

Raiffeisen Bank Group

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

31 December 2014

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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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Tirana, Albania
Telephone: +355 4 2381 381
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Auditor

PricewaterhouseCoopers Audit sh.p.k
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Sky Tower, 9/1 floor
Tirana, Albania
Telephone +355 42 242254/280423
Facsimile +355 42 241639



Independent Auditor's Report

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 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

Enida Cara

14 April 2015
Tirana, Albania

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RAIFFEISEN BANK GROUP

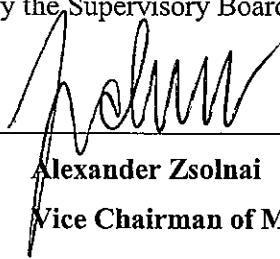
Consolidated Statement of Financial Position as at 31 December 2014

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

Assets	Note	31 December 2014	31 December 2013
Cash and cash equivalents	7	40,638,657	35,394,831
Restricted balances	8	22,850,572	24,527,024
Investments held for trading	9.1	28,517,255	43,867,966
Held-to-maturity investment securities	9.2	59,579,093	65,885,928
Other securities designated at fair value	9.3	6,841,526	-
Loans and advances to customers, net	10	112,216,171	116,345,848
Current income tax prepayment		118,504	181,178
Deferred income tax asset	11	44,629	73,902
Goodwill	12	92,783	92,783
Intangible assets	13	1,518,912	1,442,261
Premises and equipment	14	1,652,506	1,881,596
Other assets	15	2,375,913	2,103,238
Total assets		276,446,521	291,796,555
Liabilities			
Due to financial institutions	16	3,555,166	4,610,794
Due to customers	17	233,719,383	246,445,957
Other liabilities	18	2,118,160	3,235,863
Subordinated debt	19	7,149,792	7,154,318
Total liabilities		246,542,501	261,446,932
Equity			
Share capital	20	14,178,593	14,178,593
Retained earnings		12,788,710	13,233,130
Other reserves	21	2,835,352	2,835,352
Net assets attributable to the Bank owners		29,802,655	30,247,075
Non-controlling interest	22	101,365	102,548
Total equity		29,904,020	30,349,623
Total liabilities and equity		276,446,521	291,796,555

These consolidated 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 consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 72.

RAIFFEISEN BANK GROUP

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014

*(amounts in LEK'000)***CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	23	12,669,923	15,953,426
Interest expense	24	(1,472,518)	(5,055,314)
Net interest income		11,197,405	10,898,112
Provision for impairment of loans to customers	10,18	(4,099,839)	(4,082,740)
Net interest income after provision for loan impairment		7,097,566	6,815,372
Fee and commission income	25	2,415,136	2,106,805
Fee and commission expense	26	(375,012)	(621,856)
Net fee and commission income		2,040,124	1,484,949
Net income from investments	9.3	4,496	32,340
Net trading income	27	2,546,883	2,887,730
Other operating income	28	762,674	238,768
		3,314,053	3,158,838
Deposit insurance premium	29	(745,867)	(855,698)
Personnel expenses	30	(2,423,966)	(2,427,117)
Depreciation and amortisation	13,14	(666,359)	(576,959)
General and administrative expenses	31	(2,208,240)	(2,109,655)
Other operating expense	28	(456,560)	(386,349)
		(6,500,992)	(6,355,778)
Profit before income tax		5,950,751	5,103,381
Income tax	32	(912,189)	(456,659)
Profit for the year		5,038,562	4,646,722
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale investments:			
- Gains less losses arising during the year		-	(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		5,038,562	4,608,937

RAIFFEISEN BANK GROUP

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2014
(amounts in LEK'000)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(CONTINUED)**

	Year ended 31 December 2014	Year ended 31 December 2013
Profit is attributable to:		
- Owners of the Bank	5,023,857	4,630,834
- Non-controlling interest	14,705	15,888
Profit for the year	<u>5,038,562</u>	<u>4,646,722</u>
Total comprehensive income is attributable to:		
- Owners of the Bank	5,023,857	4,593,178
- Non-controlling interest	14,705	15,759
Total comprehensive income for the year	<u>5,038,562</u>	<u>4,608,937</u>
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in LEK per share)	718	662

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 72.

RAIFFEISEN BANK GROUP

Consolidated Statement of Changes in Equity for the year ended 31 December 2014
(amounts in LEK'000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Bank				Non-controlling interest	Total equity
	Share capital	General reserves	Revaluation reserve for AFS	Retained earnings		
Balance as at 31 December 2012	14,178,593	2,822,814	37,785	13,927,529	101,418	31,068,139
Transfer of retained earnings to general reserve	-	12,538	-	(12,538)	-	-
Dividend payment	-	-	-	(5,312,695)	(14,758)	(5,327,453)
Profit for the year	-	-	-	4,630,834	15,888	4,646,722
Other comprehensive income	-	-	(37,785)	-	-	(37,785)
Total comprehensive income for the year	-	-	(37,785)	4,630,834	15,888	4,608,937
Balance as at 31 December 2013	14,178,593	2,835,352	-	13,233,130	102,548	30,349,623
Dividend payment	-	-	-	(5,468,277)	(15,888)	(5,484,165)
Profit for the year	-	-	-	5,023,857	14,705	5,038,562
Other comprehensive income	-	-	-	5,023,857	14,705	5,038,562
Total comprehensive income for the year	-	-	-	5,023,857	14,705	5,038,562
Balance as at 31 December 2014	14,178,593	2,835,352	-	12,788,710	101,365	29,904,020

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 72.

