Raiffesen Bank sh.a.

International Financial Reporting Standards Separate Financial Statements and Independent Auditor's Report

31 December 2014

GENERAL INFORMATION

Directors and Management as of 31 December 2014 and 31 December 2013

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
Raphaela Bischof-Rothauer	Member

Registered office

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Auditor

PricewaterhouseCoopers Audit sh.p.k
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Sky Tower, 9/1 floor
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Independent Auditor's Report

To the Shareholder's and Board of Directors of Raiffeisen Bank sh.a.

We have audited the accompanying financial statements of Raiffeisen Bank sh.a. (the "Bank") standing alone, which comprise the statement of financial position as at 31 December 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

PricewaterhouseCoopers Audit sh.p.k

PricewaterhouseCoopers Audit sh.p.k.

Statutory auditor
Kledian Kodra, FCCA

16 March 2015
Tirana, Albania

PricewaterhouseCoopers Audit sh.p.k., Str. Ibrahim Rugova, Sky Tower, 9/1 floor, Tirana, Albania
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Regjistruar në Qendrën Kombëtare të Regjistrimeve më 15 korrik 2009 dhe me NUIS K91915023A

(amounts in LEK'000)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	**7**	40,632,219	35,355,398
Restricted balances	**8**	22,850,572	24,527,024
Investments held for trading	**9.1**	28,341,284	43,704,399
Held to maturity investment securities	**9.2**	59,534,013	65,859,763
Other securities designated at fair value through profit or loss	**9.3**	6,841,526	-
Loans and advances to customers	**10**	111,921,473	116,100,412
Investments in subsidiaries	**12**	201,898	201,898
Current income tax prepayment		176,475	197,371
Deferred income tax asset	**11**	41,839	70,691
Intangible assets	**13**	1,502,000	1,432,820
Premises and equipment	**14**	1,632,104	1,867,322
Other assets	**15**	1,599,543	1,248,336
Total assets		**275,274,946**	**290,565,434**
Liabilities			
Due to banks and financial institutions	**16**	2,993,851	4,049,185
Due to customers	**17**	233,869,236	246,385,359
Other liabilities	**18**	2,013,498	3,154,097
Subordinated debt	**19**	7,149,792	7,154,318
Total liabilities		**246,026,377**	**260,742,959**
Equity			
Share capital	**20**	14,178,593	14,178,593
Retained earnings		12,269,976	12,843,882
Other reserves	**21**	2,800,000	2,800,000
Total equity		**29,248,569**	**29,822,475**
Total liabilities and equity		**275,274,946**	**290,565,434**

These separate financial statements have been approved by the Supervisory Board of the Bank on 13 March 2015 and signed on its behalf by:

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice Chairman of Management Board

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 63.

(amounts in LEK'000)

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	22	12,451,219	15,735,941
Interest expense	23	(1,455,904)	(5,023,677)
Net interest income		**10,995,315**	**10,712,264**
Provision for impairment of loans to customers	10	(4,052,858)	(4,008,658)
Net interest income after provision for loan impairment		**6,942,457**	**6,703,606**
Fee and commission income	24	1,848,916	1,578,813
Fee and commission expense	25	(367,604)	(397,170)
Net fee and commission income		**1,481,312**	**1,181,643**
Net income from investments		7,552	32,340
Net trading income	26	2,547,579	2,884,081
Net other operating expense	27	333,702	(142,920)
		2,888,833	**2,773,501**
Deposit insurance premium	28	(745,867)	(855,698)
Personnel expenses	29	(2,343,203)	(2,352,237)
Depreciation and amortisation	13,14	(658,748)	(568,908)
General and administrative expenses	30	(2,050,247)	(2,000,829)
		(5,798,065)	**(5,777,672)**
Profit before tax		**5,514,537**	**4,881,078**
Income tax expense	31	(790,812)	(420,890)
PROFIT FOR THE YEAR		**4,723,725**	**4,460,188**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Gains less losses arising during the year		-	(37,785)
Gains less losses reclassified to profit or loss upon disposal or impairment		-	-
Other comprehensive income for the year		**-**	**(37,785)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,723,725**	**4,422,403**

The separate statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 63.

(amounts in LEK'000)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	General reserves	Revaluation reserve for AFS securities	Retained earnings	Total
Balance as at 1 January 2013	14,178,593	2,800,000	37,785	13,652,115	30,668,493
Dividends paid during the year	-	-	-	(5,268,421)	(5,268,421)
Profit for the year	-	-	-	4,460,188	4,460,188
Other comprehensive income	-	-	(37,785)	-	(37,785)
Total comprehensive income for the year	-	-	(37,785)	4,460,188	4,422,403
Balance as at 31 December 2013	14,178,593	2,800,000	-	12,843,882	29,822,475
Dividends paid during the year	-	-	-	(5,297,631)	(5,297,631)
Profit for the year	-	-	-	4,723,725	4,723,725
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,723,725	4,723,725
Balance as at 31 December 2014	14,178,593	2,800,000	-	12,269,976	29,248,569

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 63.

(amounts in LEK'000)

SEPARATE STATEMENT OF CASH FLOWS

Cash flows from operating activities	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Profit before tax	**5,514,537**	**4,881,078**
Adjustments for:		
Depreciation and amortization	658,748	568,908
Profit from sale of premises, equipment and intangible assets	(420,554)	(52,652)
Net impairment loss on loans and advances to customers	4,052,858	4,008,658
Net interest income	(10,995,315)	(10,712,264)
Net income from revaluation of trading securities	(111,449)	(42,167)
Net income from revaluation of other current financial assets	(3,561)	-
Changes in provision for other debtors	144,348	-
Changes in provision for litigation	5,972	214
Effect of exchange rate changes on cash and cash equivalents	221,389	62,176
Operating cash flows before changes in working capital	**(933,027)**	**(1,286,049)**
Decrease in restricted balances	1,676,452	3,716,134
Net decrease in loans and advances to customers	7,698	3,413,630
Net decrease/ (increase) in trading securities	15,474,564	(2,456,670)
Net increase in other securities designated at fair value through profit or loss	(6,768,400)	-
Increase in other assets	(495,555)	(321,821)
(Decrease)/ Increase in due to financial institutions	(1,051,582)	3,224,151
Decrease in due to customers	(10,748,957)	(35,995,674)
(Decrease)/Increase in other liabilities	(1,049,222)	1,681,919
Operating cash flows after changes in working capital	**(3,888,030)**	**(28,024,380)**
Interest received	12,398,997	16,121,672
Interest paid	(3,231,349)	(6,893,751)
Corporate income tax paid	(741,064)	(501,307)
Net cash generated from /(used in) operating activities	**4,538,554**	**(19,297,766)**
Cash flows from investing activities		
Purchases of premises and equipment	(341,232)	(355,727)
Purchases of intangible assets	(266,912)	(325,161)
Proceeds from sale of premises , equipment and intangible assets	535,989	57,510
Proceeds from matured financial assets held-to-maturity	46,701,962	70,762,975
Purchase of financial assets held-to-maturity	(40,372,522)	(55,318,868)
Net cash generated from investing activities	**6,257,285**	**14,820,729**
Cash flows from financing activities		
Dividends paid	(5,297,631)	(5,268,421)
Proceeds from Subordinated debt	-	7,010,000
Net cash (used in)/generated from financing activities	**(5,297,631)**	**1,741,579**
Increase/(Decrease) in cash and cash equivalents during the year	**5,498,210**	**(2,735,457)**
Cash and cash equivalents at the beginning of the year	**35,355,398**	**38,153,031**
Effect of exchange rate changes on cash and cash equivalents	(221,389)	(62,176)
Cash and cash equivalents at the end of the year (Note 7)	**40,632,219**	**35,355,398**

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 63.

1. INTRODUCTION

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.

