844,845	89,504,237	10,495,598	1,950,032	3,239,004	126,033,716

Allowance for impairment of loans and advances to customers detailed in business segments as at 31 December 2015 and 31 December 2014 are presented in the following tables:

	31 December 2015					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Balance at the beginning of the year	1,694,679	10,326,786	1,462,777	328,909	4,394	13,817,545
Allowance for loan loss impairment	573,021	5,601,006	378,699	99,640	522	6,652,888
Release for loan loss impairment	(328,330)	(1,720,669)	(280,747)	(76,596)	(1,542)	(2,407,884)
Reserve for the purchase of Tirana Leasing Portfolio	17,385	41,360	13,074	36,684	-	108,503
Loans written off	(172,198)	(3,678,174)	(487,925)	(118,697)	(3)	(4,456,997)
Balance at the end of the year	1,784,557	10,570,309	1,085,878	269,940	3,371	13,714,055

	31 December 2014					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Balance at the beginning of the year	1,458,872	8,898,160	1,427,382	319,900	2,563	12,106,877
Allowance for loan loss impairment	556,937	4,424,760	780,896	167,792	3,466	5,933,851
Release for loan loss impairment	(190,326)	(1,188,657)	(301,538)	(56,085)	(56)	(1,736,662)
Loans written off	(130,804)	(1,807,477)	(443,963)	(102,698)	(1,579)	(2,486,521)
Balance at the end of the year	1,694,679	10,326,786	1,462,777	328,909	4,394	13,817,545

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of LEK</i>	2015		2014	
	Amount	%	Amount	%
Trade, repair of motor vehicles and household items	31,763,616	28%	40,705,160	32%
Households	26,787,647	23%	24,179,468	19%
Production and distribution of electricity, gas and water	22,958,973	20%	21,537,890	17%
Processing industry	8,488,403	7%	11,097,687	9%
Construction	6,500,532	6%	8,279,829	7%
Transportation, Storage and Telecommunications	3,407,346	3%	6,309,608	5%
Monetary and financial intermediation	2,317,477	2%	4,093,015	3%
Extracting industry	4,709,244	4%	2,455,961	2%
Agriculture and hunting	1,839,321	2%	2,329,354	2%
Collective, social and personal	2,044,445	2%	2,320,342	2%
Health and social work	1,100,196	1%	1,185,948	1%
Other	2,693,552	2%	1,539,454	1%
Total loans and advances to customers (before impairment)	114,610,752	100%	126,033,716	100%

At 31 December 2015 the Group had 15 borrowers (2014:18 borrowers) with aggregated loan amounts above LEK 1,000,000 thousand. The total aggregate amount of these loans was LEK 46,434,150 thousand (2014: LEK 53,892,375 thousand) or 40.6% of the gross loan portfolio (2014: 48.8%).

Information about collateral at 31 December 2015 is as follows:

	Individuals	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	13,737,215	132,643	72,318	40,419	667,922	14,650,517
Loans guaranteed by other parties, including credit insurance	780,713	25,740,805	360,025	472,531	631,849	27,985,923
Loans collateralised by:						
- residential real estate	6,894,928	4,162,904	2,431,836	491,833	2,324,740	16,306,241
- other real estate	694,995	24,813,875	5,096,559	341,934	59,625	31,006,988
- cash deposits	409,480	1,149,639	2,128	4,231	125	1,565,603
- other assets	93,508	17,345,976	1,512,355	167,963	-	19,119,802
- Leased Vehicles- Movable Assets /Equipment	421,073	2,376,346	673,722	488,866	15,671	3,975,678
Total loans and advances to customers	23,031,912	75,722,188	10,148,943	2,007,777	3,699,932	114,610,752

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*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Information about collateral at 31 December 2014 is as follows:

	Individuals	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,363,837	747,931	279,323	108,525	552,146	14,051,763
Loans guaranteed by other banks	-	729,149	-	-	-	729,149
Loans guaranteed by other parties, including credit insurance	752,027	14,508,867	460,688	556,689	539,467	16,817,737
Loans collateralised by:						
- residential real estate	6,585,679	6,791,636	2,160,863	548,831	2,079,256	18,166,266
- other real estate	579,516	25,558,276	5,882,350	409,299	46,511	32,475,952
- cash deposits	264,300	822,530	15,049	8,984	205	1,111,067
- other assets	26,906	37,994,764	1,071,691	126,278	-	39,219,638
-Leased Vehicles- Movable Assets /Equipment	272,581	2,351,084	625,634	191,426	21,419	3,462,144
Total loans and advances to customers	20,844,846	89,504,237	10,495,598	1,950,032	3,239,004	126,033,716

Other assets mainly include equipment and receivables. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

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*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
<i>Neither past due nor impaired</i>						
Grade 2B	870,662	-	-	-	-	870,662
Grade 4A	3,092	-	-	-	-	3,092
Grade 4B	46,449	965,995	-	-	-	1,012,444
Grade 5A	1,891,576	-	-	-	-	1,891,576
Grade 5B	5,145	2,278,666	-	-	-	2,283,811
Grade 5C	265,751	-	-	-	-	265,751
Grade 6A	57,031	596,459	-	-	-	653,490
Grade 6B	438,844	714,175	-	-	-	1,153,019
Grade 6C	2,659,454	515,517	-	-	-	3,174,971
Grade 6.2	2,300,642	-	-	-	-	2,300,642
Grade 6.3	816,033	-	-	-	-	816,033
Grade 7A	2,287,961	713,174	-	-	-	3,001,135
Grade 7B	4,097,358	420,882	-	-	-	4,518,240
Grade 7C	25,134,986	256,160	-	-	-	25,391,146
Grade 8A	2,801,161	140,099	-	-	-	2,941,260
Grade 8B	2,612,668	360,091	-	-	-	2,972,759
Grade 8C	2,009,200	153,310	-	-	-	2,162,510
Grade 9A	770,753	-	-	-	-	770,753
Grade 9B	723,909	424,456	-	-	-	1,148,365
Grade 9C	1,841,970	-	-	-	-	1,841,970
Grade (unrated)	120,362	40,015	1,245,602	18,803,640	3,615,107	23,824,726
Total neither past due nor impaired	51,755,007	7,578,999	1,245,602	18,803,640	3,615,107	82,998,355

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)***Past due but not impaired*

