

**Raiffeisen Bank sh.a.**

**Independent Auditor's Report and  
Separate Financial Statements  
as at and for the year ended December 31, 2015**

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## GENERAL INFORMATION

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

#### *Board of Directors (Supervisory Board)*

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

#### *Audit Committee*

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Benoit	Member

#### *Management Board*

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

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#### **Auditor**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of Raiffeisen Bank Sh.a., which comprise the separate statement of financial position as at 31 December 2015, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Separate Financial Statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the financial position of Raiffeisen Bank Sh.a. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### *Other matter*

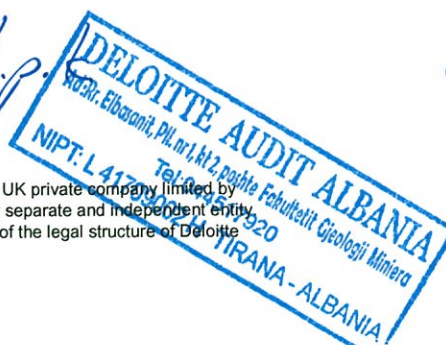
The separate financial statements of Raiffeisen Bank Sh.a. as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on March 16, 2015.

*Deloitte Audit Albania sh.p.k.*

March 10, 2016  
Tirana, Albania

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Member of Deloitte Touche Tohmatsu Limited



*Elvis Ziu*

Elvis Ziu  
Engagement Partner

**RAIFFEISEN BANK SH.A.**

Separate Statement of Financial Position as at 31 December 2015

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

	Note	31 December 2015	31 December 2014
<b>Assets</b>			
Cash and cash equivalents	7	78,049,658	40,632,219
Restricted balances	8	28,632,318	22,850,572
Investments held for trading	9.1	20,998,043	28,341,284
Held to maturity investment securities	9.2	51,935,006	59,534,013
Other securities designated at fair value through profit or loss	9.3	3,423,858	6,841,526
Loans and advances to customers	10	100,912,406	111,921,473
Investments in subsidiaries	12	201,898	201,898
Current income tax prepayment		646,191	176,475
Deferred income tax asset	11	30,870	41,839
Intangible assets	13	1,584,104	1,502,000
Premises and equipment	14	1,560,004	1,632,104
Other assets	15	1,784,090	1,599,543
<b>Total assets</b>		<b>289,758,446</b>	<b>275,274,946</b>
<b>Liabilities</b>			
Due to banks and financial institutions	16	2,232,929	2,993,851
Due to customers	17	246,980,209	233,869,236
Other liabilities	18	1,849,218	2,013,498
Subordinated debt	19	9,107,088	7,149,792
<b>Total liabilities</b>		<b>260,169,444</b>	<b>246,026,377</b>
<b>Equity</b>			
Share capital	20	14,178,593	14,178,593
Retained earnings		12,310,409	12,269,976
Other reserves	21	3,100,000	2,800,000
<b>Total equity</b>		<b>29,589,002</b>	<b>29,248,569</b>
<b>Total liabilities and equity</b>		<b>289,758,446</b>	<b>275,274,946</b>

These separate financial statements have been approved by the Supervisory Board of the Bank on 9 March 2016.

  
Christian Canacaris  
Chief Executive Officer

  
Alexander Zsolnai  
Vice Chairman of Management Board

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 64.

**RAIFFEISEN BANK SH.A.**

Separate Statement of Profit of Loss and Other Comprehensive Income for the year ended 31 December 2015

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

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	22	10,292,455	12,451,219
Interest expense	23	(657,635)	(1,455,904)
<b>Net interest income</b>		<b>9,634,820</b>	<b>10,995,315</b>
Provision for impairment of loans to customers	10	(4,201,483)	(4,052,858)
<b>Net interest income after provision for loan impairment</b>		<b>5,433,337</b>	<b>6,942,457</b>
Fee and commission income	24	1,971,677	1,848,916
Fee and commission expense	25	(448,909)	(367,604)
<b>Net fee and commission income</b>		<b>1,522,768</b>	<b>1,481,312</b>
Losses from Economic Hedge		(5,871)	-
Net income from investments		118,918	7,552
Net trading income	26	2,138,571	2,547,579
Net other operating (expense) / income	27	(956,097)	333,702
		<b>1,295,521</b>	<b>2,888,833</b>
Deposit insurance premium	28	(675,379)	(745,867)
Personnel expenses	29	(2,413,718)	(2,343,203)
Depreciation and amortisation	13,14	(674,969)	(658,748)
General and administrative expenses	30	(2,424,130)	(2,050,247)
		<b>(6,188,196)</b>	<b>(5,798,065)</b>
<b>Profit before tax</b>		<b>2,063,430</b>	<b>5,514,537</b>
Income tax expense	31	(297,997)	(790,812)
<b>PROFIT FOR THE YEAR</b>		<b>1,765,433</b>	<b>4,723,725</b>
<b>Other comprehensive income</b>			
Available-for-sale investments:			
- Gains less losses arising during the year		-	-
- Gains less losses reclassified to profit or loss upon disposal or impairment		-	-
<b>Other comprehensive income for the year</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,765,433</b>	<b>4,723,725</b>

The separate statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 64.