The Bank operates through a banking network of 90 service points, as of 31 December 2014, (31 December 2013: 102 service points) throughout Albania, which are managed through 8 Districts and has no overseas operations.

The financial statements for the year ended 31 December 2014 were authorized for issue by the Board of Directors on 13 March 2015. 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 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.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'group'). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from http://www.raiffeisen.al/. Users of these separate financial statements should read them together with the group's consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole.

Presentation currency. These 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) Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

A parent need not present consolidated financial statements if the parent is itself a wholly-owned subsidiary and the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards. The Bank prepares separate financial statements and consolidated financial statements in accordance with IFRS. Interests in subsidiaries are accounted for at cost in the separate financial statements. The consolidated financial statements prepared in accordance with IFRS will be published at at the same date as the separate financial statements.

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Bank rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2014 and 31 December 2013 were as below:

	31 December 2014		**31 December 2013**	
	Period end	*Average*	*Year end*	*Average*
United States dollar (USD)	115.23	105.75	101.86	105.53
European Union currency unit (EUR)	140.14	139.93	140.20	140.23

(c) Interest

Interest income and expense are recognised as profit or loss in the separate 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 Bank 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 in the statement of profit or loss and other 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 presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Bank 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 Bank 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 Bank 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*

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the separate 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.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities

i Recognition

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 Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

ii Derecognition

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank 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.

iii Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

iv Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

Determination of fair value is further detailed in Note 4 to the separate financial statements "Critical accounting estimates and judgements" and Note 35 "Fair values of financial assets and liabilities".

v Offsetting

Financial assets and liabilities are set off and the net amount presented in the separate statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i). Financial assets and liabilities (continued)

vi Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central banks 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 Bank in the management of its short-term commitments.

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

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank 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 separate 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Bank 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

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's separate financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

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

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 in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 Bank 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:

	2014 (in years)	2013 (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.

(p) Intangible assets

Intangible assets acquired by the Bank 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.

(q) 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 separate 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Deposits and other financial liabilities

Deposits and other financial liabilities are the Bank's main sources of debt funding. When the Bank sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's separate financial statements.

The Bank 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.

(s) Impairment of non-financial assets

The carrying amounts of the Bank'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.

(t) Provisions

A provision is recognised if, as a result of a past event, the Bank 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 on-balance has to be made. 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.

(u) *Credit related commitments.*

The Bank 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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 36.

(w) Comparability

All amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the amounts recognised in the 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 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 Bank 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 Bank 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 719,869 thousand (2013: LEK 380,279 thousand) or a decrease in loan impairment losses of LEK 645,263 thousand (2013: LEK 648,024 thousand), respectively.

ii. Determination of fair value of investment securities

Information and sensitivity analysis about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 35.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Bank from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying 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. The amended standard did not have a material impact on the Bank.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Bank.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Bank.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Bank.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Bank.

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 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 financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Bank's financial statements.

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Bank is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a Bank of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive.

The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Bank is currently assessing the impact of the amendments on its financial statements.

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Bank is currently assessing the impact of the amendments on its financial statements.

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Bank expects no impact from the amendments on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Bank is currently assessing the impact of the amendments on its separate financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

(amounts in LEK'000, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash on hand	3,323,499	2,455,397
Central Bank		
Current accounts	373,399	1,401
Deposits	7,000,000	-
Accrued interest on deposit account	96	-
Banks		
Current accounts with non-resident banks	915,868	260,942
Deposits with resident banks with original maturities of less than three months	2,853,975	-
Deposits with non-resident banks with original maturities of less than three months	26,165,382	32,637,658
Total	**40,632,219**	**35,355,398**

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 2014 varies from 1.50% to 2.25%.The annual interest rates on term deposits with non-resident banks as at 31 December 2014 vary from 0.05% to 0.8% (31 December 2013 : 0.05% to 0.75%).

8. RESTRICTED BALANCES

	31 December 2014	31 December 2013
Central Bank		
Obligatory reserves	22,146,997	24,019,125
Banks		
Guarantee accounts	703,575	507,899
Total	**22,850,572**	**24,527,024**

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 credit quality of cash and cash equivalents and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2014:

	2014	2013
Neither past due nor impaired		
A-1	6,040,445	24,513,854
A-1+	2,621,881	3,233,166
A-2	10,607,286	15,965
A-3	26,278	-
B	26,627	26,638
Unrated	44,160,274	32,092,799
Carrying amount	**63,482,791**	**59,882,422**

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

(amounts in LEK'000, unless otherwise stated)

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 2014	31 December 2013
Government bonds	28,339,952	43,393,437
Treasury bills	1,332	310,962
Total	**28,341,284**	**43,704,399**

Treasury bills as at 31 December 2014 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 3.21% to 3.9% per annum (31 December 2013: from 3.63% to 6.64%).

Government bonds as at 31 December 2014 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 4.04% to 10.85% per annum (31 December 2013: from 4.69% to 11.00%).

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 2014	31 December 2013
Government bonds (note 9.2.1)	33,250,417	47,615,676
Government bonds non-resident (note 9.2.3)	5,802,783	-
Corporate bonds	2,939,700	2,230,652
Treasury bills (note 9.2.2)	17,541,113	16,013,435
Total	**59,534,013**	**65,859,763**

As at 31 December 2014, no held to maturity investment securities were pledged as security for the repurchase agreements portfolio (2013: none).

9.2.1 Government bonds

Government bonds as at 31 December 2014 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 4.04% to 10.85% per annum (31 December 2013: from 4.69% to 11.00%).

	31 December 2014	31 December 2013
Nominal value of bonds	32,704,194	46,677,645
Unamortised premium	3,717	10,574
Accrued interest	542,506	927,457
Total	**33,250,417**	**47,615,676**

(amounts in LEK'000, unless otherwise stated)

9. INVESTMENT SECURITIES (CONTINUED)

9.2 Held-to-maturity investment securities (continued)

9.2.2 Government bonds non-resident

Government bonds non-resident as at 31 December 2014 represent 1 year bonds denominated in EUR with coupon rates 3.5% per annum (31 December 2013: 0).

	31 December 2014	31 December 2013
Nominal value of bonds	5,605,600	-
Unamortised premium	62,265	-
Accrued interest	134,918	-
Total	**5,802,783**	**-**

9.2.3 Corporate bonds

Corporate bonds as at 31 December 2014 represent 1 year bonds denominated in EUR with coupon rates ranging from 3.25% to 5.88% per annum (31 December 2013: 3.25% to 3.75%).

	31 December 2014	31 December 2013
Nominal value of bonds	2,799,997	2,145,060
Unamortised premium	11,916	6,546
Accrued interest	127,787	79,046
Total	**2,939,700**	**2,230,652**

9.2.4 Treasury Bills

Treasury bills as at 31 December 2014 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 2.27% to 4.85% per annum (31 December 2013: from 3.63% to 7.10%).

	31 December 2014	31 December 2013
Nominal value of treasury bills	17,790,230	16,406,757
Unamortised discount	(249,117)	(393,322)
Total	**17,541,113**	**16,013,435**

(amounts in LEK'000, unless otherwise stated)

9. INVESTMENT SECURITIES (CONTINUED)

9.3 Other securities designated at fair value through profit or loss

Other securities designated at fair value through profit or loss comprise bonds of Albanian Government as follows:

	31 December 2014	31 December 2013
Government bonds	6,841,526	-
Total	**6,841,526**	**-**

Government bonds as at 31 December 2014 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 4.89% to 7.85% per annum (31 December 2013: 0).