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
- less than 30 days overdue	4,404,874	682,153	130,093	1,247,789	84,398	6,549,307
- 30 to 60 days overdue	452,063	187,487	71,241	283,026	-	993,817
- 60 to 90 days overdue	1,567,374	27,445	162,208	808,654	-	2,565,681
- 90 to 180 days overdue	1,613,148	195,628	31,227	15,497	-	1,855,500
- 180 to 360 days overdue	-	84	8,283	34,203	-	42,570
- over 360 days overdue	90,647	6,350	20,541	27,335	-	144,873
Total past due but not impaired	8,128,106	1,099,147	423,593	2,416,504	84,398	12,151,748
- less than 30 days overdue	16	668	9,455	211,305	426	221,870
- 30 to 60 days overdue	35,991	9,700	485	52,463	-	98,639
- 60 to 90 days overdue	350	448	13,049	55,102	-	68,949
- 90 to 180 days overdue	5,374,945	60,467	9,454	62,254	-	5,507,120
- 180 to 360 days overdue	2,205,638	162,703	56,047	302,489	-	2,726,877
- over 360 days overdue	8,222,133	1,236,812	250,093	1,128,155	-	10,837,193
Total individually impaired loans (gross)	15,839,073	1,470,798	338,583	1,811,768	426	19,460,649
Less impairment provisions	(10,570,309)	(1,085,879)	(269,940)	(1,784,555)	(3,372)	(13,714,055)
Total loans and advances to customers	65,151,877	9,063,065	1,737,838	21,247,357	3,696,559	100,896,697

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
<i>Neither past due nor impaired</i>						
Grade 2C	3,504,615	-	-	-	-	3,504,615
Grade 3C	1,542	-	-	-	-	1,542
Grade 4B	1	565,782	-	-	-	565,783
Grade 4C	434,661	-	-	-	-	434,661
Grade 5A	316,958	-	-	-	-	316,958
Grade 5B	28,218	1,084,660	-	-	-	1,112,878
Grade 5C	767,575	-	-	-	-	767,575
Grade 6A	113,435	860,801	-	-	-	974,236
Grade 6B	2,565,366	732,680	-	-	-	3,298,046
Grade 6C	562,364	645,033	-	-	-	1,207,397
Grade 7A	1,924,504	533,452	-	-	-	2,457,956
Grade 7B	2,846,109	696,815	-	-	-	3,542,924
Grade 7C	1,614,871	306,697	-	-	-	1,921,568
Grade 8A	23,086,871	234,911	-	-	-	23,321,782
Grade 8B	3,519,831	596,810	-	-	-	4,116,641
Grade 8C	4,268,040	216,027	-	-	-	4,484,067
Grade 9A	1,743,396	-	-	-	-	1,743,396
Grade 9B	2,470,872	771,089	-	-	-	3,241,961
Grade 9C	5,319,295	-	-	-	-	5,319,295
Grade 6.1	2,121,754	-	-	-	-	2,121,754
Grade 6.2	3,212,752	-	-	-	-	3,212,752
Grade 6.3	1,254,419	-	-	-	-	1,254,419
Grade (unrated)	509,052	6,232	1,210,922	17,080,536	3,167,388	21,974,130
Total neither past due nor impaired	62,186,501	7,250,989	1,210,922	17,080,536	3,167,388	90,896,336

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK'000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)***Past due but not impaired*

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
- less than 30 days overdue	6,224,529	752,372	160,867	1,087,200	66,037	8,291,005
- 30 to 60 days overdue	2,433,121	113,632	52,447	251,167	600	2,850,967
- 60 to 90 days overdue	284,377	31,088	39,578	229,573	522	585,138
- 90 to 180 days overdue	2,502,283	238,913	34,867	267,462	-	3,043,525
- 180 to 360 days overdue	-	3,459	13,366	58,885	3,839	79,549
- over 360 days overdue	47,829	21,560	33,469	42,956	-	145,814
Total past due but not impaired	11,492,139	1,161,024	334,594	1,937,243	70,998	14,995,998

Loans individually determined to be impaired (gross)

- less than 30 days overdue	-	-	38,187	278,487	559	317,233
- 30 to 60 days overdue	-	-	11,358	55,852	40	67,250
- 60 to 90 days overdue	-	-	477	42,085	-	42,562
- 90 to 180 days overdue	1,920,151	163,654	3,583	62,842	-	2,150,230
- 180 to 360 days overdue	6,288,878	461,261	51,892	352,627	-	7,154,658
- over 360 days overdue	7,616,568	1,458,670	299,019	1,035,173	19	10,409,449
Total individually impaired loans (gross)	15,825,597	2,083,585	404,516	1,827,066	618	20,141,382
Less impairment provisions	(10,326,786)	(1,462,777)	(328,909)	(1,694,679)	(4,394)	(13,817,545)
Total loans and advances to customers	79,177,451	9,032,821	1,621,123	19,150,166	3,234,610	112,216,171

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Neither past due nor impaired loans and securities

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. An explanation of the credit quality of neither past due nor impaired loans according to their risk grades classification is given below:

Rating scale	Description
(1A, 1B)*, 1C	Minimal risk
2.A, 2B, 2C	Excellent credit standing
3A, 3B, 3C	Very good credit standing
4A, 4B, 4C	Good credit standing
5A, 5B, 5C	Sound credit standing
6A, 6B, 6C	Acceptable credit standing
7A, 7B, 7C	Marginal credit standing
8A, 8B, 8C	Weak credit standing / sub-standard
9A, 9B, 9C	Very weak credit standing / doubtful
10A, 10B, 10C	Default

Impaired loans and securities

Impaired loans and securities are loans and securities 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 / securities agreement(s). These loans are graded 10 A in the Group's internal credit risk grading system. The Bank has a structured policy applied to the evaluation of collateral on loans determined as individually impaired. Depending on the class/type of collateral there are specific discount rates applied, ranging from 0% to 100%. This is due to complex legal requirements and significant delays in recovering and realising the collateral.

Past due but not impaired loans

Loans and securities 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 Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2015 restructured loans were LEK 25,950,058 thousand (2014: LEK 21,927,096 thousand).

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Bank Problem Loans 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.

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

As at 31 December 2015 and 2014, the loans and advances to customers with regard to outstanding balance and impairment assessment were as follows:

	Loans and advances to customers	
	Gross	Net
31 December 2015		
Individually impaired	19,460,648	6,893,909
Total	19,460,648	6,893,909
31 December 2014		
Individually impaired	20,141,382	8,129,721
Total	20,141,382	8,129,721

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 are generally re-valued annually by both, external and internal evaluators. 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. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 and 2014.