**RAIFFEISEN BANK SH.A.**Separate Statement of Changes in Equity for the year ended 31 December 2015  
(amounts in LEK '000)**SEPARATE STATEMENT OF CHANGES IN EQUITY**

	Share capital	General reserves	Retained earnings	Total
<b>Balance as at 1 January 2014</b>	<b>14,178,593</b>	<b>2,800,000</b>	<b>12,843,882</b>	<b>30,668,493</b>
Dividends paid during the year	-	-	(5,297,631)	(5,297,631)
Profit for the year	-	-	4,723,725	4,723,725
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>4,723,725</b>	<b>4,723,725</b>
<b>Balance as at 31 December 2014</b>	<b>14,178,593</b>	<b>2,800,000</b>	<b>12,269,976</b>	<b>29,248,569</b>
Dividends paid during the year	-	-	(1,425,000)	(1,425,000)
Profit for the year	-	-	1,765,433	1,765,433
Transfer to General Reserves	-	300,000	(300,000)	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1,765,433</b>	<b>1,765,433</b>
<b>Balance as at 31 December 2015</b>	<b>14,178,593</b>	<b>3,100,000</b>	<b>12,310,409</b>	<b>29,589,002</b>

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 64.

**RAIFFEISEN BANK SH.A.**

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

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

	Year ended 31 December 2015	Year ended 31 December 2014
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>2,063,430</b>	<b>5,514,537</b>
Adjustments for:		
Depreciation and amortization	674,969	658,748
Profit from sale of premises, equipment and intangible assets	(54,749)	(420,554)
Net impairment loss on loans and advances to customers	4,181,750	4,052,858
Net interest income	(9,687,078)	(10,995,315)
Net income from revaluation of trading securities	(631,509)	(111,449)
Net income from revaluation of other current financial assets	(97,037)	(3,561)
Changes in provision for other debtors	(2,596)	144,348
Changes in provision for litigation	740,195	5,972
Effect of exchange rate changes on cash and cash equivalents	397,037	221,389
<b>Operating cash flows before changes in working capital</b>	<b>(2,415,588)</b>	<b>(933,027)</b>
Decrease in restricted balances	(5,780,768)	1,676,452
Net decrease in loans and advances to customers	6,585,831	7,698
Net decrease/ (increase) in trading securities	7,974,750	15,474,564
Net increase in other securities designated at fair value through profit or loss	3,594,837	(6,768,400)
Increase in other assets	(181,952)	(495,555)
(Decrease)/ Increase in due to financial institutions	(760,708)	(1,051,582)
Decrease in due to customers	13,367,420	(10,748,957)
(Decrease)/Increase in other liabilities	(890,586)	(1,049,222)
<b>Operating cash flows after changes in working capital</b>	<b>21,493,236</b>	<b>(3,888,030)</b>
Interest received	10,453,760	12,398,997
Interest paid	(874,582)	(3,231,349)
Corporate income tax paid	(756,744)	(741,064)
<b>Net cash generated from operating activities</b>	<b>30,315,670</b>	<b>4,538,554</b>
<b>Cash flows from investing activities</b>		
Purchases of premises and equipment	(337,208)	(341,231)
Purchases of intangible assets	(308,706)	(266,912)
Proceeds from sale of premises , equipment and intangible assets	15,689	535,989
Proceeds from matured financial assets held-to-maturity	74,575,463	46,701,962
Purchase of financial assets held-to-maturity	(66,937,632)	(40,372,522)
<b>Net cash generated from investing activities</b>	<b>7,007,606</b>	<b>6,257,285</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(1,425,000)	(5,297,631)
Proceeds from Subordinated debt	1,916,200	-
<b>Net cash generated from / (used in) financing activities</b>	<b>491,200</b>	<b>(5,297,631)</b>
<b>Increase in cash and cash equivalents during the year</b>	<b>37,814,476</b>	<b>5,498,210</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>40,632,219</b>	<b>35,355,398</b>
Effect of exchange rate changes on cash and cash equivalents	(397,037)	(221,389)
<b>Cash and cash equivalents at the end of the year (Note 7)</b>	<b>78,049,658</b>	<b>40,632,219</b>

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 9 to 64.



## **RAIFFEISEN BANK SH.A.**

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

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### **1. INTRODUCTION**

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

The Bank operates through a banking network of 89 service points, as of 31 December 2015, (31 December 2014: 90 service points) throughout Albania, which are managed through 8 Districts and has no overseas operations.