RAIFFEISEN BANK GROUP

Consolidated Statement of Cash Flows for the year ended 31 December 2014

(amounts in LEK '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Profit for the year before taxation		5,950,751	5,103,381
<i>Non-cash items in the statement of comprehensive income</i>			
Depreciation and amortization	13,14	666,358	576,959
(Profit)/Loss from sale of fixed assets	28	(420,872)	(53,181)
Net impairment loss on financial assets		4,099,839	4,082,740
Net Interest income		(11,997,596)	(11,289,080)
Net income from revaluation of trading securities		(111,449)	(42,167)
Net income from revaluation of other securities designated at fair value through profit or loss		(3,561)	5,445
Changes in provision for other debtors		173,381	(1,095)
Changes in provision for litigation		5,972	214
Revaluation effect of cash and cash equivalents		221,389	62,176
Operating cash flows before changes in working capital		(1,415,788)	(1,554,608)
Decrease in restricted balances		1,676,452	3,716,134
Decrease in loans and advances to customers		303,571	3,664,598
Net decrease/(Increase) in trading securities		15,474,564	(2,540,110)
Net increase in other securities designated at fair value through profit or loss		(6,782,862)	(37,785)
Increase in other assets		(399,737)	(313,758)
(Decrease)/Increase in due to financial institutions		(1,453,157)	2,866,892
Decrease in due to customers		(10,959,407)	(35,934,167)
(Decrease)/Increase in other liabilities		(1,055,820)	1,684,372
Operating cash flows after changes in working capital		(4,612,184)	(28,448,432)
Interest received		13,506,752	16,810,171
Interest paid		(3,342,801)	(7,039,906)
Corporate income tax paid		(819,781)	(522,273)
Net cash generated from/(used in) operating activities		4,731,986	(19,200,440)
Cash flows from investing activities			
Proceeds from sale of investment securities available for sale		-	32,340
Purchases of premises and equipment	14	(352,108)	(363,316)
Purchases of intangible assets	13	(277,277)	(329,560)
Proceeds from sale of fixed assets		536,339	58,240
Proceeds from matured financial assets held-to-maturity		46,707,962	70,762,975
Purchase of financial assets held-to-maturity		(40,397,522)	(55,338,868)
Net cash generated from investing activities		6,217,394	14,821,811
Cash flows from financing activities			
Dividends paid		(5,484,165)	(5,327,453)
Increase in Subordinated debt		-	7,010,000
Net cash(used in)/from financing activities		(5,484,165)	1,682,547
Increase/(Decrease) in cash and cash equivalents during the year		5,465,215	(2,696,082)
Cash and cash equivalents at the beginning of the year	7	35,394,831	38,153,089
Revaluation effect of cash and cash equivalents		(221,389)	(62,176)
Cash and cash equivalents at the end of the year	7	40,638,657	35,394,831

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 72.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for Raiffeisen Bank sh.a. (the "Bank") and its subsidiaries (the "Group").

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

Principal activity. The Group's principal business activity is retail banking operations within the Republic of Albania. The Bank operates through a banking network of 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 consolidated 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidated financial statements

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidated financial statements (continued)

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

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

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

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

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidated financial statements (continued)

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2014 and 31 December 2013, according to Bank of Albania 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 consolidated statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

(e) Net trading income

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

(f) Operating lease payments and other operating expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. The operating expenses are recognised when incurred.

(g) Employee benefits

• Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Group makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

• Paid annual leave

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

• Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

• Termination benefits

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

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

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

(h) Income tax expense

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Income tax expense (continued)

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

(i) Financial instruments - key measurement terms

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014
(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments - key measurement terms (continued)

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

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

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

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

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

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Cash and cash equivalents

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

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

(k) Trading assets and liabilities

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

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

(l) Derivative financial instruments

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

(m) Loans and advances to customers

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

(n) Impairment of financial assets carried at amortised cost

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

(o) Finance lease receivables

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Investment securities

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

i Held-to-maturity

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

ii Fair value through profit or loss

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

iii Available-for-sale

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

iv Other securities at fair value through profit or loss.

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

(q) Goodwill

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Premises and equipment

i Recognition and measurement

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

ii Subsequent costs

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

iii Depreciation

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

	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.

(s) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use.

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

(t) Repossessed property

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Voluntary pension fund and Investment Funds

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

- The Defined Contribution Fund "Raiffeisen Voluntary Pension Fund" which was approved by the Albanian Financial Supervisory Authority on October 18, 2010;
- "Raiffeisen Prestige" which was approved by the Albanian Financial Supervisory Authority on 13 December 2011;
- "Raiffeisen Invest Euro Investment Fund" which was approved by the Albanian Financial Supervisory Authority on 26 September 2013.

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

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

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

As at 31 December 2014, the net assets value of Raiffeisen voluntary pension fund amount to LEK 235,460 thousand (2013: LEK 175,561 thousand), Raiffeisen Prestige amount LEK 52,828,052 thousand (2013: LEK 42,732,849 thousand) and Raiffeisen Invest Euro amount LEK 11,213,295 thousand (2013: LEK 7,773,949).

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

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

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

As at 31 December 2014 and 2013 the investment portfolio of the Funds includes government bonds and treasury bills, short term deposits in the second tier Banks operating in Albania and other cash and cash equivalents. First Investment Bank Albania sh.a. acts as the custodian bank of all the Funds.

Net value of assets

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

The value of pension fund unit

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

Interest income

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK '000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The fee to the Management Company

Each Fund should pay to the Management Company a fee which differs for each Fund. Raiffeisen Invest Prestige Fund pays a fee of 1.25% (annually) of net assets value (2013: 1%) to the Management Company. Raiffeisen Invest Euro Fund pays a fee of 1.5% of net assets value (2013: 1.5%). Raiffeisen Voluntary Pension Fund pays a fee of 1.5 % on net assets value (2013: 1.5%).

Realized gain / losses and unrealized gain / losses

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

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension funds and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2014 consolidated financial statements.

(w) Deposits and other financial liabilities

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

(x) Sale and repurchase agreements and lending of securities

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

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(z) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Loan loss provisions for contingent liabilities and commitments

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

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

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

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

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Notes to the consolidated financial statements for the year ended 31 December 2014

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Credit related commitments.

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

(bb) Offsetting

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

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

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

(dd) Comparability

All amounts are reported or disclosed with comparative information.

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Notes to the consolidated financial statements for the year ended 31 December 2014
(amounts in LEK'000, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

i. Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of LEK 759,596 thousand (2013: LEK 404,334thousand) or a decrease in loan impairment losses of LEK 707,890 thousand (2013: LEK 676,032thousand), respectively.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Group 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 Group.

“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 Group.

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5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

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 Group.

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 Group.

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 will 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 Group.

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 Group 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.

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6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- 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 Group 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 Group’s financial statements.

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 Group is currently assessing the impact of the amendments on its financial statements.

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6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 group 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 Group 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 Group is currently assessing the impact of the amendments on its financial statements.

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 Group 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 Group is currently assessing the impact of the new standard on its financial statements.

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6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 Group 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 Group 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 Group 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 Group's consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Group is currently assessing the impact of the amendments on its financial statements.

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

	31 December 2014	31 December 2013
<i>Cash on hand</i>	3,323,499	2,455,397
<i>Central Bank</i>		
Current accounts	373,399	1,401
Deposit accounts	7,000,000	-
Accrued interest in deposit account	96	-
<i>Banks</i>		
Current accounts with resident banks	6,438	39,434
Current accounts with non-resident banks	915,868	260,942
Deposits with resident banks of less than three months	2,853,975	-
Deposits with non-resident banks of less than three months	26,165,382	32,637,657
Total	40,638,657	35,394,831

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%).

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

	2014	2013
Neither past due nor impaired		
A-1	5,976,492	24,042,778
A-1+	2,621,881	3,233,166
A-2	9,994,290	5,779
A-3	26,278	-
Unrated	22,019,716	8,113,108
Carrying amount	40,638,657	35,394,831

The majority of the unrated balance as at 31 December 2014 comprise the deposit account held at the Central Bank for an amount of LEK 7,000,000 thousand.

8. RESTRICTED BALANCES

	31 December 2014	31 December 2013
<i>Central Bank</i>		
Obligatory reserves	22,146,997	24,019,125
<i>Banks</i>		
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).