Analysis by credit quality of investment securities is summarized as follows at 31 December 2014 and 2013:

	Investments held for trading		**Held-to-maturity investment securities**		**Other securities designated at fair value through profit or loss**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Neither past due nor impaired	-	-	-	-	-	-
B	28,341,284	43,704,399	50,791,530	63,629,111	6,841,526	-
A	-	-	956,974	-	-	-
Aa1u	-	-	5,802,783	-	-	-
AA+	-	-	-	725,369	-	-
BBB+	-	-	-	633,562	-	-
BBB	-	-	1,982,726	723,471	-	-
Unrated	-	-	-	148,250	-	-
Carrying amount	**28,341,284**	**43,704,399**	**59,534,013**	**65,859,763**	**6,841,526**	**-**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2014	31 December 2013
Loans and advances to customers	125,499,494	127,997,174
Allowance for loan loss impairment	(13,578,021)	(11,896,762)
Net carrying amount	**111,921,473**	**116,100,412**

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

	2014	2013
Balance at the beginning of the year	11,896,762	11,248,008
Allowance for loan loss impairment	5,787,102	5,418,824
Release for loan loss impairment	(1,636,895)	(1,449,718)
Loans written off	(2,468,948)	(3,320,352)
Balance at the end of the year	**13,578,021**	**11,896,762**

The interest rates of loans and advances to customers vary from 1.57% to 11.58% p.a. in foreign currencies and from 3.21% to 19.13% p.a. in LEK (31 December 2013: from 1.82% to 9.58% p.a. in foreign currencies and from 6.57% to 19.02% p.a. in LEK).

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers detailed in business segments as at 31 December 2014 and 31 December 2013 are presented in the following tables:

						31 December 2014
	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	**1,797,341**	**50,378,723**	**4,435,749**	**635,739**	**70,605**	**57,318,157**
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**
less Administrative Fee	(154,975)	(212,847)	(40,756)	(10,390)	-	**(418,968)**
	10,292,162	**39,684,057**	**4,911,474**	**858,071**	**374,772**	**56,120,536**
Mortgage	**8,002,580**	**-**	**508,759**	**244,500**	**2,723,672**	**11,479,511**
Other	**40,520**	**16,028**	**9,292**	**20,296**	**1,246**	**87,382**
TOTAL	**20,572,264**	**90,081,075**	**9,869,964**	**1,758,606**	**3,217,585**	**125,499,494**

						31 December 2013
	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	**1,629,311**	**50,681,183**	**5,219,787**	**705,274**	**68,521**	**58,304,076**
Credit Card	**379,433**	**59**	**-**	**-**	**41,184**	**420,676**
Loans						
Short term	131,326	1,997,372	111,396	6,129	1,521	**2,247,744**
Medium term	3,429,569	20,065,084	3,113,586	690,218	107,897	**27,406,354**
Long term	7,046,818	17,854,134	3,258,323	385,376	214,321	**28,758,972**
less Administrative Fee	(158,103)	(219,751)	(48,807)	(13,246)	-	**(439,907)**
	10,449,610	**39,696,839**	**6,434,498**	**1,068,477**	**323,739**	**57,973,163**
Mortgage	**8,218,561**	**-**	**289,252**	**254,990**	**2,461,470**	**11,224,273**
Other	**35,331**	**18,632**	**4,506**	**16,049**	**468**	**74,986**
TOTAL	**20,712,246**	**90,396,712**	**11,948,043**	**2,044,790**	**2,895,383**	**127,997,174**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for impairment of loans and advances to customers detailed in business segments as at 31 December 2014 and 31 December 2013 are presented in the following tables:

						31 December 2014
	Individual	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Balance at the beginning of the year	1,446,758	8,795,547	1,356,849	295,045	2,563	**11,896,762**
Allowance for loan loss impairment	552,265	4,333,972	740,720	157,081	3,064	**5,787,102**
Release for loan loss impairment	(188,405)	(1,119,653)	(275,727)	(53,110)		**(1,636,895)**
Loans written off	(129,722)	(1,804,494)	(434,124)	(99,029)	(1,579)	**(2,468,948)**
Balance at the end of the year	**1,680,896**	**10,205,372**	**1,387,718**	**299,987**	**4,048**	**13,578,021**

						31 December 2013
	Individual	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Balance at the beginning of the year	3,211,462	6,046,439	1,332,807	653,102	4,198	**11,248,008**
Allowance for loan loss impairment	692,652	4,210,098	380,429	135,599	45	**5,418,823**
Release for loan loss impairment	(470,314)	(703,101)	(140,957)	(133,710)	(1,635)	**(1,449,717)**
Loans written off	(1,987,042)	(757,889)	(215,430)	(359,946)	(45)	**(3,320,352)**
Balance at the end of the year	**1,446,758**	**8,795,547**	**1,356,849**	**295,045**	**2,563**	**11,896,762**

Economic sector risk concentration within the gross loan portfolio is as follows:

In thousands of LEK	**2014**		**2013**	
	Amount	**%**	**Amount**	**%**
Trade, repair of motor vehicles and household items	40,256,913	32.08%	42,562,652	33.25%
Households	23,885,467	19.03%	23,606,633	18.44%
Production and distribution of electricity, gas and water	21,376,595	17.03%	19,346,678	15.11%
Processing industry	10,787,537	8.60%	10,012,088	7.82%
Construction	7,412,006	5.91%	8,515,323	6.65%
Monetary and financial intermediation	7,020,937	5.59%	7,745,667	6.05%
Transportation, Storage and Telecommunications	5,655,625	4.51%	5,953,906	4.65%
Extracting industry	2,333,885	1.86%	3,156,364	2.47%
Agriculture and haunting	2,298,432	1.83%	2,189,408	1.71%
Collective, social and personal	2,277,008	1.81%	2,057,914	1.61%
Health and social work	1,139,716	0.91%	1,610,482	1.26%
Other	1,055,373	0.84%	1,240,061	0.97%
Total loans and advances to customers (before impairment)	**125,499,494**	**100%**	**127,997,176**	**100%**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

State and public organisations exclude government owned profit orientated businesses.
At 31 December 2014 the Bank had 18 borrowers (2013:21 borrowers) with aggregated loan amounts above LEK 1,000,000 thousand. The total aggregate amount of these loans was LEK 53,892,375 thousand (2013: LEK 53,983,544 thousand) or 48.8% of the gross loan portfolio (2013: 42%).

Information about collateral at 31 December 2014 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,363,836	3,675,853	279,323	108,525	552,146	**16,979,683**
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	**16,817,738**
Loans collateralised by:						
- residential real estate	6,585,679	6,791,636	2,160,863	548,831	2,079,256	**18,166,265**
- 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	**1,111,068**
- other assets	26,906	37,994,764	1,071,691	126,278	-	**39,219,639**
Total loans and advances to customers	**20,572,264**	**90,081,075**	**9,869,964**	**1,758,606**	**3,217,585**	**125,499,494**

Information about collateral at 31 December 2013 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,043,636	5,225,044	56,355	1,285,885	1,052,314	**19,663,234**
Loans guaranteed by other banks	-	893,654	-	-	-	**893,654**
Loans guaranteed by other parties, including credit insurance	421,443	16,788,684	52,959	-	2,407	**17,265,493**
Loans collateralised by:						
- residential real estate	6,756,203	9,751,407	2,321,169	388,570	1,786,876	**21,004,225**
- other real estate	837,361	16,950,812	7,045,332	287,213	52,986	**25,173,704**
- cash deposits	622,290	838,642	24,657	13,178	800	**1,499,567**
- other assets	31,312	39,948,469	2,447,571	69,945	-	**42,497,297**
Total loans and advances to customers	**20,712,245**	**90,396,712**	**11,948,043**	**2,044,791**	**2,895,383**	**127,997,174**

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.