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

### **2. BASIS OF PREPARATION**

#### **(a) Statement of compliance**

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

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'group'). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from <http://www.raiffeisen.al/>. Users of these separate financial statements should read them together with the group's consolidated financial statements as at and for the year ended 31 December 2015 in order to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Subsidiaries and consolidation**

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

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

## RAIFFEISEN BANK SH.A.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Foreign currency transactions

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

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

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

	31 December 2015		31 December 2014	
	<i>Period end</i>	<i>Average</i>	<i>Year end</i>	<i>Average</i>
United States dollar (USD)	125.79	125.60	115.23	105.75
European Union currency unit (EUR)	137.28	139.67	140.14	139.93

#### (c) Interest

Interest income and expense are recognised as profit or loss in the separate statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

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

Interest income and expense on all trading assets and liabilities are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

#### (d) Fees and commission

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

Other fees and commission income, including account servicing fees, sales commission, placement fees, are recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

#### (e) Net trading income

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

## **RAIFFEISEN BANK SH.A.**

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

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(f) Operating lease payments and other operating expenses**

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

#### **(g) Employee benefits**

- *Defined contribution plans*

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

- *Paid annual leave*

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

- *Short-term benefits*

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

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

- *Termination benefits*

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

#### **(h) Income tax expense**

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

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

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

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

## **RAIFFEISEN BANK SH.A.**

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

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(i) Financial assets and liabilities**

##### ***i Recognition***

Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

##### ***ii Derecognition***

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

##### ***iii Amortised cost measurement***

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

##### ***iv Fair value measurement***

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

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

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

##### ***v Offsetting***

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

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

## **RAIFFEISEN BANK SH.A.**

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

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(i). Financial assets and liabilities (continued)**

##### *vi Identification and measurement of impairment*

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

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

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

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

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

#### **(j) Cash and cash equivalents**

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

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

#### **(k) Trading assets and liabilities**

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

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

## **RAIFFEISEN BANK SH.A.**

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

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(l) Derivative financial instruments**

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

#### **(m) Loans and advances**

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

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

#### **(n) Investment securities**

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

##### *i Held-to-maturity*

Held-to-maturity investments are assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

##### *ii Fair value through profit or loss*

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

##### *iii Available-for-sale*

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

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

##### *iv Other securities at fair value through profit or loss.*

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

## RAIFFEISEN BANK SH.A.

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

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Premises and equipment

##### *i Recognition and measurement*

Items of premises and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of premises and equipment.

##### *ii Subsequent costs*

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

##### *iii Depreciation*

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

The estimated useful lives for the current and comparative periods are as follows:

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

Useful lives and residual values are reassessed each reporting date.

#### (p) Intangible assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

#### (q) Repossessed property

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

## **RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(r) Deposits and other financial liabilities**

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

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

#### **(s) Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(t) Provisions**

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

#### *Loan loss provisions for contingent liabilities and commitments*

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

#### **(u) Credit related commitments.**

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



## **RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

#### **(w) Comparability**

All amounts are reported or disclosed with comparative information.

### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

#### ***i. Impairment losses on loans and advances***

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of LEK 68,962 thousand (2014: LEK 719,869 thousand) or a decrease in loan impairment losses of LEK 48,091 thousand (2014: LEK 645,263 thousand), respectively.

#### ***ii. Determination of fair value of investment securities***

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

**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)*

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**5. STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD**

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

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

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

## **6. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED**

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

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

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

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

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

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

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

## **RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)*

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

- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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Notes to the separate financial statements for the year ended 31 December 2015  
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**7. CASH AND CASH EQUIVALENTS**

	<b>31 December 2015</b>	<b>31 December 2014</b>
<i>Cash on hand</i>	3,172,435	3,323,499
<i>Central Bank</i>		
Current accounts	33,252,590	373,399
Deposits	-	7,000,000
Accrued interest on deposit account	-	96
<i>Banks</i>		
Current accounts with non-resident banks	1,784,395	915,868
Deposits with resident banks with original maturities of less than three months	2,404,100	2,853,975
Deposits with non-resident banks with original maturities of less than three months	37,436,138	26,165,382
<b>Total</b>	<b>78,049,658</b>	<b>40,632,219</b>

Current accounts with the Bank of Albania bear no interest.

The annual interest rates on term deposits with the Bank of Albania as at 31 December 2014 is 0.5%.

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

**8. RESTRICTED BALANCES**

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

Obligatory reserves with Central Bank are not for everyday use by the Bank and represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 10% of the average amount of deposits for the month owed to banks and customers, and are both in LEK and in foreign currency (USD and EUR).

The annual interest rates on term deposits with non-resident banks as at 31 December 2015 vary from -1% to 1.85% (31 December 2014: none).