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(amounts in LEK'000, unless otherwise stated)

8. RESTRICTED BALANCES (CONTINUED)

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

	2014	2013
	Neither past due nor impaired	
A-1	63,953	471,075
A-2	612,996	10,186
B	26,627	26,638
Unrated	22,146,997	24,019,125
Carrying amount	22,850,572	24,527,024

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

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

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

	31 December 2014	31 December 2013
Government Bonds	28,481,561	43,517,130
Treasury bills	35,694	350,836
Total	28,517,255	43,867,966

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
Treasury Bills (9.2.1)	17,566,041	16,013,434
Government Bonds (9.2.2)	33,270,569	47,641,842
Government bonds non-resident (note 9.2.3)	5,802,783	-
Corporate Bonds (9.2.4)	2,939,700	2,230,652
Total	59,579,093	65,885,928

As at 31 December 2014, no treasury bills were pledged as security for the repurchase agreements portfolio (2013: none)

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*(amounts in LEK '000, unless otherwise stated)***9. INVESTMENT SECURITIES (CONTINUED)****9.2 Held-to-maturity investment securities (continued)****9.2.1 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	17,815,230	16,406,757
Unamortised discount	(249,189)	(393,323)
Total	17,566,041	16,013,434

9.2.2 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	32,724,194	46,703,645
Unamortised discount	3,717	10,574
Accrued interest	542,658	927,623
Total	33,270,569	47,641,842

9.2.3 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	-

9.2.4 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 discount	11,916	6,546
Accrued interest	127,787	79,046
Total	2,939,700	2,230,652

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*(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 from Albania Government whose performance is managed and evaluated on a fair value basis, in accordance with the Bank's investment strategy. The information on that basis is regularly provided to and reviewed by the Group's Board of Directors.

	31 December 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).

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

	Investments held for trading		Held-to-maturity investment securities		Other securities designated at fair value through profit or loss	
	2014	2013	2014	2013	2014	2013
Neither past due nor impaired	-	-	-	-	-	-
B	28,517,255	43,867,966	50,836,610	63,655,275	6,841,526	-
A			956,974	-	-	-
Aa1u			5,802,783	-	-	-
AA+			-	725,369	-	-
BBB+			-	633,562	-	-
BBB			1,982,726	723,472	-	-
Unrated			-	148,250	-	-
Carrying amount	28,517,255	43,867,966	59,579,093	65,885,928	6,841,526	-

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

	31 December 2014	31 December 2013
Loans and advances to customers	126,033,716	128,452,725
Allowance for loan loss impairment	<u>(13,817,545)</u>	<u>(12,106,877)</u>
Net carrying amount	<u>112,216,171</u>	<u>116,345,848</u>

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

	2014	2013
Balance at the beginning of the year	12,106,877	11,418,371
Allowance for loan loss impairment	5,933,851	5,580,950
Release for loan loss impairment	(1,736,663)	(1,537,762)
Loans written off	<u>(2,486,520)</u>	<u>(3,354,682)</u>
Balance at the end of the year	<u>13,817,545</u>	<u>12,106,877</u>

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).

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

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

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10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	31 December 2013					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	1,629,311	47,351,926	5,219,787	705,274	68,521	54,974,819
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
	10,607,713	39,916,590	6,483,305	1,081,723	323,739	58,413,070
Mortgage	8,218,561	-	289,252	254,990	2,461,470	11,224,273
Other	353,239	2,484,969	757,104	245,639	18,843	3,859,794
<i>less Administrative Fee</i>	(158,103)	(219,751)	(48,807)	(13,246)	-	(439,907)
TOTAL	21,030,154	89,533,793	12,700,641	2,274,380	2,913,757	128,452,725

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					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Balance at the beginning of the year	1,458,872	8,898,160	1,427,382	319,900	2,563	12,106,877
Allowance for loan loss impairment	556,937	4,424,760	780,896	167,792	3,466	5,933,851
Release for loan loss impairment	(190,326)	(1,188,657)	(301,538)	(56,085)	(56)	(1,736,662)
Loans written off	(130,804)	(1,807,477)	(443,963)	(102,698)	(1,579)	(2,486,521)
Balance at the end of the year	1,694,679	10,326,786	1,462,777	328,909	4,394	13,817,545
	31 December 2013					
	Individuals	Corporate	SME	Micro - Business	Employees	TOTAL
Balance at the beginning of the year	3,221,896	6,113,866	1,410,827	667,584	4,198	11,418,371
Allowance for loan loss impairment	696,320	4,316,121	419,876	148,587	45	5,580,950
Release for loan loss impairment	(471,992)	(761,488)	(166,347)	(136,299)	(1,635)	(1,537,761)
Loans written off	(1,987,352)	(770,340)	(236,974)	(359,971)	(45)	(3,354,682)
Balance at the end of the year	1,458,872	8,898,160	1,427,382	319,900	2,563	12,106,877

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Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

In thousands of LEK	2014		2013	
	Amount	%	Amount	%
Trade, repair of motor vehicles and household items	40,705,160	32%	43,223,407	34%
Households	24,179,468	19%	23,942,915	19%
Production and distribution of electricity, gas and water	21,537,890	17%	19,346,678	15%
Processing industry	11,097,687	9%	10,273,526	8%
Construction	8,279,829	7%	9,521,395	7%
Transportation, Storage and Telecommunications	6,309,608	5%	6,780,955	5%
Monetary and financial intermediation	4,093,015	3%	4,416,410	3%
Extracting industry	2,455,961	2%	3,299,586	3%
Agriculture and hunting	2,329,354	2%	2,197,762	2%
Collective, social and personal	2,320,342	2%	2,117,384	2%
Health and social work	1,185,948	1%	1,642,342	1%
Other	1,539,454	1%	1,690,365	1%
Total loans and advances to customers (before impairment)	126,033,716	100%	128,452,725	100%

At 31 December 2014 the Group 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:

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

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

Information about collateral at 31 December 2013 is as follows:

	Individuals	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,043,636	1,895,787	56,355	1,285,885	1,052,314	16,333,977
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
-Leased Vehicles- Movable Assets /Equipment	317,908	2,466,337	752,598	229,590	18,375	3,784,808
Total loans and advances to customers	21,030,153	89,533,792	12,700,641	2,274,381	2,913,758	128,452,725

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

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(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014
(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