	Against individually impaired	Against collectively impaired	Total
Property	33,190,864	157,667,098	190,857,963
Pledge	19,438,688	91,527,575	110,966,263
Cash	389,449	6,354,782	6,744,231
Guarantee	4,624,988	53,724,999	58,349,987
Life insurance	168,577	2,393,883	2,562,459
Total	57,812,566	311,668,337	369,480,903

The fair value of collateral pledged against individually impaired loans as at 31 December 2014 was LEK 40,626,043 thousand.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral at 31 December 2015:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate	66,979,695	283,810,445	8,935,285	1,910,992
Small Enterprises	7,854,196	24,205,379	2,332,983	317,705
Micro SMEs	1,868,693	5,431,891	149,119	91,693
Households	12,130,131	53,492,176	14,773,548	52,047

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of collateral at 31 December 2014:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate	57,409,251	277,079,940	32,094,986	15,323,513
Small Enterprises	7,065,121	24,603,937	3,430,477	1,109,099
Micro SMEs	1,041,285	2,846,042	908,747	162,976
Households	8,905,650	22,343,801	15,178,200	861,383

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

11. DEFERRED INCOME TAX ASSETS

The movement in the deferred income tax account is as follows:

	31 December 2015	31 December 2014
Balance at the beginning of the year	44,630	73,902
Deferred tax benefit relating to the origination and reversal of temporary differences (note 32)	(11,359)	(29,273)
Balance at the end of the year	33,271	44,629

Movements in temporary differences during the year are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income.

Deferred tax has been calculated based on the enacted tax rate for 2015 of 15% (2014: 15%). As at 31 December 2015 and 31 December 2014 deferred tax assets and liabilities have been recognised for the following items:

	31 December 2015	31 December 2014
<i>Deferred tax asset</i>		
Accelerated depreciation	1,713	2,019
Deferred lease disbursement fees	31,558	42,610
	33,271	44,629
<i>Deferred tax liability</i>		
Allowance for impairment losses	-	-
	-	-
Net deferred tax assets	33,271	44,629

12. GOODWILL

During the year 2008, Raiffeisen Bank purchased 100% of the shares of the Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. (“Raiffeisen INVEST”), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2014, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2015 (2014: Lek 90 million).

The goodwill on acquisition date was calculated as the excess of the cost of the business combination over the identified net assets of the acquired entity, resulting in an amount of Lek 92,783 thousand. The identified net assets of the acquired entity at acquisition date approximated their fair value at an amount of Lek 16,865 thousand.

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2015, the carrying amount of the subsidiary (the cash generating unit to which goodwill has been allocated), does not exceed its recoverable amount and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2015 (2014: nil).

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***13. INTANGIBLE ASSETS**

Movements in intangible assets for the year ended 31 December 2015 and 2014 are detailed as follows:

	Acquired software	Licences	Total
Cost			
At 1 January 2014	1,930,416	354,713	2,285,129
Additions	250,918	26,359	277,277
Disposals	(120,064)	(16,170)	(136,234)
At 31 December 2014	2,061,270	364,902	2,426,172
At 1 January 2015	2,061,270	364,902	2,426,172
Additions	154,031	160,649	314,680
Disposals	(1,175)	23	(1,152)
At 31 December 2015	2,214,126	525,574	2,739,700
Amortization			
At 1 January 2014	(568,696)	(274,171)	(842,867)
Amortization charge	(189,174)	(11,335)	(200,509)
Disposals	122,800	13,316	136,116
At 31 December 2014	(635,070)	(272,190)	(907,260)
At 1 January 2015	(635,070)	(272,190)	(907,260)
Amortization charge	(214,938)	(15,869)	(230,807)
At 31 December 2015	(850,008)	(288,059)	(1,138,067)
Net book value			
At 1 January 2015	1,426,200	92,712	1,518,912
At 31 December 2015	1,364,118	237,515	1,601,633

There are no assets pledged as collateral as at 31 December 2015 (2014: none).

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***14. PREMISES AND EQUIPMENT**

Movements in premises and equipment for the year ended 31 December 2015 and 2014 are detailed as follows:

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
At 1 January 2014	1,486,882	2,333,983	379,317	44,109	626,831	4,871,122
Additions	12,619	175,116	19,735	117,075	27,563	352,108
Disposals	(168,270)	(212,521)	(105,815)	-	(50,499)	(537,105)
Transfers	35,331	115,827	42	(159,005)	7,805	-
At 31 December 2014	1,366,562	2,412,405	293,279	2,179	611,700	4,686,125
At 1 January 2015	1,366,562	2,412,405	293,279	2,179	611,700	4,686,125
Additions	10,474	130,210	45,668	117,679	46,748	350,779
Disposals	(32,782)	(205,106)	(13,821)	-	(34,296)	(286,005)
Transfers	101,662	41,797	18,159	(110,958)	6,263	56,923
At 31 December 2015	1,445,916	2,379,306	343,285	8,900	630,415	4,807,822
Accumulated depreciation						
At 1 January 2014	(603,436)	(1,654,945)	(254,188)	-	(476,957)	(2,989,526)
Depreciation charge	(83,438)	(284,745)	(42,148)	-	(55,519)	(465,850)
Disposals	74,402	209,619	90,244	-	47,492	421,757
At 31 December 2014	(612,472)	(1,730,071)	(206,092)	-	(484,984)	(3,033,619)
At 1 January 2015	(612,472)	(1,730,071)	(206,092)	-	(484,984)	(3,033,619)
Depreciation charge	(71,015)	(289,470)	(41,045)	-	(54,085)	(455,615)
Disposals	23,833	201,652	11,998	-	31,393	268,876
At 31 December 2015	(659,654)	(1,817,889)	(235,139)	-	(507,676)	(3,220,358)
Net Book Value						
At 31 December 2014	754,090	682,334	87,187	2,179	126,716	1,652,506
At 31 December 2015	786,262	561,417	108,146	8,900	122,739	1,587,464

There are no assets pledged as collateral as at 31 December 2015 (2014: none).

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***15. OTHER ASSETS**

	31 December 2015	31 December 2014
Inventories	1,670,570	1,602,764
VAT receivable	417,696	484,976
Sundry debtors, net	269,141	147,851
Prepaid expenses and accruals	196,256	127,746
Money gram	12,067	12,576
Total	2,565,730	2,375,913

As at 31 December 2015 the Group's repossessed collateral is LEK 1,525,273 thousand (2014: LEK 1,510,158 thousands). Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Sundry debtors comprise the following:

	31 December 2015	31 December 2014
Sundry debtors	422,477	303,783
Provisions for losses from other debtors	(153,336)	(155,932)
Total Sundry debtors, net	269,141	147,851

Most of the sundry debtors balances are over 1 months but less than 3 months.

Movements in the provisions for sundry debtors are as follows:

	2015	2014
Balance at the beginning of the year	155,932	11,584
Allowance for Provisions for losses from other debtors	-	144,108
Foreign exchange effect	(2,596)	240
Balance at the end of the year	153,336	155,932

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***16. DUE TO BANKS AND FINANCIAL INSTITUTIONS**

	31 December 2015	31 December 2014
Current accounts		
Resident banks and financial institutions	516,745	1,859,961
Non-resident banks and financial institutions	38,358	77,249
Accrued interest	2	41
	<u>555,105</u>	<u>1,937,251</u>
Deposits		
Central Bank	-	-
Resident banks and financial institutions	1,677,832	1,495,393
Non-resident banks and financial institutions	-	122,346
Accrued interest	(8)	176
	<u>1,677,824</u>	<u>1,617,915</u>
Total	<u><u>2,232,929</u></u>	<u><u>3,555,166</u></u>

The annual interest rates for borrowed funds from financial institutions varied from -0.45% to 0.01% during the year ended 31 December 2015 (2014: 0 % to 1.2%). The annual interest rates for borrowed funds from Non resident financial institutions is 0.56% during the year ended 31 December 2014.