(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:

	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Employees*	*Total*
Neither past due nor impaired						
Grade 2C	3,504,615	-	-	-	-	**3,504,615**
Grade 3B	-	-	-	-	-	**-**
Grade 3C	399	-	-	-	-	**399**
Grade 4A	-	-	-	-	-	**-**
Grade 4B	1	546,157	-	-	-	**546,158**
Grade 4C	434,661	-	-	-	-	**434,661**
Grade 5A	316,958	-	-	-	-	**316,958**
Grade 5B	26,619	1,060,900	-	-	-	**1,087,519**
Grade 5C	767,575	-	-	-	-	**767,575**
Grade 6A	102,678	857,809	-	-	-	**960,487**
Grade 6B	2,479,585	707,325	-	-	-	**3,186,910**
Grade 6C	549,926	619,615	-	-	-	**1,169,541**
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 7A	1,920,627	530,221	-	-	-	**2,450,848**
Grade 7B	2,824,415	696,815	-	-	-	**3,521,230**
Grade 7C	1,550,137	303,691	-	-	-	**1,853,828**
Grade 8A	22,450,094	215,122	-	-	-	**22,665,216**
Grade 8B	3,412,126	576,990	-	-	-	**3,989,116**
Grade 8C	4,036,897	180,987	-	-	-	**4,217,884**
Grade 9A	1,699,673	-	-	-	-	**1,699,673**
Grade 9B	2,459,033	633,214	-	-	-	**3,092,247**
Grade 9C	5,195,106	-	-	-	-	**5,195,106**
Grade 10A	-	-	-	-	-	**-**
Grade (unrated)	3,436,973	6,229	1,130,413	16,919,025	3,146,431	**24,639,071**
Total neither past due nor impaired	**63,757,023**	**6,935,075**	**1,130,413**	**16,919,025**	**3,146,431**	**91,887,967**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Past due but not impaired	*Corporate*	*Small Enterprises*	*Micro SMEs*	*Households*	*Employees*	*Total*
- less than 30 days overdue	5,796,582	658,887	129,865	1,058,102	65,575	**7,709,011**
- 30 to 60 days overdue	2,381,559	94,078	43,308	235,837	600	**2,755,382**
- 60 to 90 days overdue	283,403	30,746	33,318	224,082	522	**572,071**
- 90 to 180 days overdue	2,477,525	237,990	34,785	247,387	-	**2,997,687**
- 90 to 360 days overdue	-	-	4,961	52,908	3,839	**61,708**
- over 360 days overdue	-	-	27,546	32,312	-	**59,858**
Total past due but not impaired	**10,939,069**	**1,021,701**	**273,783**	**1,850,628**	**70,536**	**14,155,717**
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	1,779,060	163,204	3,583	62,842	-	**2,008,689**
- 90 to 360 days overdue	6,264,266	454,046	51,892	351,879	-	**7,122,083**
- over 360 days overdue	7,341,657	1,295,938	248,913	1,011,466	19	**9,897,993**
Total individually impaired loans (gross)	**15,384,983**	**1,913,188**	**354,410**	**1,802,611**	**618**	**19,455,810**
Less impairment provisions	**(10,205,371)**	**(1,387,719)**	**(299,989)**	**(1,680,894)**	**(4,048)**	**(13,578,021)**
Total loans and advances to customers	**79,875,704**	**8,482,245**	**1,458,617**	**18,891,370**	**3,213,537**	**111,921,473**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Employees*	*Total*
Neither past due nor impaired						
Grade 2C	3,505,579	-	-	-	-	**3,505,579**
Grade 3B	1,528,004	-	-	-	-	**1,528,004**
Grade 4A	59	-	-	-	-	**59**
Grade 4B	-	496,720	-	-	-	**496,720**
Grade 5B	112,949	1,455,086	-	-	-	**1,568,035**
Grade 5C	666,602	-	-	-	-	**666,602**
Grade 6A	81,837	824,158	-	-	-	**905,995**
Grade 6B	623,385	591,076	-	-	-	**1,214,461**
Grade 6C	1,607,543	509,228	-	-	-	**2,116,772**
Grade 7A	1,636,618	861,157	-	-	-	**2,497,775**
Grade 7B	2,944,056	876,474	-	-	-	**3,820,530**
Grade 7C	2,517,995	586,991	-	-	-	**3,104,987**
Grade 8A	23,302,244	313,223	-	-	-	**23,615,467**
Grade 8B	4,748,027	453,865	-	-	-	**5,201,892**
Grade 8C	5,408,567	65,293	-	-	-	**5,473,859**
Grade 9A	6,998,346	-	-	-	-	**6,998,346**
Grade 9B	2,344,346	983,473	-	-	-	**3,327,820**
Grade 9C	1,833,173	-	-	-	-	**1,833,173**
Grade 10A	23	56	-	-	-	**79**
Grade (unrated)	4,558,392	1,991	1,256,391	17,415,394	2,543,751	**25,775,919**
Total neither past due nor impaired	**64,417,747**	**8,018,791**	**1,256,391**	**17,415,394**	**2,543,751**	**93,652,074**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Past due but not impaired	*Corporate*	*Small Enterprises*	*Micro SMEs*	*Households*	*Employees*	*Total*
- less than 30 days overdue	6,072,446	1,058,606	184,719	1,080,063	63,736	**8,459,570**
- 30 to 60 days overdue	4,582,183	641,563	75,134	282,429	2,362	**5,583,671**
- 60 to 90 days overdue	1,862,673	73,571	73,521	264,798	-	**2,274,563**
- 90 to 180 days overdue	129,715	128,188	54,217	292,206	-	**604,326**
- 90 to 360 days overdue	505,374	73,274	6,227	66,759	-	**651,634**
- over 360 days overdue	651,727	214,245	34,506	30,250	-	**930,728**
Total past due but not impaired	**13,804,118**	**2,189,447**	**428,324**	**2,016,505**	**66,098**	**18,504,492**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	-	-	1,121	22,347	32	**23,500**
- 30 to 60 days overdue	-	-	653	2,457	-	**3,110**
- 60 to 90 days overdue	-	-	581	525	-	**1,106**
- 90 to 180 days overdue	5,715,910	123,957	2,287	18,427	-	**5,860,580**
- 90 to 360 days overdue	1,420,724	92,021	110,630	679,595	-	**2,302,969**
- over 360 days overdue	5,039,207	1,523,828	244,806	841,479	22	**7,649,343**
Total individually impaired loans (gross)	**12,175,841**	**1,739,806**	**360,077**	**1,564,830**	**54**	**15,840,608**
Less impairment provisions	**(8,795,547)**	**(1,356,849)**	**(295,046)**	**(1,446,758)**	**(2,563)**	**(11,896,763)**
Total loans and advances to customers	**81,602,159**	**10,591,195**	**1,749,746**	**19,549,971**	**2,607,340**	**116,100,411**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank 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 0.5 to 10 in the Bank's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank 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 Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2014 restructured loans were LEK 21,242,649 thousand (2013:LEK 17,230,452 thousand).

Allowances for impairment

The Bank 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 Bank 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.

As at 31 December 2014 and 2013, the individually assessed and impaired loans and advances to customers were as follows:

	Loans and advances to customers	
	Gross	**Net**
31 December 2014		
Individually impaired	19,455,810	7,665,000
Total	**19,455,810**	**7,665,000**
31 December 2013		
Individually impaired	15,840,608	6,436,375
Total	**15,840,608**	**6,436,375**

The Bank 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 2014 and 2013.