<i>Past due but not impaired</i>	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
- less than 30 days overdue	6,224,529	752,372	160,867	1,087,200	66,037	8,291,005
- 30 to 60 days overdue	2,433,121	113,632	52,447	251,167	600	2,850,967
- 60 to 90 days overdue	284,377	31,088	39,578	229,573	522	585,138
- 90 to 180 days overdue	2,502,283	238,913	34,867	267,462	-	3,043,525
- 180 to 360 days overdue	-	3,459	13,366	58,885	3,839	79,549
- over 360 days overdue	47,829	21,560	33,469	42,956	-	145,814
Total past due but not impaired	11,492,139	1,161,024	334,594	1,937,243	70,998	14,995,998
<i>Loans individually determined to be impaired (gross)</i>						
- less than 30 days overdue	-	-	38,187	278,487	559	317,233
- 30 to 60 days overdue	-	-	11,358	55,852	40	67,250
- 60 to 90 days overdue	-	-	477	42,085	-	42,562
- 90 to 180 days overdue	1,920,151	163,654	3,583	62,842	-	2,150,230
- 180 to 360 days overdue	6,288,878	461,261	51,892	352,627	-	7,154,658
- over 360 days overdue	7,616,568	1,458,670	299,019	1,035,173	19	10,409,449
Total individually impaired loans (gross)	15,825,597	2,083,585	404,516	1,827,066	618	20,141,382
Less impairment provisions	(10,326,786)	(1,462,777)	(328,909)	(1,694,679)	(4,394)	(13,817,545)
Total loans and advances to customers	79,177,451	9,032,821	1,621,123	19,150,166	3,234,610	112,216,171

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014
(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:

<i>Neither past due nor impaired</i>	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
Grade 2C	3,505,579	-	-	-	-	3,505,579
Grade 3B	1,528,004	-	-	-	-	1,528,004
Grade 4A	623	-	-	-	-	623
Grade 4B	-	497,329	-	-	-	497,329
Grade 5B	113,720	1,464,410	-	-	-	1,578,130
Grade 5C	668,178	-	-	-	-	668,178
Grade 6A	84,469	824,158	-	-	-	908,627
Grade 6B	623,477	601,070	-	-	-	1,224,547
Grade 6C	1,618,885	519,149	-	-	-	2,138,034
Grade 7A	1,636,618	866,689	-	-	-	2,503,307
Grade 7B	2,989,918	893,522	-	-	-	3,883,440
Grade 7C	2,574,448	590,096	-	-	-	3,164,544
Grade 8A	23,520,594	328,656	-	-	-	23,849,250
Grade 8B	4,859,119	466,440	-	-	-	5,325,559
Grade 8C	5,451,605	69,695	-	-	-	5,521,300
Grade 9A	7,017,116	-	-	-	-	7,017,116
Grade 9B	2,386,830	998,981	-	-	-	3,385,811
Grade 9C	1,877,844	-	-	-	-	1,877,844
Grade 10A	23	56	-	-	-	79
Grade (unrated)	1,229,135	1,991	1,326,079	17,583,093	2,561,500	22,701,798
Total neither past due nor impaired	61,686,185	8,122,242	1,326,079	17,583,093	2,561,500	91,279,099

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(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Past due but not impaired

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Individuals</i>	<i>Employees</i>	<i>Total</i>
- less than 30 days overdue	6,805,150	1,237,790	206,357	1,132,603	64,363	9,446,262
- 30 to 60 days overdue	5,199,315	689,182	96,398	298,532	2,362	6,285,789
- 60 to 90 days overdue	1,872,162	101,901	75,565	277,195	-	2,326,823
- 90 to 180 days overdue	197,968	128,188	79,155	302,935	-	708,246
- 90 to 360 days overdue	667,933	102,102	11,129	76,354	-	857,518
- over 360 days overdue	782,510	397,158	76,480	58,551	-	1,314,699
Total past due but not impaired	15,525,038	2,656,321	545,084	2,146,169	66,725	20,939,337

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	5,716,836	123,957	7,543	18,427	-	5,866,763
- 90 to 360 days overdue	1,472,377	108,188	114,227	683,584	-	2,378,376
- over 360 days overdue	5,134,347	1,689,935	279,096	858,033	22	7,961,434
Total individually impaired loans (gross)	12,323,560	1,922,080	403,221	1,585,374	54	16,234,289
Less impairment provisions	(8,898,160)	(1,427,382)	(319,900)	(1,458,589)	(2,846)	(12,106,877)
Total loans and advances to customers	80,636,623	11,273,261	1,954,484	19,856,048	2,625,432	116,345,848

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Neither past due nor impaired loans and securities

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

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

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 10 A in the Group's internal credit risk grading system. The Bank has a structured policy applied to the evaluation of collateral on loans determined as individually impaired. Depending on the class/type of collateral there are specific discount rates applied, ranging from 0% to 100%. This is due to complex legal requirements and significant delays in recovering and realising the collateral.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security /collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2014 restructured loans were LEK 21,927,096 thousand (2013:LEK 18,022,824 thousand).

Allowances for impairment

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

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Bank Problem Loans Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

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

As at 31 December 2014 and 2013, the loans and advances to customers with regard to outstanding balance and impairment assessment were as follows:

	Loans and advances to customers	
	Gross	Net
31 December 2014		
Individually impaired	20,141,382	8,129,721
Total	20,141,382	8,129,721
31 December 2013		
Individually impaired	16,234,289	6,680,380
Total	16,234,289	6,680,380

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally re-valued annually by both, external and internal evaluators. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 and 2013.

	Against individually impaired	Against collectively impaired	Total
Property	24,730,112	179,250,336	203,980,448
Pledge	15,862,927	78,909,683	94,772,610
Cash	1,150	2,799,505	2,800,655
Guarantee	31,854	42,748,906	42,780,760
Total	40,626,043	303,708,430	344,334,473

The fair value of collateral pledged against individually impaired loans as at 31 December 2013 was LEK 53,959,877 thousand.

Financial effect of collateral on provision

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on impairment provisions recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

	31 December 2014	31 December 2013
Corporate	4,849,101	3,390,595
Micro SMEs	86,443	129,466
Households	249,096	299,876
Small Enterprises	780,154	943,361

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Notes to the consolidated financial statements for the year ended 31 December 2014

(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	73,902	(262)
Deferred tax benefit relating to the origination and reversal of temporary differences (note 32)	(29,273)	74,164
Balance at the end of the year	44,629	73,902

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

Deferred tax has been calculated based on the enacted tax rate for 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
<i>Deferred tax asset</i>		
Accelerated depreciation	2,019	71,260
Deferred lease disbursement fees	42,610	1,615
	44,629	72,875
<i>Deferred tax liability</i>		
Allowance for impairment losses	-	1,027
	-	1,027
Net deferred tax assets	44,629	73,902

12. GOODWILL

During the year 2008, Raiffeisen Bank purchased 100% of the shares of the Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST"), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2013, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2014 (2013: Lek 90 million).

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

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2014, the carrying amount of the subsidiary (the cash generating unit to which goodwill has been allocated), does not exceed its recoverable amount and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2014 (2013:nil).