The credit quality of cash and cash equivalents and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2015:

	<b>2015</b>	<b>2014</b>
Neither past due nor impaired		
A-1	11,744,571	6,040,445
A-1+	2,553,599	2,621,881
A-2	21,671,089	10,607,286
A-3	3,398	26,278
B	26,083	26,627
P-1	6,110,640	-
Unrated	64,572,596	44,160,274
<b>Carrying amount</b>	<b>106,681,976</b>	<b>63,482,791</b>

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

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Notes to the separate financial statements for the year ended 31 December 2015  
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**9. INVESTMENT IN SECURITIES****9.1 Investments held for trading**

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

	31 December 2015	31 December 2014
Government bonds	20,996,111	28,339,952
Treasury bills	1,932	1,332
<b>Total</b>	<b>20,998,043</b>	<b>28,341,284</b>

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

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

**9.2 Held-to-maturity investment securities**

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

	31 December 2015	31 December 2014
Government bonds (note 9.2.1)	30,133,064	33,250,417
Government bonds non-resident (note 9.2.2)	-	5,802,783
Corporate bonds (note 9.2.3)	4,115,251	2,939,700
Treasury bills (note 9.2.4)	17,686,691	17,541,113
<b>Total</b>	<b>51,935,006</b>	<b>59,534,013</b>

As at 31 December 2015, no held to maturity investment securities were pledged as security for the repurchase agreements portfolio (2014: none).

**9.2.1 Government bonds**

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

	31 December 2015	31 December 2014
Nominal value of bonds	29,680,425	32,704,194
Unamortised premium	3,304	3,717
Accrued interest	449,335	542,506
<b>Total</b>	<b>30,133,064</b>	<b>33,250,417</b>

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Notes to the separate financial statements for the year ended 31 December 2015  
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**9. INVESTMENT SECURITIES (CONTINUED)****9.2 Held-to-maturity investment securities (continued)****9.2.2 Government bonds non-resident**

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

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

**9.2.3 Corporate bonds**

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

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

**9.2.4 Treasury Bills**

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Nominal value of treasury bills	17,864,231	17,790,230
Unamortised discount	(177,540)	(249,117)
<b>Total</b>	<b>17,686,691</b>	<b>17,541,113</b>

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

*(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 comprises bonds of Albanian Government as follows:

	31 December 2015	31 December 2014
Government bonds	3,423,858	6,841,526
<b>Total</b>	<b>3,423,858</b>	<b>6,841,526</b>

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

Analysis by credit quality of investment securities is summarized as follows at 31 December 2015 and 2014:

	Investments held for trading		Held-to-maturity investment securities		Other securities designated at fair value through profit or loss	
	2015	2014	2015	2014	2015	2014
Neither past due nor impaired	-	-	-	-	-	-
B	20,998,043	28,341,284	47,819,755	50,791,530	3,423,858	6,841,526
A1	-	-	724,085	-	-	-
A2	-	-	692,851	-	-	-
A3	-	-	715,152	-	-	-
A-	-	-	1,286,393	-	-	-
Aa2	-	-	553,592	-	-	-
AA	-	-	143,178	-	-	-
A	-	-	-	956,974	-	-
Aa1u	-	-	-	5,802,783	-	-
AA+	-	-	-	-	-	-
BBB+	-	-	-	-	-	-
BBB	-	-	-	1,982,726	-	-
Unrated	-	-	-	-	-	-
<b>Carrying amount</b>	<b>20,998,043</b>	<b>28,341,284</b>	<b>51,935,006</b>	<b>59,534,013</b>	<b>3,423,858</b>	<b>6,841,526</b>



**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Loans and advances to customers	114,280,670	125,499,494
Allowance for loan loss impairment	(13,368,264)	(13,578,021)
<b>Net carrying amount</b>	<b>100,912,406</b>	<b>111,921,473</b>

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

	<b>2015</b>	<b>2014</b>
Balance at the beginning of the year	13,578,021	11,896,762
Allowance for loan loss impairment	6,479,680	5,787,102
Release for loan loss impairment	(2,284,461)	(1,636,895)
Loans written off	(4,404,978)	(2,468,948)
<b>Balance at the end of the year</b>	<b>13,368,264</b>	<b>13,578,021</b>

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

**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

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

	31 December 2015					
	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
<b>Overdraft</b>	2,005,399	49,982,881	4,246,007	620,927	68,776	56,923,990
<b>Credit Card</b>	469,748	10,668	11,337	0	51,123	542,876
<b>Loans</b>						
Short term	169,075	2,177,692	40,339	885	3,846	2,391,837
Medium term	4,588,310	14,726,220	2,110,138	340,708	136,844	21,902,220
Long term	6,891,439	10,275,529	2,506,845	338,794	351,057	20,363,664
less Administrative Fee	(175,785)	(196,624)	(38,291)	(10,081)	-	(420,781)
	<b>11,473,039</b>	<b>26,982,817</b>	<b>4,619,031</b>	<b>670,306</b>	<b>491,747</b>	<b>44,236,940</b>
<b>Mortgage</b>	8,630,060	-	591,380	209,278	3,079,127	12,509,845
<b>Other</b>	25,408	15,074	7,465	18,400	672	67,019
<b>TOTAL</b>	<b>22,603,654</b>	<b>76,991,440</b>	<b>9,475,220</b>	<b>1,518,911</b>	<b>3,691,445</b>	<b>114,280,670</b>