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Against individually impaired	Against collectively impaired	Total
Property	24,730,112	179,174,864	203,904,976
Pledge	15,173,286	76,133,111	91,306,397
Cash	1,150	2,788,824	2,789,974
Guarantee	31,854	42,748,906	42,780,760
Life insurance	26,682	393,390	420,072
Total	**39,963,084**	**301,239,095**	**341,202,179**

The collateral pledged against individually impaired loans as at 31 December 2013 was LEK 53,566,198 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 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	56,640,238	276,142,339	33,649,477	14,233,268
Small Enterprises	6,733,366	24,144,367	3,177,293	899,431
Micro SMEs	899,965	2,704,722	869,107	112,870
Households	8,636,105	22,074,256	15,304,852	836,927

The effect of collateral at 31 December 2013:

	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	32,822,426	169,565,188	3,503,453	2,991,271
Small Enterprises	5,837,966	24,444,880	737,160	417,209
Micro SMEs	623,923	2,084,005	134,982	80,041
Households	9,103,916	26,638,658	1,407,761	988,427

(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 2014	31 December 2013
Balance at the beginning of the year	70,691	(2,461)
Deferred tax benefit relating to the origination and reversal of temporary differences (note 31)	(28,852)	73,152
Balance at the end of the year	**41,839**	**70,691**

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

Deferred tax has been calculated based on the enacted tax rate for 2014 of 15% (2013: 10%). As at 31 December 2014 and 31 December 2013 deferred tax assets and liabilities have been recognised for the following items:

	31 December 2014	31 December 2013
Deferred tax asset		
Accelerated accounting depreciation	41,839	70,691
Net deferred tax assets/liabilities	**41,839**	**70,691**

12. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries includes investments carried at cost in Raiffeisen Leasing sh.a. and Raiffeisen Invest sh.a.

Raiffeisen Leasing sh.a.

Based on the decision of the Bank's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen - Leasing International Gesellschaft m.b.H, the Bank has incorporated a leasing company in the Republic of Albania in the form of a joint stock company, whose primary objective is to exercise financial leasing. As at 31 December 2014 the Bank holds 75% of the shares for an amount of EUR 750 thousand (equivalent of LEK 92,250 thousand). The remaining share of 25% of the paid-in capital of Raiffeisen Leasing sh.a. is owned by Raiffeisen Leasing International Gesellschaft m.b.H.

Raiffeisen Invest sh.a

The Bank has purchased 100% of the shares of Raiffeisen Invest sh.a., for an amount of LEK 109,648 thousand. The purchase has been approved by the Albanian Financial Supervisory Authority based on decision nr.30, dated 26 March 2009, registered on the Albanian National Register on 23 April 2009. The subsidiary's primary objective is to act as a management company to 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 and to establish and/or manage the Collective Investment Undertakings based on the Law no. 10198, dated 10 December 2009 "On collective investment undertakings".

(amounts in LEK'000, unless otherwise stated)

13. INTANGIBLE ASSETS

Movements in intangible assets for the year ended 31 December 2014 and 2013 are detailed as follows:

	Software	Licences	Total
Cost			
At 1 January 2013	**1,709,759**	**325,640**	**2,035,399**
Additions	305,737	19,424	325,161
Disposals	(96,255)	(8,181)	(104,436)
Transfer	(2,534)	2,534	-
At 31 December 2013	**1,916,707**	**339,417**	**2,256,124**
At 1 January 2014	**1,916,707**	**339,417**	**2,256,124**
Additions	240,553	26,359	266,912
Disposals	(134,931)	(874)	(135,805)
At 31 December 2014	**2,022,329**	**364,902**	**2,387,231**
Amortization			
At 1 January 2013	(556,341)	(260,965)	(817,306)
Amortization charge	(101,365)	(8,945)	(110,310)
Disposals	96,131	8,181	104,312
At 31 December 2013	**(561,575)**	**(261,729)**	**(823,304)**
At 1 January 2014	**(561,575)**	**(261,729)**	**(823,304)**
Amortization charge	(186,279)	(11,335)	(197,614)
Disposals	134,813	874	135,687
At 31 December 2014	**(613,041)**	**(272,190)**	**(885,231)**
Net book value			
At 1 January 2014	**1,355,132**	**77,688**	**1,432,820**
At 31 December 2014	**1,409,288**	**92,712**	**1,502,000**

There are no assets pledged as collateral as at 31 December 2014 (2013: none).

(amounts in LEK'000, unless otherwise stated)

14. PREMISES AND EQUIPMENT

Movements in premises and equipment for the year ended 31 December 2014 and 2013 are detailed as follows:

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
At 1 January 2013	1,366,189	2,299,264	346,979	224,934	614,226	4,851,592
Additions	36,496	155,595	22,368	112,608	28,660	355,727
Disposals	(11,827)	(316,921)	(12,427)	-	(26,610)	(367,785)
Transfers	96,025	185,797	2,239	(293,433)	9,372	-
At 31 December 2013	**1,486,883**	**2,323,735**	**359,159**	**44,109**	**625,648**	**4,839,534**
At 1 January 2014	1,486,883	2,323,735	359,159	44,109	625,648	4,839,534
Additions	12,619	168,564	16,619	117,075	26,355	341,232
Disposals	(168,270)	(212,450)	(102,728)	-	(50,461)	(533,909)
Transfers	35,331	115,826	42	(159,004)	7,805	-
At 31 December 2014	**1,366,563**	**2,395,675**	**273,092**	**2,180**	**609,347**	**4,646,857**
Accumulated depreciation						
At 1 January 2013	(515,236)	(1,713,561)	(212,975)	-	(434,892)	(2,876,664)
Depreciation charge	(98,868)	(250,979)	(43,153)	-	(65,599)	(458,598)
Disposals	10,668	315,390	12,427	-	24,566	363,050
At 31 December 2013	**(603,436)**	**(1,649,150)**	**(243,701)**	**-**	**(475,925)**	**(2,972,212)**
At 1 January 2014	(603,436)	(1,649,150)	(243,701)	-	(475,925)	(2,972,212)
Depreciation charge	(83,438)	(283,610)	(38,772)	-	(55,314)	(461,134)
Disposals	74,400	209,358	87,157	-	47,678	418,593
At 31 December 2014	**(612,474)**	**(1,723,402)**	**(195,316)**	**-**	**(483,561)**	**(3,014,753)**
Net Book Value						
At 31 December 2013	**883,447**	**674,585**	**115,458**	**44,109**	**149,723**	**1,867,322**
At 31 December 2014	**754,089**	**672,273**	**77,776**	**2,180**	**125,786**	**1,632,104**

There are no assets pledged as collateral as at 31 December 2014 (2013: none).

(amounts in LEK'000, unless otherwise stated)

15. OTHER ASSETS

	31 December 2014	31 December 2013
Inventories	1,510,158	1,117,080
Prepaid expenses and accruals	71,657	86,246
Sundry debtors, net	5,152	31,147
Money gram	12,576	13,863
Total	**1,599,543**	**1,248,336**

As at 31 December 2014, the Bank's repossessed collateral is LEK 1,510,158 thousand (2013: LEK 1,117,080 thousands). Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank 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 2014	31 December 2013
Sundry debtors	161,084	42,731
Provisions for losses from other debtors	(155,932)	(11,584)
Total Sundry debtors, net	**5,152**	**31,147**

Movements in the provisions for sundry debtors are as follows:

	2014	2013
Balance at the beginning of the year	**11,584**	**11,584**
Allowance for Provisions for losses from other debtors	144,108	-
Foreign exchange effect	240	-
Balance at the end of the year	**155,932**	**11,584**

16. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2014	31 December 2013
Current accounts		
Resident banks and financial institutions	1,298,646	256,840
Non-resident banks and financial institutions	77,249	13,990
Accrued interest	41	2,357
	1,375,936	**273,187**
Deposits		
Central Bank	-	210,000
Resident banks and financial institutions	1,495,393	3,332,134
Non-resident banks and financial institutions	122,346	232,252
Accrued interest	176	1,612
	1,617,915	**3,775,998**
Total	**2,993,851**	**4,049,185**

The annual interest rates for borrowed funds from financial institutions varied from 0 % to 1.2% during the year ended 31 December 2014 (2013: 0.06% to 4.75%). The annual interest rates for borrowed funds from Non resident financial institutions is 0.56% during the year ended 31 December 2014 (2013: 0.19% to 0.35%).