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

*(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:

	Acquired software	Licences	Total
Cost			
At 1 January 2013	1,721,788	338,217	2,060,005
Additions	307,417	22,143	329,560
Disposals	(96,255)	(8,181)	(104,436)
Transfer	(2,534)	2,534	-
At 31 December 2013	1,930,416	354,712	2,285,129
At 1 January 2014	1,930,416	354,712	2,285,129
Additions	250,918	26,359	277,277
Disposals	(120,064)	(16,170)	(136,234)
At 31 December 2014	2,061,270	364,901	2,426,172
Amortization			
At 1 January 2013	(561,639)	(272,440)	(834,079)
Amortization charge	(103,188)	(9,912)	(113,100)
Disposals	96,131	8,181	104,312
At 31 December 2013	(568,696)	(274,171)	(842,867)
At 1 January 2014	(568,696)	(274,171)	(842,867)
Amortization charge	(189,174)	(11,335)	(200,509)
Disposals	122,800	13,316	136,116
At 31 December 2014	(635,070)	(272,190)	(907,260)
Net book value			
At 1 January 2014	1,361,720	80,541	1,442,261
At 31 December 2014	1,426,200	92,710	1,518,912

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

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Notes to the consolidated financial statements for the year ended 31 December 2014

*(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	2,306,940	368,561	224,934	615,371	4,881,995
Additions	36,495	158,167	27,349	112,608	28,698	363,317
Disposals	(11,827)	(316,921)	(18,832)	-	(26,610)	(374,190)
Transfers	96,025	185,797	2,239	(293,433)	9,372	-
At 31 December 2013	1,486,882	2,333,983	379,317	44,109	626,831	4,871,122
At 1 January 2014	1,486,882	2,333,983	379,317	44,109	626,831	4,871,122
Additions	12,619	175,116	19,735	117,075	27,563	352,108
Disposals	(168,270)	(212,521)	(105,815)	-	(50,499)	(537,105)
Transfers	35,331	115,827	42	(159,005)	7,805	-
At 31 December 2014	1,366,562	2,412,405	293,279	2,179	611,700	4,686,125
Accumulated depreciation						
At 1 January 2013	(515,236)	(1,718,571)	(225,312)	-	(435,802)	(2,894,921)
Depreciation charge	(98,868)	(251,764)	(47,507)	-	(65,721)	(463,860)
Disposals	10,668	315,390	18,631	-	24,566	369,255
At 31 December 2013	(603,436)	(1,654,945)	(254,188)	-	(476,957)	(2,989,526)
At 1 January 2014	(603,436)	(1,654,945)	(254,188)	-	(476,957)	(2,989,526)
Depreciation charge	(83,438)	(284,745)	(42,148)	-	(55,519)	(465,850)
Disposals	74,402	209,619	90,244	-	47,492	421,760
At 31 December 2014	(612,472)	(1,730,071)	(206,092)	-	(484,984)	(3,033,619)
Net Book Value						
At 31 December 2013	883,446	679,038	125,129	44,109	149,874	1,881,596
At 31 December 2014	754,090	682,334	87,187	2,179	126,716	1,652,506

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

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Notes to the consolidated financial statements for the year ended 31 December 2014

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

	31 December 2014	31 December 2013
Inventories	1,602,764	1,197,523
VAT receivable	484,976	592,258
Sundry debtors, net	147,851	163,607
Prepaid expenses and accruals	127,746	135,986
Money gram	12,576	13,864
Total	2,375,913	2,103,238

As at 31 December 2014 the Group's repossessed collateral is LEK 1,510,158 thousand (2013: LEK 1,197,523 thousands). Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Sundry debtors comprise the following:

	31 December 2014	31 December 2013
Sundry debtors	303,783	175,190
Provisions for losses from other debtors	(155,932)	(11,583)
Total Sundry debtors, net	147,851	163,607

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

Movements in the provisions for sundry debtors are as follows:

	2014	2013
Balance at the beginning of the year	11,584	11,583
Allowance for Provisions for losses from other debtors	144,108	
Foreign exchange effect	240	-
Balance at the end of the year	155,932	11,583

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Notes to the consolidated financial statements for the year ended 31 December 2014

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

	31 December 2014	31 December 2013
Current accounts		
Resident banks and financial institutions	1,859,961	256,840
Non-resident banks and financial institutions	77,249	13,990
Accrued interest	41	2,357
	<u>1,937,251</u>	<u>273,187</u>
Deposits		
Central Bank	-	210,000
Resident banks and financial institutions	1,495,393	3,892,934
Non-resident banks and financial institutions	122,346	232,252
Accrued interest	176	2,421
	<u>1,617,915</u>	<u>4,337,607</u>
Total	<u>3,555,166</u>	<u>4,610,794</u>

The annual interest rates for borrowed funds from financial institutions varied from 0.06% to 4.75% during the year ended 31 December 2014 (2013: 0.10% to 5.05%). The annual interest rates for borrowed funds from Non-resident financial institutions varied from 0.19% to 0.35% during the year ended 31 December 2014 (2013: 0).

17. DUE TO CUSTOMERS

	31 December 2014	31 December 2013
Current accounts	84,699,763	61,445,038
Deposits	144,968,565	181,592,691
Other accounts	4,051,055	3,408,228
	<u>233,719,383</u>	<u>246,445,957</u>
Total	<u>233,719,383</u>	<u>246,445,957</u>

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014
(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	Total
Current accounts	41,419,911	43,279,312	84,699,763	61,445,038
Deposits				
On demand	5,476,849	4,534,360	10,011,209	7,788,305
1 month - 3 months	4,231,799	2,376,128	6,607,927	16,012,803
3 months - 6 months	5,388,208	7,716,931	13,105,139	12,248,237
6 months - 12 months	9,011,358	8,542,448	17,553,806	20,185,387
12 months - 24 months	48,963,548	43,218,208	92,181,756	116,478,586
24 months - 36 months	1,364,999	1,247,215	2,612,214	3,626,668
36 months	291,387	148,046	439,433	753,081
60 months	379,645	1,557,341	1,936,986	2,221,580
Accrued interest on deposits	332,046	188,049	520,095	2,278,044
	75,439,839	69,528,726	144,968,565	181,592,691
Other accounts				
Guarantee deposits	729,185	2,059,741	2,788,386	2,668,237
Dormant customer accounts	16,876	268	17,144	131,830
Cheques customer accounts	700	1,121	1,821	-
Other	1,204,913	38,791	1,243,704	608,161
	1,951,674	2,099,921	4,051,055	3,408,228
Total	118,811,424	114,907,959	233,719,383	246,445,957

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Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

18. OTHER LIABILITIES

	31 December 2014	31 December 2013
Other creditors	181,830	294,217
Accrued expenses	324,618	333,364
Due to employees	305,213	242,842
Withholding tax payable	39,977	87,636
Provision for contingent liabilities	19,339	116,688
Deferred income	45,935	49,746
Due to social insurance	31,845	30,412
Provision for litigation	50,639	19,470
Suspense accounts	1,117,735	2,028,915
Due to third parties	-	27,979
VAT payable	1,029	4,594
Total	2,118,160	3,235,863

- 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	77,137
Provisions expense for the period	-	43,386
Reversal of provisions for the year	(97,349)	(3,835)
Balance at the end of the year	19,339	116,688

- The Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2014. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims.