17. DUE TO CUSTOMERS

	31 December 2015	31 December 2014
Current accounts	120,684,286	84,699,763
Deposits	120,563,865	144,968,565
Other accounts	5,536,654	4,051,055
	<u>246,784,805</u>	<u>233,719,383</u>
Total	<u><u>246,784,805</u></u>	<u><u>233,719,383</u></u>

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2015 were as follows:

(in %)	LEK	USD	EUR
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.05-1.50	0.01-0.50	0.05-0.50
Time deposits – 3 month	0.01-0.10	0.01-0.25	0.01-0.15
Time deposits – 6 month	0.01-0.15	0.01-0.25	0.01-0.15
Time deposits – 9 month	0.01-0.15	0.01-0.25	0.01-0.15
Time deposits – 12 month	0.01-0.15	0.01-0.30	0.01-0.15
Time deposits – 24 month	0.01-0.35	0.01-0.30	0.01-0.20
Time deposits – 36 month	0.01-0.35	0.01-0.30	0.01-0.20
Time deposits – 60 month	0.01-0.35	0.01-0.30	0.01-0.20

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***17. DUE TO CUSTOMERS (CONTINUED)**

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2014 were as follows:

(in %)	LEK	USD	EUR
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.20-3.00	0.10-0.90	0.10-1.70
Time deposits – 3 month	0.10-0.70	0.10-0.25	0.10-0.25
Time deposits – 6 month	0.10-0.75	0.10-0.25	0.10-0.25
Time deposits – 9 month	0.10-0.75	0.10-0.25	0.10-0.25
Time deposits – 12 month	0.20-1.05	0.15-0.30	0.15-0.30
Time deposits – 24 month	0.20-1.05	0.15-0.30	0.15-0.30
Time deposits – 36 month	0.30-1.10	0.15-0.30	0.15-0.30
Time deposits – 60 month	0.30-1.10	0.15-0.30	0.15-0.30

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK'000, unless otherwise stated)***17. DUE TO CUSTOMERS (CONTINUED)**

Balances due to customers by maturity and currency type are as follows:

	31 December 2015			31 December 2014		
	Lek	Foreign currency	Total	Lek	Foreign currency	Total
Current accounts	53,817,584	66,866,702	120,684,286	41,420,451	43,279,312	84,699,763
Deposits						
On demand	5,473,022	4,549,747	10,022,769	5,476,849	4,534,360	10,011,209
1 month - 3 months	2,763,541	950,316	3,713,857	4,231,799	2,376,128	6,607,927
3 months - 6 months	3,756,096	7,102,255	10,858,351	5,388,208	7,716,931	13,105,139
6 months - 12 months	5,883,717	7,453,240	13,336,957	9,011,358	8,542,448	17,553,806
12 months - 24 months	38,433,686	39,977,757	78,411,443	48,963,548	43,218,208	92,181,756
24 months - 36 months	783,745	1,202,637	1,986,382	1,364,999	1,247,215	2,612,214
36 months	197,801	100,820	298,621	291,387	148,046	439,433
60 months	211,560	1,459,279	1,670,839	379,645	1,557,341	1,936,986
Accrued interest on deposits	86,393	178,253	264,646	332,046	188,049	520,095
	57,589,561	62,974,304	120,563,865	75,439,839	69,528,726	144,968,565
Other accounts						
Guarantee deposits	2,508,468	2,102,111	4,610,579	728,645	2,059,741	2,788,386
Dormant customer accounts	10,450	116	10,566	16,876	268	17,144
Cheques customer accounts	700	9,754	10,454	700	1,121	1,821
Other	866,358	38,697	905,055	1,204,913	38,791	1,243,704
	3,385,976	2,150,678	5,536,654	1,951,134	2,099,921	4,051,055
Total	114,793,121	131,991,684	246,784,805	118,811,424	114,907,959	233,719,383

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***18. OTHER LIABILITIES**

	31 December 2015	31 December 2014
Other creditors	265,904	181,830
Accrued expenses	209,995	324,618
Due to employees	263,563	305,213
Withholding tax payable	69,198	39,977
Provision for contingent liabilities	25,602	19,339
Deferred income	219,774	45,935
Due to social insurance	37,593	31,845
Provision for litigation	788,446	50,639
Negative FV derivative - Economic hedge	5,871	-
Suspense accounts	201,622	1,117,735
VAT payable	34,316	1,029
Total	2,121,884	2,118,160

- Included in “Other creditors” is the amount of LEK 19,318 thousand (2014: LEK 11,590 thousand) of unpaid invoices to suppliers.
- Included in Provisions for litigations is provision for tax Authority LEK 738,616 thousand (2014:0). At 31 December 2015, the Bank was involved in litigation proceedings with the General Tax Directorate Albania in relation to a tax assessment performed by the latter during 2013. Total additional liabilities and penalties to be paid by the Bank amount to Lek 673 mln. In February 2016 the whole amount is paid. The additional taxes charged have been challenged from the Bank in the District Court. Based on Law no. 9920 “On tax procedures of the Republic of Albania. Now the case is in Appeal Court. Management intends to vigorously defend the Bank's positions and interpretations that were challenged by the tax authorities.
- Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items.
- Provision for contingent liabilities represents impairment of irrevocable commitments and contingencies. The movements in the provisions for contingent liabilities are as follows:

	31 December 2015	31 December 2014
Balance at the beginning of the year	19,339	116,688
Provisions expense for the period	19,733	-
Reversal of provisions for the year	(13,470)	(97,349)
Balance at the end of the year	25,602	19,339

- The Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2015. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims.

The movements in the provisions for litigations are as follows:

	31 December 2015	31 December 2014
Balance at the beginning of the year	50,639	19,470
Provision expense for the year	793,648	32,131
Reversal of provision for the year	(55,841)	(962)
Balance at the end of the year	788,446	50,639

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(amounts in LEK '000, unless otherwise stated)

19. SUBORDINATED DEBT

During 2013, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 50,000 thousand. The debt carries an interest rate of 5,59 % p.a. (2014: 5,869 % p.a) and matures on 30 August 2018. The debt ranks after all other creditors in case of liquidation.

During 2015, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 15,000 thousand. The debt carries an interest rate of 4,962 % p.a. (2014: none) and matures on 28 June 2020. The debt ranks after all other creditors in case of liquidation.