(amounts in LEK'000, unless otherwise stated)

17. DUE TO CUSTOMERS

	31 December 2014	31 December 2013
Current accounts	84,783,524	61,425,655
Deposits	145,068,610	181,592,691
Other accounts	4,017,102	3,367,013
Total	**233,869,236**	**246,385,359**

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

(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 2014			31 December 2013
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
Current accounts	41,504,067	43,279,270	84,783,337	28,233,930	33,191,546	61,425,476
Accrued interest	134	53	187	15	164	179
	41,504,201	**43,279,323**	**84,783,524**	**28,233,945**	**33,191,710**	**61,425,655**
Deposits						
On demand	5,476,849	4,534,360	10,011,209	4,236,078	3,552,227	7,788,305
1 month - 3 months	4,331,799	2,376,128	6,707,927	9,323,643	6,689,160	16,012,803
3 months - 6 months	5,388,208	7,716,931	13,105,139	5,803,545	6,444,692	12,248,237
6 months - 12 months	9,011,358	8,542,448	17,553,806	10,634,258	9,551,129	20,185,387
12 months - 24 months	48,963,548	43,218,208	92,181,756	63,342,397	53,136,189	116,478,586
24 months - 36 months	1,364,999	1,247,215	2,612,214	2,389,522	1,237,146	3,626,668
36 months	291,387	148,046	439,433	496,445	256,636	753,081
60 months	379,645	1,557,341	1,936,986	520,779	1,700,801	2,221,580
Accrued interest on deposits	332,091	188,049	520,140	1,634,504	643,540	2,278,044
	75,539,884	**69,528,726**	**145,068,610**	**98,381,171**	**83,211,520**	**181,592,691**
Other accounts						
Guarantee deposits	729,185	2,059,741	2,788,926	1,322,291	1,345,946	2,668,237
Dormant customer accounts	16,876	268	17,144	122,304	9,526	131,830
Cheques customer accounts	700	1,121	1,821	-	-	-
Other	1,203,778	4,016	1,207,794	554,514	1,744	556,258
Accrued interest	1,135	282	1,417	7,352	3,336	10,688
	1,951,674	**2,065,428**	**4,017,102**	**2,006,461**	**1,360,552**	**3,367,013**
Total	**118,995,759**	**114,873,477**	**233,869,236**	**128,621,577**	**117,763,782**	**246,385,359**

(amounts in LEK'000, unless otherwise stated)

18. OTHER LIABILITIES

	31 December 2014	31 December 2013
Other creditors	128,693	258,278
Accrued expenses	315,845	327,744
Due to employees	299,252	242,842
Withholding Tax payable	39,687	86,389
Provision for Contingent Liabilities	19,339	116,688
Deferred income	36,715	40,421
Due to Social Insurance	30,761	29,756
Provision for litigations	24,442	18,470
Suspense accounts	1,117,735	2,028,915
VAT payable	1,029	4,594
Total	**2,013,498**	**3,154,097**

- Included in "Other creditors" is the amount of LEK 11,590 thousand (2013: LEK 26,376 thousand) of unpaid invoices to suppliers.
- Included in "Accrued expenses" is the amount of LEK 186,467 thousand (2013: LEK 213,924 thousand) of accrued deposit insurance premium payable on customers' deposits to the Albanian Insurance Deposits Agency.
- 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 2014	31 December 2013
Balance at the beginning of the year	116,688	77,136
Provisions expense for the period	-	43,387
Reversal of provisions for the year	(97,349)	(3,835)
Balance at the end of the year	**19,339**	**116,688**

- The Bank was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2014. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Bank'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 2014	31 December 2013
Balance at the beginning of the year	18,470	**23,190**
Provisions expense for the period	6,934	
Reversal of provisions for the year	(962)	(4,720)
Balance at the end of the year	**24,442**	**18,470**

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 5,869 % p.a. (2013: 5,977 % p.a) and matures on 11 July 2018. The debt ranks after all other creditors in case of liquidation.

(amounts in LEK'000, unless otherwise stated)

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 (2013: 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 the 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. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Loans and advances to customers	8,234,805	10,041,286
Investment securities	4,038,476	5,613,907
Bank deposits	177,938	80,658
Reverse repurchase agreement bought	-	90
Total	**12,451,219**	**15,735,941**

Interest income includes LEK 80,836 thousand (2013: LEK 43,165 thousand) interest income, recognised on impaired loans to customers.

23. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Customers	902,097	4,831,208
Repurchase agreement sold	20,954	2,264
Banks	532,853	190,205
Total	**1,455,904**	**5,023,677**

24. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Funds transfers	1,281,115	1,198,040
Lending activities	201,656	200,695
Other banking services	366,144	180,078
Total	**1,848,915**	**1,578,813**

(amounts in LEK'000, unless otherwise stated)

25. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2014	Year ended 31 December 2013
Payments transfer business	312,121	341,402
Loan and guarantee business	10,080	5,405
Other banking services	45,403	50,363
Total	**367,604**	**397,170**

26. NET TRADING INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
Income from transactions with securities	1,950,950	2,293,983
Foreign exchange gains	596,629	590,098
Total	**2,547,579**	**2,884,081**

27. NET OTHER OPERATING EXPENSE

	Year ended 31 December 2014	Year ended 31 December 2013
Other revenues	757,238	237,528
Other expenses	(423,536)	(380,448)
Total	**333,702**	**(142,920)**

Other revenues comprise income from write-offs of old dormant accounts amounting LEK 137,455 thousand (2013: LEK 155,000 thousand) and income from sale of Bank property for an amount of LEK 535,989 thousand (2013: none). "Other expenses" include loss from a fraud case of LEK 118,911 thousand (2013: LEK 256,050 thousand) and withholding tax amounting LEK 26,710 thousand (2013: LEK 21,031 thousand).

28. DEPOSIT INSURANCE PREMIUM

Based on Law no. 8873 "On deposit's insurance", dated 29 March 2002, 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 (2013: 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 it is payable quarterly.

(amounts in LEK'000, unless otherwise stated)

29. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries	2,031,583	2,035,611
Social insurance	258,642	253,743
Personnel training	39,241	42,734
Other personnel costs	13,737	20,149
Total	**2,343,203**	**2,352,237**

30. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended 31 December 2014 and 2013 comprise the following expenses:

	Year ended 31 December 2014	Year ended 31 December 2013
Rent expense	621,127	619,109
IT maintenance expense	527,750	520,540
Advertising, public relations and promotional expenses	297,158	286,362
Legal, advisory and consulting expenses	233,371	234,907
Sundry administrative expenses	163,602	126,388
Car expenses	59,146	63,114
Office supplies	66,165	55,802
Communication expenses	36,860	48,501
Travelling expenses	30,730	26,508
Security expenses	14,338	19,598
Total	**2,050,247**	**2,000,829**

Consultancy and legal fees include charges for management fees totalling LEK 158,502 thousand in 2014 (2013: LEK 171,471 thousand).

(amounts in LEK'000, unless otherwise stated)

31. INCOME TAX

Income tax in Albania is assessed at the rate of 15% (2013: 10%) of taxable income:

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax	761,960	494,042
Deferred tax	28,852	(73,152)
Income tax expense for the year	**790,812**	**420,890**

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	2014	Effective tax rate	2013
Profit before taxes		5,514,537		4,881,078
Prima facie tax calculated at 15%/10%	15%	827,181	10%	488,108
Non tax deductible expenses at		25,287		42,114
Tax savings by tax-exempted income		(61,656)		(25,459)
Tax expense/(income) for former periods		-		(83,873)
Income tax expense	**14%**	**790,812**	**9%**	**420,890**

The Bank'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.