The movements in the provisions for litigations are as follows:

	31 December 2014	31 December 2013
Balance at the beginning of the year	19,470	23,190
Provision expense for the year	32,131	1,214
Reversal of provision for the year	(962)	(4,934)
Balance at the end of the year	50,639	19,470

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.

RAIFFEISEN BANK GROUP

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

22. NON-CONTROLLING INTEREST

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

The Group participates with a share of 75%. The remaining share of 25% is owned by Raiffeisen Leasing International Gesellschaft m.b.H. The place of business of Raiffeisen Leasing International Gesellschaft m.b.H is Austria. During 2013, the dividend paid to Raiffeisen Leasing International Gesellschaft m.b.H by Raiffeisen Leasing sh.a. was for an amount of Lek 15,888 thousand (2013: Lek 14,758 thousand).

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

	Raiffeisen -Leasing International Gesellschaft m.b.H.	
	2014	2013
% of holding	25%	25%
Share Capital	65,880	65,880
Current year profit	14,705	15,888
Legal reserve	6,588	6,588
Accumulated profit	14,192	14,192
Non-controlling interest	101,365	102,548

The summarised financial information of Raiffeisen Leasing sh.a. for the year ended 31 December 2014 and 2013 was as follows:

	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
2014								
Raiffeisen Leasing sh.a.	783,161	3,238,208	88,072	3,527,836	299,444	58,821	58,821	78,488
	783,161	3,238,208	88,072	3,527,836	299,444	58,821	58,821	78,488
2013								
Raiffeisen Leasing sh.a.	806,604	3,588,471	52,802	3,932,081	321,577	63,553	63,553	7
Total	806,604	3,588,471	52,802	3,932,081	321,577	63,553	63,553	7

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

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

	Minimum lease payments		Present value of minimum lease payments	
	31.Dec.14	31.Dec.13	31.Dec.14	31.Dec.13
Not later than one year	1,929,265	1,938,151	1,699,960	1,665,637
Later than one year and not later than five years	1,927,168	2,311,798	1,723,971	2,071,233
Later than five years	39,602	50,263	38,213	47,939
Less unearned finance income	(433,891)	(515,404)		
Present value of minimum lease payments receivable	3,896,036	4,300,212	3,462,144	3,784,808
Allowance for uncollectible lease payments	(239,524)	(210,115)	(239,524)	(210,115)
Total	3,222,621	3,574,694	3,222,621	3,574,694

23. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Loans and advances to customers	8,439,852	10,249,141
Investment securities	4,052,128	5,623,532
Bank deposits	177,943	80,663
Reverse repurchase agreement bought	-	90
Total	12,669,923	15,953,426

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

24. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Customers	901,710	4,831,208
Repurchase agreement sold	20,954	2,264
Banks	549,854	221,842
Total	1,472,518	5,055,314

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

*(amounts in LEK'000, unless otherwise stated)***25. FEE AND COMMISSION INCOME**

Fees and commissions received were comprised as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Funds transfers	1,281,397	1,300,653
Lending activities	201,656	225,367
Other banking services	932,083	580,785
Total	2,415,136	2,106,805

26. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2014	Year ended 31 December 2013
Payments transfer business	312,362	341,903
Loan and guarantee business	10,080	5,406
Other banking services	52,570	274,547
Total	375,012	621,856

27. NET TRADING INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
Income from trading securities	1,950,950	2,296,292
Foreign exchange gains	595,933	591,438
Total	2,546,883	2,887,730

28. OTHER OPERATING INCOME/ EXPENSE

Other operating income comprises income from write-offs of old dormant accounts amounting LEK 137,455 thousand (2013: LEK 155,000 thousand) and gain from sale of Bank property for an amount of LEK 420,872 thousand (2013: LEK 53,181). "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).

29. DEPOSIT INSURANCE PREMIUM

Based on Law no. 8873 "On deposit's insurance" dated 29 March 2002, the Banks are obliged to pay a deposit insurance premium to the Deposit Insurance Agency. The premium is calculated as a percentage of the daily average deposit balances up to LEK 2,500,000 (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 payable quarterly.

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

*(amounts in LEK '000, unless otherwise stated)***30. PERSONNEL EXPENSES**

Personnel expenses are composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries	2,097,551	2,100,839
Social insurance	263,838	258,395
Personnel training	45,381	45,803
Pension costs	14,953	14,002
Other personnel costs	2,243	8,078
Total	2,423,966	2,427,117

31. 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 expenses	621,127	619,109
IT cost	534,270	526,804
Advertising, public relations and promotional expenses	346,854	317,636
Legal, advisory and consulting expenses	235,619	237,102
Sundry administrative expenses	200,076	184,036
Car expenses	62,648	67,039
Office supplies	66,586	57,215
Communication expenses	38,538	52,270
Travelling expenses	33,360	28,845
Security expenses	69,162	19,599
Total	2,208,240	2,109,655

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

RAIFFEISEN BANK GROUP

Notes to the consolidated financial statements for the year ended 31 December 2014

*(amounts in LEK'000, unless otherwise stated)***32. 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	882,916	530,823
Deferred tax	<u>29,273</u>	<u>(74,164)</u>
Income tax expense for the year	<u>912,189</u>	<u>456,659</u>

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		5,950,751		5,103,381
<i>Prima facie tax calculated at 15%/10%</i>	15.00%	892,613	10.00%	510,338
Non tax deductible expenses at	1.37%	81,232	1.11%	56,664
Tax savings by tax-exempted income	(1.04%)	(61,656)	(0.5%)	(25,459)
Tax expense/income for former periods	-	-	(1.66%)	(84,884)
Income tax expense	15.33%	<u>912,189</u>	8.95%	<u>456,659</u>

Tax expense/income for former periods in 2014 includes reversal of deferred tax expense calculated on loan loss provisions following the changes in legislation.

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

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Notes to the consolidated financial statements for the year ended 31 December 2014
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33. FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

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

(b) Credit risk

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

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

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

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A consolidated Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

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Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

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

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

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

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

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

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks

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

Management of market risks

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

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

Exposure to foreign exchange risk

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

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

	At 31 December 2014			At 31 December 2013		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Albanian LEK	139,497,983	119,189,532	20,308,451	152,937,029	131,377,657	21,559,372
US Dollars	16,440,873	14,182,146	2,258,727	17,829,167	16,737,134	1,092,033
Euros	109,372,279	105,678,666	3,693,613	109,681,461	104,589,014	5,092,447
Other	5,646,712	5,383,711	263,001	5,573,943	5,507,265	66,678
Total	270,957,847	244,434,055	26,523,792	286,021,600	258,211,070	27,810,530

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Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

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

<i>In thousands of LEK</i>	At 31 December 2014		At 31 December 2013	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10% (2013: strengthening by 10%)	225,873	225,873	509,245	509,245
US Dollar weakening by 10% (2013: weakening by 10%)	(225,873)	(225,873)	(509,245)	(509,245)
Euro strengthening by 10% (2013: strengthening by 10%)	369,361	369,361	109,203	109,203
Euro weakening by 10% (2013: weakening by 10%)	(369,361)	(369,361)	(109,203)	(109,203)
Other strengthening by 10% (2013: strengthening by 10%)	26,300	26,300	6,688	6,688
Other weakening by 10% (2013: weakening by 10%)	(26,300)	(26,300)	(6,688)	(6,688)

Exposure to interest rate risk

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

If interest rates had been 100 basis points lower (2013: [100] basis points lower, with all other variables held constant, profit would have been LEK 7,173 thousand (2013: LEK 5,593 thousand) higher. 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 6,615 thousand (2013: LEK 4,341 thousand) lower.