20. SHARE CAPITAL

The Bank's capital is equal to LEK 14,178,593 thousand comprised of 7,000 shares of nominal value 2,025,513 LEK each (2014: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each).

21. OTHER RESERVES

Other reserves comprise general reserve, created from the distribution of net profit after tax in accordance with the law No. 9901, dated 14 April 2008, "On Entrepreneurs and commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999.

22. NON-CONTROLLING INTEREST

Based on the decision of the Group's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen Leasing International Gesellschaft m.b.H, the Group has incorporated a leasing company in the Republic of Albania in the form of a joint stock company to provide leasing in accordance with the applicable Albanian legislation on Financial Leasing. Raiffeisen Leasing sh.a. principal activity is to offer finance lease to a wide range of customers.

The Group participates with a share of 75%. The remaining share of 25% is owned by Raiffeisen Leasing International Gesellschaft m.b.H. The place of business of Raiffeisen Leasing International Gesellschaft m.b.H is Austria. During 2014, the dividend paid to Raiffeisen Leasing International Gesellschaft m.b.H by Raiffeisen Leasing sh.a. was for an amount of Lek 14,705 thousand (2014: Lek 15,888 thousand).

The following tables provide information about Raiffesien Leasing sh.a., which is a subsidiary that has non-controlling interest that is material to the Group:

	Raiffeisen -Leasing International Gesellschaft m.b.H.	
	2015	2014
% of holding	25%	25%
Share Capital	65,880	65,880
Current year profit	15,309	14,705
Legal reserve	6,588	6,588
Accumulated profit	14,192	14,192
Non-controlling interest	101,969	101,365

RAIFFEISEN BANK GROUP

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*(amounts in LEK '000, unless otherwise stated)***22. NON CONTROLLING INTEREST (CONTINUED)**

The summarised financial information of Raiffeisen Leasing sh.a. for the year ended 31 December 2015 and 2014 was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
2015								
Raiffeisen Leasing sh.a.	920,609	3,437,698	36,375	3,914,057	253,745	61,235	61,235	5,786
	920,609	3,437,698	36,375	3,914,057	253,745	61,235	61,235	5,786
2014								
Raiffeisen Leasing sh.a.	783,161	3,238,208	88,072	3,527,836	299,444	58,821	58,821	78,488
Total	783,161	3,238,208	88,072	3,527,836	299,444	58,821	58,821	78,488

The following table provide information in regard to present value of minimum lease payments of the finance lease receivables of Raiffeisen Leasing sh.a.

	Minimum lease payments		Present value of minimum lease payments	
	31 Dec. 15	31 Dec.14	31 Dec.15	31 Dec.14
Not later than one year	2,189,393	1,929,265	1,926,813	1,699,960
Later than one year and not later than five years	2,244,844	1,927,168	2,018,437	1,723,971
Later than five years	32,028	39,603	30,429	38,214
Less unearned finance income	(490,587)	(433,891)	-	-
Present value of minimum lease payments receivable	4,466,265	3,896,036	3,975,678	3,462,145
Allowance for uncollectible lease payments	(345,791)	(239,524)	(345,791)	(239,524)
Total	3,629,887	3,222,621	3,629,887	3,222,621

23. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Loans and advances to customers	7,301,400	8,439,852
Investment securities	3,152,385	4,052,128
Bank deposits	25,599	177,943
Reverse repurchase agreement bought	-	-
Total	10,479,384	12,669,923

Interest income includes LEK 34,855 thousand (2014: LEK 80,836 thousand) interest income, recognised on impaired loans to customers.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***24. INTEREST EXPENSE**

Interest expense by category is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Banks	493,741	549,854
Customers	171,206	901,710
Repurchase agreement sold	-	20,954
Total	664,947	1,472,518

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Funds transfers	1,346,236	1,281,397
Lending activities	212,577	201,656
Other banking services	980,396	932,083
Total	2,539,209	2,415,136

26. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2015	Year ended 31 December 2014
Payments transfer business	393,575	312,362
Loan and guarantee business	10,624	10,080
Other banking services	45,198	52,570
Total	449,397	375,012

27. NET TRADING INCOME

	Year ended 31 December 2015	Year ended 31 December 2014
Income from trading securities	1,931,804	1,950,950
Foreign exchange gains	198,925	595,933
Total	2,130,729	2,546,883

28. OTHER OPERATING INCOME/ EXPENSE

Other revenues comprise income from write-offs of old dormant accounts amounting LEK 9,493 thousand (2014: LEK 137,455 thousand) and income from sale of Bank property for an amount of LEK 15,689 thousand (2014: LEK 535,989 thousand)) and income from compensation from insurance company for an amount of LEK 85,036 thousand (2014: LEK 135,649 thousand). "Other expenses" include loss from a fraud case of LEK 5,833 thousand (2014: LEK 118,911 thousand) and withholding tax amounting LEK 18,478 thousand (2014: LEK 26,710 thousand) and increase in provision for litigation LEK 794,503 thousand (2014: LEK 6,934 thousand).

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

29. DEPOSIT INSURANCE PREMIUM

Based on Law no. 8873 "On deposit's insurance" dated 29 March 2002, the Banks are obliged to pay a deposit insurance premium to the Deposit Insurance Agency. The premium is calculated as a percentage of the daily average deposit balances up to LEK 2,500,000 (2014: LEK 2,500,000) for individuals, for the period from October to December of the predecessor calendar year. The percentage rate applied is 0.5% per annum and payable quarterly.

30. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries	2,168,132	2,097,551
Social insurance	247,998	263,838
Personnel training	44,864	45,381
Pension costs	15,838	14,953
Other personnel costs	22,156	2,243
Total	2,498,988	2,423,966

31. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended 31 December 2015 and 2014 comprise the following expenses:

	Year ended 31 December 2015	Year ended 31 December 2014
IT cost	663,525	534,270
Rent expenses	626,501	621,127
Advertising, public relations and promotional expenses	349,331	346,854
Legal, advisory and consulting expenses	363,799	235,619
Sundry administrative expenses	420,926	200,076
Car expenses	61,902	62,648
Office supplies	64,362	66,586
Communication expenses	30,509	38,538
Travelling expenses	33,362	33,360
Security expenses	7,272	69,162
Total	2,621,489	2,208,240

Consultancy and legal fees include charges for management fees totalling LEK 224,571 thousand in 2015 (2014: LEK 158,502 thousand).