32. FINANCIAL RISK MANAGEMENT

(a) Overview

The risk management function within the Bank 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 Bank's risk management framework. The Board has established the Bank's Asset and Liability Committee (ALCO) and Credit Committees, which are responsible for developing and monitoring Bank 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 Bank's risk management policies are established to identify and analyse the risks faced by the Bank, 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 Bank, 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 Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank 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 Bank 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 Bank 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b). Credit risk (continued)

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A separate Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight of the Bank'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).
- Developing and maintaining the Bank'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 Bank in the management of credit risk.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Division processes are undertaken by Internal Audit.

The Bank'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 10. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Bank 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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 Bank does use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.
The Bank'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.

(c) Market risks

The Bank 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 Bank 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 Bank 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 Bank'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 Bank is exposed to currency risk through transactions in foreign currencies. As the currency in which the Bank presents it separate financial statements is the Albanian LEK, the Bank's separate financial statements are effected 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

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

	At 31 December 2014			At 31 December 2013		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Albanian LEK	139,227,265	119,372,710	19,854,555	152,974,998	131,358,274	21,616,724
US Dollars	16,440,873	14,182,146	2,258,727	17,316,595	16,134,310	1,182,285
Euros	108,806,237	105,074,312	3,731,925	109,681,461	104,589,014	5,092,447
Other	5,646,712	5,383,711	263,001	5,573,942	5,507,264	66,678
Total	**270,121,087**	**244,012,879**	**26,108,208**	**285,546,996**	**257,588,862**	**27,958,134**

The bank 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:

	At 31 December 2014	**At 31 December 2013**
In thousands of LEK	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 10% (2013: strengthening by 10%)	42,208	633
US Dollar weakening by 10% (2013: weakening by 10%)	(42,208)	(633)
Euro strengthening by 10% (2013: strengthening by 10%)	46,277	3,137
Euro weakening by 10% (2013: weakening by 10%)	(46,277)	(3,137)
Other strengthening by 10% (2013: strengthening by 10%)	22,318	4,273
Other weakening by 10% (2013: weakening by 10 %)	(22,318)	(4,273)

(amounts in LEK'000, unless otherwise stated)

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

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 Bank'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 Bank'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 (2013: [100] basis points lower, with all other variables held constant, loss would have been LEK 3,544 thousand (2013: LEK 4,286 thousand) lower.

If interest rates had been 100 basis points higher (2013: [100] basis points higher), with all other variables held constant, profit would have been LEK 5,264 thousand (2013: LEK 5,521 thousand) higher.

2014	**up to 1 Year scenarios**	
	100 bp Increase	100 bp decrease
Estimated profit /(loss) effect	5,264	(3,544)

2013	**up to 1 Year scenarios**	
	100 bp Increase	100 bp decrease
Estimated profit/ (loss) effect	5,521	(4,286)

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

(amounts in LEK'000, unless otherwise stated)

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risks (continued)

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

							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	40,632,219	-	-	-	-	-	40,632,219
Restricted balances	22,850,572	-	-	-	-	-	22,850,572
Investments held for trading	279,341	1,689,835	1,564,836	3,119,592	21,687,680	-	28,341,284
Held-to-maturity investment securities	3,744,878	9,941,679	12,692,625	15,220,483	17,934,348	-	59,534,013
Other securities designated at fair value through profit or loss	-	-	-	-	6,841,526	-	6,841,526
Loans and advances to customers	23,819,810	19,159,253	17,706,283	50,785,765	993,789	(543,427)	111,921,473
Other assets	12,576	-	-	-	-	-	12,576
Total	**91,339,396**	**30,790,767**	**31,963,744**	**69,125,840**	**47,457,343**	**(543,427)**	**270,133,663**
Liabilities							
Due to banks and financial institutions	2,993,851	-	-	-	-	-	2,993,851
Due to customers	116,445,644	23,556,037	19,340,165	71,219,618	3,307,772	-	233,869,236
Subordinated capital	-	-	-	-	7,149,792	-	7,149,792
Total	**119,439,495**	**23,556,037**	**19,340,165**	**71,219,618**	**10,457,564**	**-**	**244,012,879**
Gap at 31 December 2014	**(28,100,099)**	**7,234,730**	**12,623,579**	**(2,093,778)**	**36,999,779**	**(543,427)**	**26,120,784**

(amounts in LEK'000, unless otherwise stated)

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

							31 December 2013
	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	35,355,398	-	-	-	-	-	35,355,398
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	377	2,353,263	10,537,745	29,507,337	-	43,704,399
Held-to-maturity investment securities	4,031,145	2,206,147	9,201,401	23,796,971	26,624,099	-	65,859,763
Loans and advances to customers	15,218,282	22,132,211	18,352,689	60,988,276	1,194,935	(1,785,981)	116,100,412
Other assets	13,863	-	-	-	-	-	13,863
Total	**80,451,389**	**24,338,735**	**29,907,353**	**95,322,992**	**57,326,371**	**(1,785,981)**	**285,560,859**
Liabilities							
Due to banks and financial institutions	4,049,185	-	-	-	-	-	4,049,185
Due to customers	102,664,948	29,747,595	29,039,963	80,992,121	3,940,733	-	246,385,359
Subordinated capital	-	-	-	-	7,154,318	-	7,154,318
Total	**106,714,133**	**29,747,595**	**29,039,963**	**80,992,121**	**11,095,051**	**-**	**257,588,862**
Gap at 31 December 2013	**(26,262,744)**	**(5,408,860)**	**867,390**	**14,330,871**	**46,231,320**	**(1,785,981)**	**27,971,997**

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank 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 Bank'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 Bank'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 banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank. 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.

(amounts in LEK'000, unless otherwise stated)

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank'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. Balances presented in the table below equal their carrying balances presented in the Statement of Financial Positions as the impact of discounting is not significant due to their short term maturity.

Residual contractual maturities of financial assets and liabilities

							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	40,632,219	-	-	-	-	-	40,632,219
Restricted balances	22,850,572	-	-	-	-	-	22,850,572
Investments held for trading	279,341	1,689,835	1,564,836	3,119,592	21,687,680	-	28,341,284
Held-to-maturity investment securities	3,744,878	9,941,679	12,692,625	15,220,483	17,934,348	-	59,534,013
Other securities designated at fair value through profit or loss	-	-	-	-	6,841,526	-	6,841,526
Loans and advances to customers	26,821,470	7,963,343	11,441,687	31,978,934	47,294,060	(13,578,021)	111,921,473
Other assets	12,576	-	-	-	-	-	12,576
Total	**94,341,056**	**19,594,857**	**25,699,148**	**50,319,009**	**93,757,614**	**(13,578,021)**	**270,133,663**
Liabilities							
Due to banks and financial institutions	2,993,851	-	-	-	-	-	2,993,851
Due to customers	116,445,644	23,556,037	19,340,165	71,219,618	3,307,772	-	233,869,236
Other liabilities	2,013,498	-	-	-	-	-	2,013,498
Subordinated capital	-	-	-	-	7,149,792	-	7,149,792
Total	**121,452,993**	**23,556,037**	**19,340,165**	**71,219,618**	**10,457,564**	**-**	**246,026,377**
Guarantees and commitments	2,946,124	3,466,788	4,318,202	8,599,943	9,988,430	-	**29,319,487**
Liquidity risk at 31 December 2014	**(30,058,061)**	**(7,427,968)**	**2,040,781**	**(29,500,552)**	**73,311,620**	**(13,578,021)**	**(5,212,201)**
Cumulative	**(30,058,061)**	**(37,486,029)**	**(35,445,248)**	**(64,945,800)**	**8,365,820**	**(5,212,201)**	

(amounts in LEK'000, unless otherwise stated)