2014

	up to 1 Year scenarios	
	100 bp Decrease	100 bp Increase
Estimated Profit (loss) effect	7,173	(6,615)

2013

	up to 1 Year scenarios	
	100 bp Decrease	100 bp Increase
Estimated Profit (loss) effect	5,593	(4,341)

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

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Notes to the consolidated financial statements for the year ended 31 December 2014
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33. FINANCIAL RISK MANAGEMENT (CONTINUED)**(c) Market risks (continued)**

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

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

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(amounts in LEX'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)**(c) 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	35,394,832	-	-	-	-	-	35,394,832
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	13,301	2,353,263	10,627,631	29,568,094	-	43,867,966
Held-to-maturity investment securities	4,031,145	2,206,147	9,207,414	23,796,971	26,644,251	-	65,885,928
Loans and advances to customers	15,592,949	22,831,268	16,052,406	62,460,273	1,194,935	(1,785,981)	116,345,850
Total	80,851,627	25,050,716	27,613,083	96,884,875	57,407,280	-1,785,981	286,021,600
Liabilities							
Due to banks and financial institutions	4,049,185	561,609	-	-	-	-	4,610,794
Due to customers	102,725,545	29,747,595	29,039,963	80,992,121	3,940,733	-	246,445,957
Other liabilities	3,205,205	29,658	1,000	-	-	-	3,235,863
Subordinated capital	-	-	-	-	7,154,318	-	7,154,318
Total	109,979,935	30,338,862	29,040,963	80,992,121	11,095,051	-	261,446,932
Gap at 31 December 2013	(29,128,308)	(5,288,146)	(1,427,880)	15,892,754	46,312,229	(1,785,981)	24,574,668

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

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

Management of liquidity risk

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

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

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

RAIFFEISEN BANK SH.A.

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Liquidity risk (continued)**

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

	31 December 2014					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific
Assets						
Cash and cash equivalents	40,638,657	-	-	-	-	-
Restricted balances	22,850,572	-	-	-	-	-
Investments held for trading	285,666	1,689,835	1,589,322	3,174,406	21,778,026	-
Held-to-maturity investment securities	3,769,806	9,941,679	12,692,625	15,220,483	17,954,500	-
Other securities designated at fair value through profit or loss	-	-	-	-	6,841,526	-
Loans and advances to customers	26,821,469	7,963,343	11,441,687	29,057,016	50,750,201	-13,817,545
Total	94,366,170	19,594,857	25,723,634	47,451,905	97,324,253	(13,817,545)
Liabilities						
Due to banks and financial institutions	2,993,851	-	561,315	-	-	-
Due to customers	116,804,511	23,575,434	18,678,678	69,611,344	6,091,162	-
Other liabilities	2,081,889	9,466	26,197	608	-	-
Subordinated capital	-	-	-	-	8,651,963	-
Total	121,880,251	23,584,900	19,266,190	69,611,952	14,743,125	-
Guarantees and commitments	1,567,336	3,466,788	4,318,202	8,599,943	9,988,430	27,940,699
Liquidity risk at 31 December 2014	(29,081,417)	(7,456,831)	2,139,242	(30,759,990)	72,592,698	(13,817,545)
Cumulative	(29,081,417)	(36,538,248)	(34,399,006)	(65,158,997)	7,433,701	(6,383,844)

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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	35,394,832	-	-	-	-	-	35,394,832
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	13,301	2,353,263	10,627,631	29,568,094	-	43,867,966
Held-to-maturity investment securities	4,031,145	2,206,147	9,207,414	23,796,971	26,644,251	-	65,885,928
Loans and advances to customers	16,466,861	10,493,622	16,329,726	32,536,440	52,415,962	(11,896,763)	116,345,848
Total	81,725,539	12,713,070	27,890,403	66,961,042	108,628,307	(11,896,763)	286,021,598
Liabilities							
Due to banks and financial institutions	4,049,185	-	561,609	-	-	-	4,610,794
Due to customers	104,206,427	30,673,809	28,889,252	79,321,947	7,174,266	-	250,265,701
Other liabilities	3,205,205	29,658	1,000	-	-	-	3,235,863
Subordinated capital	-	-	-	-	8,805,963	-	8,805,963
Total	111,460,817	30,703,467	29,451,861	79,321,947	15,980,229	-	266,918,321
Guarantees and commitments	245,232	2,134,768	2,730,801	4,850,913	6,280,462	-	16,242,176
Liquidity risk at 31 December 2013	(29,980,510)	(20,125,165)	(4,292,259)	(17,211,818)	86,367,616	(11,896,763)	2,861,101
Cumulative	(29,980,510)	(50,105,675)	(54,397,934)	(71,609,752)	14,757,864	2,861,101	2,861,101

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk

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

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

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

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

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

34. CAPITAL MANAGEMENT

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

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23 December.1997 "On the Bank of Albania", and "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

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

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

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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	128,283,711	136,051,166
Total risk weighted off balance exposures	1,926,951	2,619,932
Total	130,210,662	138,671,098
Regulatory capital	24,669,576	30,408,383
Capital adequacy ratio	18.95%	21.93%

The modified capital adequacy ratio is 12.19% in 31 December 2014 (31 December 2013: 15.23%).