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***32. INCOME TAX**

Income tax in Albania is assessed at the rate of 15% (2014: 15%) of taxable income:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax	430,463	882,916
Deferred tax	11,359	29,273
Income tax expense for the year	441,822	912,189

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	Year ended 31 December			
	Effective tax rate	2015	Effective tax rate	2014
Profit before taxes		2,488,637		5,950,751
<i>Prima facie tax calculated at 15%</i>	15.00%	373,296	15.00%	892,613
Non tax deductible expenses at	5.95%	148,086	1.37%	81,232
Tax savings by tax-exempted income	(3.2%)	(79,560)	(1.04%)	(61,656)
Tax expense/income for former periods	-	-	-	-
Income tax expense	17.75%	441,822	15.33%	912,189

Tax expense/income for former periods in 2015 includes reversal of deferred tax expense calculated on loan loss provisions following the changes in legislation.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

33. FINANCIAL RISK MANAGEMENT**(a) Overview**

The risk management function within the Group is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and Credit Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

For risk management reporting purposes, the Group considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A consolidated Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight 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 authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk Bank Credit 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), and by issuer, credit rating band, market liquidity and country (for investment securities).

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

- Developing and maintaining the Group's risk grading in order to categorise 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 as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is 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 comply with Group credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Division processes are undertaken by Internal Audit.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 36. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, the Board of Directors and Bank's Credit Committee. The Group does use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.

The Group's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8,9,10.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Bank Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Exposure to foreign exchange risk

The Group is exposed to currency risk through transactions in foreign currencies. As the currency in which the Group presents its consolidated financial statements is the Albanian LEK, the Group's consolidated financial statements are affected by movements in the exchange rates between the Albanian LEK and other currencies. The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by Treasury and the Middle-office.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2015			At 31 December 2014		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Albanian LEK	134,733,783	115,333,623	19,400,161	139,497,983	119,189,532	20,308,451
US Dollars	20,803,426	15,180,281	5,623,145	16,440,873	14,182,146	2,258,727
Euros	122,129,907	121,285,372	844,535	109,372,279	105,678,666	3,693,613
Other	6,367,317	6,368,983	(1,666)	5,646,712	5,383,711	263,001
Total	284,034,433	258,168,259	25,866,174	270,957,847	244,434,055	26,523,792

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(amounts in LEK '000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

The Group also prepares regularly stress tests to measure impact of exposure to foreign currency exchange rate risk. The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the presentation currency, with all other variables held constant:

<i>In thousands of LEK</i>	At 31 December 2015		At 31 December 2014	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10% (2014: strengthening by 10%)	411	411	225,873	225,873
US Dollar weakening by 10% (2014: weakening by 10%)	(411)	(411)	(225,873)	(225,873)
Euro strengthening by 10% (2014: strengthening by 10%)	640,759	640,759	369,361	369,361
Euro weakening by 10% (2014: weakening by 10%)	(637,180)	(637,180)	(369,361)	(369,361)
Other strengthening by 10% (2014: strengthening by 10%)	(374)	(374)	26,300	26,300
Other weakening by 10% (2014: weakening by 10%)	374	374	(26,300)	(26,300)

Exposure to interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

If interest rates had been 100 basis points lower (2014: [100] basis points lower, with all other variables held constant, profit would have been LEK 751,881 thousand (2014: LEK 738,947 thousand) higher. If interest rates had been 100 basis points higher (2014: [100] basis points higher), with all other variables held constant, profit would have been LEK 414,300 thousand (2014: LEK 496,744 thousand) lower.

2015

	up to 1 Year scenarios	
	100 bp Decrease	100 bp Increase
Estimated Profit (loss) effect	751,881	(414,300)

2014

	up to 1 Year scenarios	
	100 bp Decrease	100 bp Increase
Estimated Profit (loss) effect	738,947	(496,744)

Overall interest rate risk positions are managed by Treasury, which uses investment securities, advances to Groups and deposits from Groups to manage the overall position arising from the Group's trading and non-trading activities.

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*(amounts in LEK'000, unless otherwise stated)***33. FINANCIAL RISK MANAGEMENT (CONTINUED)****(c) Market risks (continued)**

A summary of the Group's interest rate re-pricing analysis is as follows:

	31 December 2015						
	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	77,936,475	120,000	-	-	-	-	78,056,475
Restricted balances	28,632,318	-	-	-	-	-	28,632,318
Investments held for trading	160	557,108	1,217,541	3,859,968	15,363,266	-	20,998,043
Held-to-maturity investment securities	3,981,088	6,920,289	5,844,383	15,569,095	19,640,303	-	51,955,158
Other securities designated at fair value through profit or loss	-	-	-	450,310	2,973,548	-	3,423,858
Loans and advances to customers	11,883,652	15,492,645	15,628,060	56,446,880	2,389,827	(944,367)	100,896,697
Total	122,433,693	23,090,042	22,689,984	76,326,253	40,366,944	(944,367)	283,962,549
Liabilities							
Due to banks and financial institutions	2,232,929	-	-	-	-	-	2,232,929
Due to customers	151,013,799	21,012,189	16,423,649	56,218,298	2,116,869	-	246,784,804
Other liabilities	1,941,971	9,303	-	-	-	23,809	1,975,083
Subordinated capital	-	-	-	-	9,107,088	-	9,107,088
Total	155,188,699	21,021,492	16,423,649	56,218,298	11,223,957	23,809	260,099,904
Gap at 31 December 2015	(32,755,006)	2,068,550	6,266,335	20,107,955	29,142,987	(968,176)	23,862,645

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK'000, unless otherwise stated)***33. FINANCIAL RISK MANAGEMENT (CONTINUED)****(c) Market risks (continued)**

							31 December 2014
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	40,638,657	-	-	-	-	-	40,638,657
Restricted balances	22,850,572	-	-	-	-	-	22,850,572
Investments held for trading	285,665	1,689,835	1,589,322	3,174,406	21,778,026	-	28,517,255
Held-to-maturity investment securities	3,769,805	9,941,679	12,692,625	15,220,483	17,954,500	-	59,579,093
Other securities designated at fair value through profit or loss	-	-	-	-	6,841,526	-	6,841,526
Loans and advances to customers	24,441,439	19,782,782	18,614,714	49,166,399	993,789	(782,950)	112,216,172
Total	91,986,138	31,414,296	32,896,661	67,561,288	47,567,841	(782,950)	270,643,275
Liabilities							
Due to banks and financial institutions	2,993,851	-	561,315	-	-	-	3,555,166
Due to customers	116,295,791	23,556,037	19,340,165	71,219,618	3,307,772	-	233,719,383
Other liabilities	2,081,891	9,466	26,197	608	-	-	2,118,161
Subordinated capital	-	-	-	-	7,149,792	-	7,149,792
Total	121,371,533	23,565,503	19,927,677	71,220,226	10,457,564	-	246,542,503
Gap at 31 December 2014	(29,385,395)	7,848,793	12,968,984	(3,658,938)	37,110,277	(782,950)	24,100,772

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and severe market or internal conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Groups and other inter-Group facilities, to ensure that sufficient liquidity is maintained within the Group. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK'000, unless otherwise stated)***33. FINANCIAL RISK MANAGEMENT (CONTINUED)****(d) Liquidity risk (continued)**