	31 December 2014					
	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
<b>Overdraft</b>	1,797,341	50,378,723	4,435,749	635,739	70,605	57,318,157
<b>Credit Card</b>	439,661	2,267	4,690	-	47,290	493,908
<b>Loans</b>						
Short term	166,115	2,193,719	71,597	6,186	2,937	2,440,554
Medium term	3,852,706	19,463,517	2,380,273	456,045	119,320	26,271,861
Long term	6,428,316	18,239,668	2,500,360	406,230	252,515	27,827,089
less Administrative Fee	(154,975)	(212,847)	(40,756)	(10,390)	-	(418,968)
	<b>10,292,162</b>	<b>39,684,057</b>	<b>4,911,474</b>	<b>858,071</b>	<b>374,772</b>	<b>56,120,536</b>
<b>Mortgage</b>	8,002,580	-	508,759	244,500	2,723,672	11,479,511
<b>Other</b>	40,520	16,028	9,292	20,296	1,246	87,382
<b>TOTAL</b>	<b>20,572,264</b>	<b>90,081,075</b>	<b>9,869,964</b>	<b>1,758,606</b>	<b>3,217,585</b>	<b>125,499,494</b>

**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

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

**31 December 2015**

	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
Balance at the beginning of the year	1,680,896	10,205,372	1,387,718	299,987	4,048	13,578,021
Allowance for loan loss impairment	554,998	5,498,794	334,426	91,053	411	6,479,682
Release for loan loss impairment	(319,183)	(1,669,234)	(230,147)	(64,564)	(1,333)	(2,284,461)
Loans written off	(170,995)	(3,635,913)	(484,497)	(113,570)	(3)	(4,404,978)
<b>Balance at the end of the year</b>	<b>1,745,716</b>	<b>10,399,019</b>	<b>1,007,500</b>	<b>212,906</b>	<b>3,123</b>	<b>13,368,264</b>

**31 December 2014**

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

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

<i>In thousands of LEK</i>	2015		2014	
	Amount	%	Amount	%
Trade, repair of motor vehicles and household items	31,143,560	27.15%	40,256,913	32.08%
Households	26,431,100	23.04%	23,885,467	19.03%
Production and distribution of electricity, gas and water	22,778,646	19.86%	21,376,595	17.03%
Processing industry	8,051,659	7.02%	10,787,537	8.60%
Construction	5,890,279	5.14%	7,412,006	5.91%
Monetary and financial intermediation	7,052,941	6.15%	7,020,937	5.59%
Transportation, Storage and Telecommunications	1,707,231	1.49%	5,655,625	4.51%
Extracting industry	4,594,016	4.01%	2,333,885	1.86%
Agriculture and hunting	1,799,074	1.57%	2,298,432	1.83%
Collective, social and personal	1,950,302	1.70%	2,277,008	1.81%
Health and social work	1,066,654	0.93%	1,139,716	0.91%
Other	1,815,208	1.94%	1,055,373	0.84%
<b>Total loans and advances to customers (before impairment)</b>	<b>114,280,670</b>	<b>100%</b>	<b>125,499,494</b>	<b>100%</b>

**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

State and public organisations exclude government owned profit orientated businesses.

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

Information about collateral at 31 December 2015 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	13,737,215	132,643	72,318	40,419	667,922	14,650,517
Loans guaranteed by other banks	-	-	-	-	-	-
Loans guaranteed by other parties, including credit insurance	780,713	25,740,805	360,025	472,531	631,849	27,985,923
Loans collateralised by:	-	-	-	-	-	-
- residential real estate	6,894,928	4,162,904	2,431,836	491,833	2,324,740	16,306,241
- other real estate	694,995	24,813,875	5,096,559	341,934	59,625	31,006,988
- cash deposits	409,480	1,149,639	2,128	4,231	125	1,565,603
- other assets	93,508	20,991,572	1,512,355	167,963	-	22,765,398
<b>Total loans and advances to customers</b>	<b>22,610,839</b>	<b>76,991,438</b>	<b>9,475,221</b>	<b>1,518,911</b>	<b>3,684,261</b>	<b>114,280,670</b>

Information about collateral at 31 December 2014 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,363,836	3,675,853	279,323	108,525	552,146	16,979,683
Loans guaranteed by other banks	-	729,149	-	-	-	729,149
Loans guaranteed by other parties, including credit insurance	752,027	14,508,867	460,688	556,689	539,467	16,817,738
Loans collateralised by:	-	-	-	-	-	-
- residential real estate	6,585,679	6,791,636	2,160,863	548,831	2,079,256	18,166,265
- other real estate	579,516	25,558,276	5,882,350	409,299	46,511	32,475,952
- cash deposits	264,300	822,530	15,049	8,984	205	1,111,068
- other assets	26,906	37,994,764	1,071,691	126,278	-	39,219,639
<b>Total loans and advances to customers</b>	<b>20,572,264</b>	<b>90,081,075</b>	<b>9,869,964</b>	<b>1,758,606</b>	<b>3,217,585</b>	<b>125,499,494</b>

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.