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

							31 December 2013
	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	35,355,398	-	-	-	-	-	35,355,398
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	377	2,353,263	10,537,745	29,507,337	-	43,704,399
Held-to-maturity investment securities	4,031,145	2,206,147	9,201,401	23,796,971	26,624,099	-	65,859,763
Loans and advances to customers	16,253,716	10,121,003	16,039,807	35,285,859	50,296,790	(11,896,763)	116,100,412
Other assets	13,863	-	-	-	-	-	13,863
Total	**81,486,823**	**12,327,527**	**27,594,471**	**69,620,575**	**106,428,226**	**(11,896,763)**	**285,560,859**
Liabilities							
Due to banks and financial institutions	4,049,185	-	-	-	-	-	4,049,185
Due to customers	102,664,948	29,747,595	29,039,963	80,992,121	3,940,733	-	246,385,359
Other liabilities	3,154,097	-	-	-	-	-	3,154,097
Subordinated capital	-	-	-	-	7,154,318	-	7,154,318
Total	**109,868,230**	**29,747,595**	**29,039,963**	**80,992,121**	**11,095,051**	**-**	**260,742,959**
Guarantees and commitments	1,105,810	2,134,768	2,730,801	4,850,913	6,280,462	-	17,102,754
Liquidity risk at 31 December 2013	**(29,487,217)**	**(19,554,836)**	**(4,176,293)**	**(16,222,459)**	**89,052,713**	**(11,896,763)**	**7,715,145**
Cumulative	**(29,487,217)**	**(49,042,053)**	**(53,218,346)**	**(69,440,805)**	**19,611,908**	**7,715,145**	**(29,487,217)**

32. 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 Bank'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 Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank'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 Bank 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 Bank 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 Bank.

33. CAPITAL MANAGEMENT

The Group'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 Bank'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%.

(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 2014	31 December 2013
Total risk weighted assets	127,495,008	132,286,131
Total risk weighted off balance exposures	1,926,951	2,619,932
Total	**129,421,959**	**134,906,063**
Regulatory capital	24,221,636	30,408,383
Capital adequacy ratio	18.72%	22.54%

The modified capital adequacy ratio is 12.08% in 31 December 2014 (31 December 2013: 15.66%).
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.

34. CONTINGENCIES AND COMMITMENTS

		31 December 2014		31 December 2013
	LEK	Foreign currency	Total	Total
Contingent liabilities				
Bank Guarantees issued	1,310,673	6,024,916	7,335,589	6,812,475
Letters of Credit	-	3,702,307	3,702,307	4,528,392
Unused credit lines	6,745,971	11,535,620	18,281,591	5,761,887
Total	**8,056,644**	**21,262,843**	**29,319,487**	**17,102,754**

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 2014, 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. 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.

(amounts in LEK'000, unless otherwise stated)

34. 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 2014 and 31 December 2013 were as follows:

	31 December 2014	31 December 2013
Not later than 1 year	376,926	383,490
Later than 1 year and not later than 5 years	550,239	768,199
Later than 5 years	62,586	78,206
Total	**989,751**	**1,229,895**

35. 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. 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 are as follows:

	2014				2013
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**	
Loans and advances to banks and financial institutions	-	20,128,723	39,657,169	**59,785,892**	**57,425,624**
Loans to customers	-	-	111,921,473	**111,921,473**	**127,997,174**
Trading Assets	-	28,341,284	-	**28,341,284**	**43,704,399**
Other securities designated at fair value through profit or loss	-	6,841,526	-	**6,841,526**	**-**
Held to maturity investment securities	-	59,559,996	-	**59,559,996**	**66,258,862**
Due to banks and financial institutions	-	194,890	2,798,962	**2,993,852**	**4,049,185**
Due to customers	-	-	233,881,121	**233,881,121**	**246,408,604**
Subordinated Debt	-	-	7,149,792	**7,149,792**	**7,154,318**
Guarantees and commitments	-	-	29,319,487	**29,319,487**	**17,102,754**

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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.

Loans and advances to customers

Loans and advances are net of allowances for impairment. 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 approximately equal to 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 equal to its carrying amount because of either its underlying interest rate, which approximate market rates.

Guarantees and commitments

The estimated fair value of guarantees and commitments equal to their carrying amount because of either their short-term nature or underlying interest rate, which approximate market rates

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Sensitivity of fair value measurement

The valuation technique, inputs used in the fair value measurement for level 2 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

In thousands of LEK	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement	Sensitivity of fair value measurement
FINANCIAL Assets at Fair Value							
Trading securities							
Albanian treasury bills	1,332	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")	2.5% - 9.9%	+ 1 %/-1%	(5)	5
Albanian government bonds	28,339,952	DCF	Government bonds yield curve("TBonds")	2.5% - 9.9%	+ 1 %/-1%	(586,162)	608,996
Other securities designated at fair value through profit or loss							
Albanian government bonds	6,841,526	DCF	Tonds	2.5% - 9.9%	+ 1 %/-1%	(294,460)	312,660

The valuation technique, inputs used in the fair value measurement for level 2 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

In thousands of LEK	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement	Sensitivity of fair value measurement
FINANCIAL Assets at Fair Value							
Trading securities							
Albanian treasury bills	310,962	DCF	TBill	2.5% - 9.9%	+ 1 %/-1%	(2,362)	2,398
Albanian government bonds	43,393,437	DCF	Tonds	2.5% - 9.9%	+ 1 %/-1%	(905,782)	943,026

The above tables discloses sensitivity to valuation inputs for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets.

(amounts in LEK'000, unless otherwise stated)

36. 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 2014:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	40,632,219	-	-	-	40,632,219
Restricted balances	22,850,572	-	-	-	22,850,572
Investments held for trading	-	-	28,341,284	-	28,341,284
Other securities designated at fair value through profit or loss	-	6,841,526	-	-	6,841,526
Held-to-maturity investment securities	-	-	-	59,534,013	59,534,013
Loans and advances to customers	111,921,473	-	-	-	111,921,473
Total financial assets	**175,404,264**	**6,841,526**	**28,341,284**	**59,534,013**	**270,121,087**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2013:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	35,355,398	-	-	-	35,355,398
Restricted balances	24,527,024	-	-	-	24,527,024
Investments held for trading	-	-	43,704,399	-	43,704,399
Held-to-maturity investment securities	-	-	-	65,859,763	65,859,763
Loans and advances to customers	116,100,412	-	-	-	116,100,412
Total financial assets	**175,982,834**	**-**	**43,704,399**	**65,859,763**	**285,546,996**

As of 31 December 2014 and 31 December 2013, all of the Bank's financial liabilities except for derivatives were carried at amortised cost.

(amounts in LEK'000, unless otherwise stated)

37. 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 Aktiengesellshafft, with fellow subsidiaries and its subsidiaries, and with its directors and executive officers. The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	31 December 2014	31 December 2013
Amounts due from		
Affiliated companies	11,790,226	21,081,424
Key management personnel	108,518	37,576
Assets total	**11,898,744**	**21,119,000**
Amounts due to		
Affiliated companies	7,479,346	7,406,591
Key management personnel	74,535	79,258
Liabilities total	**7,553,881**	**7,485,849**

	Year ended 31 December 2014	Year ended 31 December 2013
Net Interest expense		
Affiliated companies	(301,137)	(33,120)
Net Fee and Commission expense		
Affiliated companies	(179,315)	(181,282)
Administrative expenses		
Affiliated companies	(501,745)	(436,844)
Wages, salaries and bonuses		
Key management personnel	(211,227)	(282,682)
Total	**(1,193,424)**	**(933,928)**

The aggregate value of the contingent liabilities of the Bank to the affiliated companies as at 31 December 2014 was LEK 4,481,888 thousand (31 December 2013: LEK 3,844,093 thousand) and represents Bank Guarantees, Letters of Credit and Commitments issued.

38. EVENTS AFTER THE END OF THE REPORTING PERIOD

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