The following table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity, while financial assets are shown at their carrying amount. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

							31 December 2015
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	77,936,475	120,000	-	-	-	-	78,056,475
Restricted balances	28,632,318	-	-	-	-	-	28,632,318
Investments held for trading	160	557,108	1,217,541	3,859,968	15,363,266	-	20,998,043
Held-to-maturity investment securities	3,981,088	6,920,289	5,844,383	15,569,095	19,640,303	-	51,955,158
Other securities designated at fair value through profit or loss	-	-	-	450,310	2,973,548	-	3,423,858
Loans and advances to customers	14,316,695	12,698,772	7,832,025	33,490,404	46,272,855	(13,714,055)	100,896,696
Total	124,866,736	20,296,169	14,893,949	53,369,777	84,249,972	(13,714,055)	283,962,548
Liabilities							
Due to banks and financial institutions	2,232,929	-	-	-	-	-	2,232,929
Due to customers	151,013,799	21,012,189	16,423,649	56,218,298	2,116,869	-	246,784,804
Other liabilities	1,941,971	9,303	-	-	-	170,611	2,121,885
Subordinated capital	-	-	-	-	9,107,088	-	9,107,088
Total	155,188,699	21,021,492	16,423,649	56,218,298	11,223,957	170,611	260,246,706
Guarantees and commitments	1,175,595	1,623,309	1,798,917	8,868,863	12,164,492	-	25,631,176
Liquidity risk at 31 December 2015	(31,497,558)	(2,348,632)	(3,328,617)	(11,717,384)	60,861,523	(13,884,666)	(1,915,334)
Cumulative	(31,497,558)	(33,846,190)	(37,174,807)	(48,892,191)	11,969,332	(1,915,334)	-

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*(amounts in LEK'000, unless otherwise stated)***34. FINANCIAL RISK MANAGEMENT (CONTINUED)****(d) Liquidity risk (continued)**

							31 December 2014
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	40,638,657	-	-	-	-	-	40,638,657
Restricted balances	22,850,572	-	-	-	-	-	22,850,572
Investments held for trading	285,666	1,689,835	1,589,322	3,174,406	21,778,026	-	28,517,255
Held-to-maturity investment securities	3,769,806	9,941,679	12,692,625	15,220,483	17,954,500	-	59,579,093
Other securities designated at fair value through profit or loss	-	-	-	-	6,841,526	-	6,841,526
Loans and advances to customers	26,821,469	7,963,343	11,441,687	29,057,016	50,750,201	-13,817,545	112,216,171
Total	94,366,170	19,594,857	25,723,634	47,451,905	97,324,253	(13,817,545)	270,643,274
Liabilities							
Due to banks and financial institutions	2,993,851	-	561,315	-	-	-	3,555,166
Due to customers	116,804,511	23,575,434	18,678,678	69,611,344	6,091,162	-	234,761,129
Other liabilities	2,081,889	9,466	26,197	608	-	-	2,118,160
Subordinated capital	-	-	-	-	8,651,963	-	8,651,963
Total	121,880,251	23,584,900	19,266,190	69,611,952	14,743,125	-	249,086,418
Guarantees and commitments	1,567,336	3,466,788	4,318,202	8,599,943	9,988,430	-	27,940,699
Liquidity risk at 31 December 2014	(29,081,417)	(7,456,831)	2,139,242	(30,759,990)	72,592,698	(13,817,545)	(6,383,843)
Cumulative	(29,081,417)	(36,538,248)	(34,399,006)	(65,158,996)	7,433,702	(6,383,843)	-

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

34. CAPITAL MANAGEMENT

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of Albania and (ii) to safeguard the Group's ability to continue as a going concern

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 December.1997 "On the Bank of Albania", and "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

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

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

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

33. CAPITAL MANAGEMENT (CONTINUED)

Risk-Weighted Assets (RWAs)

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

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

	31 December 2015	31 December 2014
Total risk weighted assets	142,371,584	130,210,662
Regulatory capital	25,295,831	24,669,576
Capital adequacy ratio	17.77%	18.95%

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital of Supplementary Pension Funds and Investment Funds Management Company (subsidiary of the Bank)

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Management Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capital, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased beyond a limit of Lek 1,250,000 thousand. As at 31 December 2015 and 2014, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2015 and 2014, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

35. UNCONSOLIDATED STRUCTURED ENTITIES

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension fund and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2015 consolidated financial statements. Information about unconsolidated structured entities is as follows:

	Year ended 31	At 31 December 2015		
	December 2015	Carrying amount of	Carrying amount	Net assets of the
	Income from the	assets of the	of liabilities of	structured
	structured entity for	structured entity	structured entity	entity
	the year			
<i>In thousands of LEK</i>				
Prestige Fund	697,009	56,778,032	144,389	56,633,644
Pension Fund	4,118	325,620	1,322	324,298
Euro Fund	160,403	10,372,516	17,008	10,355,508
TOTAL	861,530	67,476,168	162,719	67,313,450

36. CONTINGENCIES AND COMMITMENTS

	31 December 2015		31 December 2014	
	LEK	Foreign currency	Total	Total
<i>Contingent liabilities</i>				
Bank Guarantees issued	2,929,734	6,977,344	9,907,078	7,335,589
Letters of Credit	-	2,763,180	2,763,180	3,702,307
Unused credit lines	4,115,773	7,821,202	11,936,975	16,902,803
Total	7,045,507	17,561,726	24,607,233	27,940,699

Most of the above bank guarantees and letters of credit are for periods of less than one year and are collateralized by customer escrow deposits.

At 31 December 2015, the Bank was involved in litigation proceedings with the General Tax Directorate Albania in relation to a tax assessment performed by the latter during 2014. Total additional liabilities and penalties to be paid by the Bank amount to Lek 673 mln. The additional taxes charged have been challenged from the Bank in the District Court. Based on Law no. 9920 "On tax procedures of the Republic of Albania", the Bank has issued a Bank Guarantee covering the liabilities and not the penalties of the tax assessment for an amount of Lek 530 mln in the favour of Tax Authorities. Management intends to vigorously defend the Bank's positions and interpretations that were challenged by the tax authorities. On the basis of its own estimates and both internal and external legal advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been booked in the financial statements.