**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

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

*Neither past due nor impaired*

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Households</i>	<i>Employees</i>	<i>Total</i>
Grade 2B	2,300,642	-	-	-	-	2,300,642
Grade 4A	816,033	-	-	-	-	816,033
Grade 4B	870,662	-	-	-	-	870,662
Grade 5A	39,552	935,861	-	-	-	975,413
Grade 5C	1,891,576	-	-	-	-	1,891,576
Grade 6A	5,145	2,274,022	-	-	-	2,279,167
Grade 6B	265,751	-	-	-	-	265,751
Grade 6C	9,074	570,913	-	-	-	579,987
Grade 6.2	369,317	702,487	-	-	-	1,071,804
Grade 6.3	2,618,261	481,823	-	-	-	3,100,084
Grade 7A	2,244,224	693,541	-	-	-	2,937,765
Grade 7B	3,942,227	419,335	-	-	-	4,361,562
Grade 7C	25,087,655	174,651	-	-	-	25,262,306
Grade 8A	2,359,451	89,605	-	-	-	2,449,056
Grade 8B	2,543,953	317,470	-	-	-	2,861,423
Grade 8C	1,921,693	140,241	-	-	-	2,061,934
Grade 9A	761,957	-	-	-	-	761,957
Grade 9B	703,553	360,008	-	-	-	1,063,561
Grade 9C	1,626,867	-	-	-	-	1,626,867
Grade (unrated)	3,765,958	4,543	1,042,262	18,583,636	3,599,861	26,996,260
<b>Total neither past due nor impaired</b>	<b>54,143,551</b>	<b>7,164,500</b>	<b>1,042,262</b>	<b>18,583,636</b>	<b>3,599,861</b>	<b>84,533,810</b>

**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

*Past due but not impaired*

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Households</i>	<i>Employees</i>	<i>Total</i>
- less than 30 days overdue	4,060,520	600,815	64,229	1,192,936	83,973	6,002,473
- 30 to 60 days overdue	89,531	126,669	9,648	227,449	-	453,297
- 60 to 90 days overdue	1,567,374	22,380	120,206	798,049	-	2,508,009
- 90 to 180 days overdue	1,610,327	195,486	-	-	-	1,805,813
- 180 to 360 days overdue	-	-	4,091	25,348	-	29,439
- over 360 days overdue	-	-	9,290	20,594	-	29,884
<b>Total past due but not impaired</b>	<b>7,327,752</b>	<b>945,350</b>	<b>207,464</b>	<b>2,264,376</b>	<b>83,973</b>	<b>10,828,915</b>

*Loans individually determined to be impaired (gross)*

- less than 30 days overdue	16	146	9,455	211,305	426	221,348
- 30 to 60 days overdue	-	-	485	52,463	-	52,948
- 60 to 90 days overdue	350	448	13,049	55,102	-	68,949
- 90 to 180 days overdue	5,374,945	54,579	9,454	62,254	-	5,501,232
- 180 to 360 days overdue	2,205,638	162,703	52,539	287,817	-	2,708,697
- over 360 days overdue	7,939,186	1,147,496	184,204	1,093,887	-	10,364,773

**Total individually impaired loans (gross)**

	<b>15,520,135</b>	<b>1,365,372</b>	<b>269,186</b>	<b>1,762,828</b>	<b>426</b>	<b>18,917,947</b>
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**Less impairment provisions**

	<b>(10,399,018)</b>	<b>(1,007,501)</b>	<b>(212,908)</b>	<b>(1,745,714)</b>	<b>(3,123)</b>	<b>(13,368,264)</b>
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**Total loans and advances to customers**

	<b>66,592,421</b>	<b>8,467,721</b>	<b>1,306,003</b>	<b>20,865,125</b>	<b>3,681,138</b>	<b>100,912,406</b>
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**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