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

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

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

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Management Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capital, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased beyond a limit of Lek 1,250,000 thousand. As at 31 December 2014 and 2013, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2014 and 2013, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

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

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

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

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35. UNCONSOLIDATED STRUCTURED ENTITIES

Based on IFRS 10 requirements, exposure to variable returns should be well above the exposure from market level asset management fees in order to consider consolidation of the funds managed by the entity, which is not the case for the Group which is entitled to 1.5% of the Funds's net assets value. Further, the Group does not own any investment units either in the pension fund or in the investment funds. The Fund's assets are "ring fenced" from the Administration company (subsidiary of the Group). According to the Albanian legislation on pension fund and investment funds, the legal title on the assets of the Fund remains with the contributors. As a consequence, the Group did not consolidate any of the Funds administered by one of its subsidiaries in 2014 consolidated financial statements. Information about unconsolidated structured entities is as follows:

	Year ended 31 December 2014		At 31 December 2014	
	Income from the structured entity for the year	Carrying amount of assets of the structured entity	Carrying amount of liabilities of structured entity	Net assets of the structured entity
<i>In thousands of LEK</i>				
Prestige Fund	646,292	52,828,052	279,997	52,548,055
Pension Fund	3,100	235,460	2,605	232,855
Euro Fund	150,799	11,213,295	25,574	11,187,721
TOTAL	800,191	64,276,808	308,176	63,968,632

36. CONTINGENCIES AND COMMITMENTS

	31 December 2014		31 December 2013	
	LEK	Foreign currency	Total	Total
<i>Contingent liabilities</i>				
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	10,156,832	16,902,803	4,901,309
Total	8,056,644	19,884,055	27,940,699	16,242,176

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.

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

The Bank has entered into non-cancellable operating lease commitments for the Head Office and the branches. Such commitments as at 31 December 2014 and 31 December 2013 are 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	<u>62,586</u>	<u>78,206</u>
Total	<u>989,751</u>	<u>1,229,895</u>

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

	2014			Total
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	
Loans to banks	-	20,128,723	43,360,507	63,489,230
Loans to customers	-	-	112,697,286	112,697,286
Individual	-	-	18,567,427	18,567,427
Corporate	-	-	79,682,562	79,682,562
SME	-	-	9,782,415	9,782,415
Micro - Business	-	-	1,750,506	1,750,506
Employees	-	-	2,914,376	2,914,376
Trading Assets	-	28,517,254	-	28,517,254
Financial Investments	-	59,605,075	-	59,605,075
Other securities designated at fair value through profit or loss	-	6,841,526	-	6,841,526
Due to banks and financial institutions	-	194,890	3,360,277	3,555,167
Due to customers	-	-	233,669,736	233,669,736
Subordinated Debt	-	-	7,251,731	7,251,731
Guarantees and commitments	-	-	33,387	33,387

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

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2013 are as follows:

	2013			Total
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	
Loans to banks	-	26,913,259	30,551,799	57,465,058
<i>Loans to customers</i>	-	-	116,061,274	116,061,274
Individual	-	-	18,817,941	18,817,941
Corporate	-	-	80,907,990	80,907,990
SME	-	-	12,175,715	12,175,715
Micro - Business	-	-	1,835,492	1,835,492
Employees	-	-	2,324,136	2,324,136
Trading Assets	-	43,867,966	-	43,867,966
Financial Investments	-	66,284,834	-	66,284,834
Due to banks and financial institutions	-	-	4,610,794	4,610,794
Due to customers	-	-	246,571,806	246,571,806
Subordinated Debt	-	-	7,017,474	7,017,474
Guarantees and commitments	-	-	40,421	40,421

Cash and cash equivalents

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

Investment securities

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

Loans and advances to customers

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

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

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

Due to customers

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

Subordinated debt

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

Guarantees and commitments

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

RAIFFEISEN BANK GROUP

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

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

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

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2013 was as follows:

<i>In thousands of LEK</i>	Fair value	Valuation technique	Inputs used
FINANCIAL Assets at Fair Value			
<i>Trading securities</i>			
Albanian treasury bills	310,962	DCF	Comparable prices from less active markets
Albanian government bonds	43,393,437	DCF	Comparable prices from less active markets

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

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2014:

	Loans and receivables	Other securities designated at fair value	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	40,638,657	-	-	-	40,638,657
Restricted balances	22,850,572	-	-	-	22,850,572
Investments held for trading	-	-	28,517,255	-	28,517,255
Other securities designated at fair value through profit or loss	-	6,841,526	-	-	6,841,526
Held-to-maturity investment securities	-	-	-	59,579,093	59,579,093
Loans and advances to customers	112,216,171	-	-	-	112,216,171
Finance lease receivables	3,222,621	-	-	-	3,222,621
Total financial assets	175,705,400	6,841,526	28,517,255	59,579,093	270,643,274

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

	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	35,394,831	-	-	-	35,394,831
Restricted balances	24,527,024	-	-	-	24,527,024
Investments held for trading	-	-	43,867,966	-	43,867,966
Held-to-maturity investment securities	-	-	-	65,885,928	65,885,928
Loans and advances to customers	116,345,848	-	-	-	116,345,848
Finance lease receivables	3,574,694	-	-	-	3,574,694
Total financial assets	176,267,703	-	43,867,966	65,885,928	286,021,597

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

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Notes to the consolidated financial statements for the year ended 31 December 2014

(amounts in LEK'000, unless otherwise stated)

39. RELATED PARTIES

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

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

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

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

	31 December 2014	31 December 2013
Amounts due from:		
Immediate parent company	8,802,373	17,726,555
Other related parties	59,931	25,612
Assets total	8,862,304	17,752,167
Amounts due to:		
Immediate parent company	(7,390,573)	(7,388,266)
Other related parties	(88,772)	(18,324)
Liabilities total	(7,479,345)	(7,406,590)
	Year ended 31 December 2014	Year ended 31 December 2013
Net interest expense		
Immediate parent company	(433,138)	(133,733)
Other related parties	37,604	(13,109)
Total net interest expenses	(395,534)	(146,842)
Net fee and commission expense		
Immediate parent company	(21,378)	(22,715)
Other related parties	(158,430)	(159,074)
Total net fee and commission expense	(179,808)	(181,789)
Operating expenses		
Immediate parent company	(468,462)	(379,255)
Other related parties	(35,382)	(31,663)
Total operating expenses	(503,844)	(410,918)
Grand Total	(1,079,186)	(739,549)

Included in amounts due from Immediate parent is an amount of Lek 5,395,390 thousand (2013: Lek 15,912,700 thousand) which relates to deposits with interest rate of 0.9730% (2013: 0.9730%). Included in amounts due to Immediate parent is the Subordinated debt, which is detailed in note 19.

During the year Raiffesien Bank sha.a. granted a credit line to Raiffeisen Leasing sh.a. for an amount of Lek 3,000,000 thousand. The maturity date of credit line is 31 July 2015. The interest is payable on a monthly basis. The interest rate is 12-month Euribor plus 2.5 % p.a. (2013: 12-month Euribor plus 2.5 % p.a.).

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Notes to the consolidated financial statements for the year ended 31 December 2014

*(amounts in LEK '000, unless otherwise stated)***39. RELATED PARTIES (CONTINUED)****Key management personnel**

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

	2014	2013
Statement of financial position		
Amounts due from	108,518	37,576
Amounts due to	<u>(74,535)</u>	<u>(79,258)</u>
Net balances due (to)/from	33,983	(41,682)
Statement of comprehensive income		
Wages, salaries and bonuses	<u>(232,940)</u>	<u>(307,192)</u>
Total	<u>(232,940)</u>	<u>(307,192)</u>

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

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