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*(amounts in LEK '000, unless otherwise stated)***36. CONTINGENCIES AND COMMITMENTS (CONTINUED)****Operating lease commitments**

The Bank has entered into non-cancellable operating lease commitments for the Head Office and the branches. Such commitments as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Not later than 1 year	360,779	376,926
Later than 1 year and not later than 5 years	915,602	550,239
Later than 5 years	-	62,586
Total	<u>1,276,381</u>	<u>989,751</u>

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Level 3 inputs includes information derived through extrapolation or interpolation that cannot be directly corroborated by observable market data. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2015 are as follows:

	2015			
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Loans to banks	-	30,064,621	29,376,864	59,441,485
Loans to customers	-	-	100,896,697	100,896,697
Trading Assets	-	20,998,043	-	20,998,043
Financial Investments	-	52,522,296	-	52,522,296
Other securities designated at fair value through profit or loss	-	6,841,526	-	6,841,526
Due to banks and financial institutions	-	4,811	2,228,118	2,232,929
Due to customers	-	-	246,794,215	246,794,215
Subordinated Debt	-	9,107,088	-	9,107,088
Guarantees and commitments	-	1,639,967	22,967,266	24,607,233

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***37 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2014 are as follows:

	2014			Total
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	
Loans to banks	-	20,128,723	43,360,507	63,489,230
Loans to customers	-	-	112,697,286	112,697,286
Trading Assets	-	28,517,254	-	28,517,254
Financial Investments	-	59,605,075	-	59,605,075
Other securities designated at fair value through profit or loss	-	6,841,526	-	6,841,526
Due to banks and financial institutions	-	194,890	3,360,277	3,555,167
Due to customers	-	-	233,669,736	233,669,736
Subordinated Debt	-	-	7,251,731	7,251,731
Guarantees and commitments	-	-	33,387	33,387

Cash and cash equivalents

Cash and cash equivalents include inter-bank placements and items in the course of collection. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

Investment securities

Investment securities include treasury bills and government bonds. The fair value for these investment securities has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. Held to maturity financial assets are classified as level 2 instruments because the market for these bonds is currently less active.

Loans and advances to customers

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

Loans and advances banks and financial institutions/ Due to banks and financial institutions

The estimated fair value of loans and advances and due to banks and financial institutions have an estimated fair value which approximates their carrying amount because of either their short-term nature and underlying interest rates, which approximate market rates.

Due to customers

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand.

Subordinated debt

The estimated fair value of subordinated debt has an estimated fair value which approximates its carrying amount because of its underlying interest rate, which approximate market rates.

Guarantees and commitments The estimated fair value of guarantees and commitments, mostly comprise the unamortised premiums received for issuing the guarantees .

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015 was as follows:

<i>In thousands of LEK</i>	Fair value	Valuation technique	Inputs used
FINANCIAL Assets at Fair Value			
Trading securities			
Albanian treasury bills	1,932	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")
Albanian government bonds	20,996,111	DCF	Government bonds yield curve("TBonds")
Other securities designated at fair value through profit or loss			
Albanian government bonds	3,423,858	DCF	Tbonds

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014 was as follows:

<i>In thousands of LEK</i>	Fair value	Valuation technique	Inputs used
FINANCIAL Assets at Fair Value			
Trading securities			
Albanian treasury bills	1,332	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")
Albanian government bonds	28,339,952	DCF	Government bonds yield curve("TBonds")
Other securities designated at fair value through profit or loss			
Albanian government bonds	6,841,526	DCF	Tbonds

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Notes to the consolidated financial statements for the year ended 31 December 2015

*(amounts in LEK '000, unless otherwise stated)***38. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY**

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2015:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	78,056,475	-	-	-	78,056,475
Restricted balances	28,632,318	-	-	-	28,632,318
Investments held for trading	-	-	20,998,043	-	20,998,043
Other securities designated at fair value through profit or loss	-	3,423,858	-	-	3,423,858
Held-to-maturity investment securities	-	-	-	51,955,158	51,955,158
Loans and advances to customers	97,266,811	-	-	-	97,266,811
Finance lease receivables	3,629,886	-	-	-	3,629,886
Total financial assets	207,585,490	3,423,858	20,998,043	51,955,158	283,962,549

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2014:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	40,638,657	-	-	-	40,638,657
Restricted balances	22,850,572	-	-	-	22,850,572
Investments held for trading	-	-	28,517,255	-	28,517,255
Other securities designated at fair value through profit or loss	-	6,841,526	-	-	6,841,526
Held-to-maturity investment securities	-	-	-	59,579,093	59,579,093
Loans and advances to customers	112,216,171	-	-	-	112,216,171
Total financial assets	175,705,400	6,841,526	28,517,255	59,579,093	270,643,274

As of 31 December 2015 and 31 December 2014, all of the Group’s financial liabilities except for derivatives were carried at amortised cost.

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Notes to the consolidated financial statements for the year ended 31 December 2015

(amounts in LEK '000, unless otherwise stated)

39. RELATED PARTIES

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank has a related party relationship with Raiffeisen International AG, Raiffeisen Zentralbank Osterreich Aktiengesellschaft, with fellow subsidiaries and its subsidiaries Raiffeisen Leasing sh.a. and Raiffesien Invest sh.a., and with its directors and executive officers.

The Group lends to and received deposits from other related entities. Such loans and deposits are individually insignificant and are generally entered into on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	31 December 2015	31 December 2014
Amounts due from:		
Immediate parent company	19,575,831	8,802,373
Other related parties	84,904	59,931
Assets total	19,660,735	8,862,304
Amounts due to:		
Immediate parent company	(9,169,088)	(7,390,573)
Other related parties	(12,320)	(88,772)
Liabilities total	(9,181,408)	(7,479,345)
	Year ended 31 December 2015	Year ended 31 December 2014
Net interest expense		
Immediate parent company	(494,862)	(433,138)
Other related parties	27,351	37,604
Total net interest expenses	(467,511)	(395,534)
Net fee and commission expense		
Immediate parent company	(36,461)	(21,378)
Other related parties	(157,103)	(158,430)
Total net fee and commission expense	(193,564)	(179,808)
Operating expenses		
Immediate parent company	(448,215)	(468,462)
Other related parties	(3,086)	(35,382)
Total operating expenses	(451,301)	(503,844)
Grand Total	(1,112,376)	(1,079,186)

Included in amounts due to Immediate parent is the Subordinated debt, which is detailed in note 19.

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Notes to the consolidated financial statements for the year ended 31 December 2015

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39. RELATED PARTIES (CONTINUED)**Key management personnel**

The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

	2015	2014
Statement of financial position		
Amounts due from	214,363	108,518
Amounts due to	(122,513)	(74,535)
Net balances due (to)/from	91,850	33,983
Statement of comprehensive income		
Wages, salaries and bonuses	(293,899)	(232,940)
Total	(293,899)	(232,940)

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

Following the events occurring after year end, related to the deterioration of the financial situation of two corporate clients, the management of the Bank is in the process of evaluating the impact of these events in the Group's financial position and financial performance. Management believes that such events do not affect the financial position or financial performance as at and for the year ended December 31, 2015, but will be reflected in the following financial periods.

There were no other significant events after the reporting date that may require either adjustment or disclosure in the consolidated financial statements.