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

<i>Neither past due nor impaired</i>	<b>Corporate</b>	<b>Small Enterprises</b>	<b>Micro SMEs</b>	<b>Households</b>	<b>Employees</b>	<b>Total</b>
Grade 2C	3,504,615	-	-	-	-	3,504,615
Grade 3B	-	-	-	-	-	-
Grade 3C	399	-	-	-	-	399
Grade 4A	-	-	-	-	-	-
Grade 4B	1	546,157	-	-	-	546,158
Grade 4C	434,661	-	-	-	-	434,661
Grade 5A	316,958	-	-	-	-	316,958
Grade 5B	26,619	1,060,900	-	-	-	1,087,519
Grade 5C	767,575	-	-	-	-	767,575
Grade 6A	102,678	857,809	-	-	-	960,487
Grade 6B	2,479,585	707,325	-	-	-	3,186,910
Grade 6C	549,926	619,615	-	-	-	1,169,541
Grade 6.1	2,121,754	-	-	-	-	2,121,754
Grade 6.2	3,212,752	-	-	-	-	3,212,752
Grade 6.3	1,254,419	-	-	-	-	1,254,419
Grade 7A	1,920,627	530,221	-	-	-	2,450,848
Grade 7B	2,824,415	696,815	-	-	-	3,521,230
Grade 7C	1,550,137	303,691	-	-	-	1,853,828
Grade 8A	22,450,094	215,122	-	-	-	22,665,216
Grade 8B	3,412,126	576,990	-	-	-	3,989,116
Grade 8C	4,036,897	180,987	-	-	-	4,217,884
Grade 9A	1,699,673	-	-	-	-	1,699,673
Grade 9B	2,459,033	633,214	-	-	-	3,092,247
Grade 9C	5,195,106	-	-	-	-	5,195,106
Grade 10A	-	-	-	-	-	-
Grade (unrated)	3,436,973	6,229	1,130,413	16,919,025	3,146,431	24,639,071
<b>Total neither past due nor impaired</b>	<b>63,757,023</b>	<b>6,935,075</b>	<b>1,130,413</b>	<b>16,919,025</b>	<b>3,146,431</b>	<b>91,887,967</b>

**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

*Past due but not impaired*

	<i>Corporate</i>	<i>Small Enterprises</i>	<i>Micro SMEs</i>	<i>Households</i>	<i>Employees</i>	<i>Total</i>
- less than 30 days overdue	5,796,582	658,887	129,865	1,058,102	65,575	7,709,011
- 30 to 60 days overdue	2,381,559	94,078	43,308	235,837	600	2,755,382
- 60 to 90 days overdue	283,403	30,746	33,318	224,082	522	572,071
- 90 to 180 days overdue	2,477,525	237,990	34,785	247,387	-	2,997,687
- 90 to 360 days overdue	-	-	4,961	52,908	3,839	61,708
- over 360 days overdue	-	-	27,546	32,312	-	59,858
<b>Total past due but not impaired</b>	<b>10,939,069</b>	<b>1,021,701</b>	<b>273,783</b>	<b>1,850,628</b>	<b>70,536</b>	<b>14,155,717</b>

*Loans individually determined to be impaired (gross)*

- less than 30 days overdue	-	-	38,187	278,487	559	317,233
- 30 to 60 days overdue	-	-	11,358	55,852	40	67,250
- 60 to 90 days overdue	-	-	477	42,085	-	42,562
- 90 to 180 days overdue	1,779,060	163,204	3,583	62,842	-	2,008,689
- 90 to 360 days overdue	6,264,266	454,046	51,892	351,879	-	7,122,083
- over 360 days overdue	7,341,657	1,295,938	248,913	1,011,466	19	9,897,993
<b>Total individually impaired loans (gross)</b>	<b>15,384,983</b>	<b>1,913,188</b>	<b>354,410</b>	<b>1,802,611</b>	<b>618</b>	<b>19,455,810</b>
<b>Less impairment provisions</b>	<b>(10,205,371)</b>	<b>(1,387,719)</b>	<b>(299,989)</b>	<b>(1,680,894)</b>	<b>(4,048)</b>	<b>(13,578,021)</b>
<b>Total loans and advances to customers</b>	<b>79,875,704</b>	<b>8,482,245</b>	<b>1,458,617</b>	<b>18,891,370</b>	<b>3,213,537</b>	<b>111,921,473</b>



**RAIFFEISEN BANK SH.A.**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)***Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 0.5 to 10 in the Bank's internal credit risk grading system.

*Past due but not impaired loans*

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

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2015 restructured loans were LEK 25,175,007 thousand (2014: LEK 21,242,649 thousand).

*Allowances for impairment*

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

*Write-off policy*

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

As at 31 December 2015 and 2014, the individually assessed and impaired loans and advances to customers were as follows:

	<b>Loans and advances to customers</b>	
	<b>Gross</b>	<b>Net</b>
<b>31 December 2015</b>		
Individually impaired	18,917,945	6,667,288
<b>Total</b>	<b>18,917,945</b>	<b>6,667,288</b>
<b>31 December 2014</b>		
Individually impaired	19,455,810	7,665,000
<b>Total</b>	<b>19,455,810</b>	<b>7,665,000</b>

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally re-valued annually by both, external and internal evaluators. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 and 2014.

**RAIFFEISEN BANK SH.A.**

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

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

<b>2015</b>	<b>Against individually impaired</b>	<b>Against collectively impaired</b>	<b>Total</b>
Property	33,190,864	157,667,098	190,857,963
Pledge	19,438,688	91,527,575	110,966,263
Cash	620	3,297,196	3,297,816
Guarantee	4,624,988	53,724,999	58,349,987
Life insurance	168,577	2,393,883	2,562,459
<b>Total</b>	<b>57,423,737</b>	<b>308,610,751</b>	<b>366,034,488</b>

The collateral pledged against individually impaired loans as at 31 December 2014 was LEK 39,963,084 thousand.

<b>2014</b>	<b>Against individually impaired</b>	<b>Against collectively impaired</b>	<b>Total</b>
Property	24,730,112	179,174,864	203,904,976
Pledge	15,173,286	76,133,111	91,306,397
Cash	1,150	2,788,824	2,789,974
Guarantee	31,854	42,748,906	42,780,760
Life insurance	26,682	393,390	420,072
<b>Total</b>	<b>39,963,084</b>	<b>301,239,095</b>	<b>341,202,179</b>

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

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>
Corporate	66,542,358	283,209,644	10,641,871	668,778
Small Enterprises	7,551,564	23,746,840	1,961,893	98,452
Micro SMEs	1,449,225	5,012,423	79,722	22,296
Households	11,742,327	53,104,372	14,724,608	3,107

The effect of collateral at 31 December 2014:

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>
Corporate	56,640,238	276,142,339	33,649,477	14,233,268
Small Enterprises	6,733,366	24,144,367	3,177,293	899,431
Micro SMEs	899,965	2,704,722	869,107	112,870
Households	8,636,105	22,074,256	15,304,852	836,927

**RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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**11. DEFERRED INCOME TAX ASSETS**

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

	31 December 2015	31 December 2014
Balance at the beginning of the year	41,839	70,691
Deferred tax benefit relating to the origination and reversal of temporary differences (note 31)	(10,969)	(28,852)
<b>Balance at the end of the year</b>	<b>30,870</b>	<b>41,839</b>

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

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

	31 December 2015	31 December 2014
<i>Deferred tax asset</i>		
Accelerated accounting depreciation	30,870	41,839
<b>Net deferred tax assets/liabilities</b>	<b>30,870</b>	<b>41,839</b>

**12. INVESTMENT IN SUBSIDIARIES**

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

***Raiffeisen Leasing sh.a.***

Based on the decision of the Bank's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen - Leasing International Gesellschaft m.b.H, the Bank has incorporated a leasing company in the Republic of Albania in the form of a joint stock company, whose primary objective is to exercise financial leasing. As at 31 December 2015 the Bank holds 75% of the shares for an amount of EUR 750 thousand (equivalent of LEK 92,250 thousand). The remaining share of 25% of the paid-in capital of Raiffeisen Leasing sh.a. is owned by Raiffeisen Leasing International Gesellschaft m.b.H.

***Raiffeisen Invest sh.a***

The Bank has purchased 100% of the shares of Raiffeisen Invest sh.a., for an amount of LEK 109,648 thousand. The purchase has been approved by the Albanian Financial Supervisory Authority based on decision nr.30, dated 26 March 2009, registered on the Albanian National Register on 23 April 2009. The subsidiary's primary objective is to act as a management company to manage voluntary pension funds through collecting and investing funds based on the Law no. 10197, dated 10 December 2009 "On Voluntary Pension Funds", as well as in accordance with the principle of risk-spreading (diversification), for the purpose of providing retirement benefits for the persons that participate in the pension fund. The Company may provide also pensions delivery and to establish and/or manage the Collective Investment Undertakings based on the Law no. 10198, dated 10 December 2009 "On collective investment undertakings".

**RAIFFEISEN BANK SH.A.**

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

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

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

	Software	Licences	Total
<b>Cost</b>			
At 1 January 2014	1,916,707	339,417	2,256,124
Additions	240,553	26,359	266,912
Disposals	(134,931)	(874)	(135,805)
<b>At 31 December 2014</b>	<b>2,022,329</b>	<b>364,902</b>	<b>2,387,231</b>
At 1 January 2015	2,022,329	364,902	2,387,231
Additions	148,057	160,649	308,706
Disposals	(1,175)	23	(1,152)
<b>At 31 December 2015</b>	<b>2,169,211</b>	<b>525,574</b>	<b>2,694,785</b>
<b>Amortization</b>			
At 1 January 2014	(561,575)	(261,729)	(823,304)
Amortization charge	(186,279)	(11,335)	(197,614)
Disposals	134,813	874	135,687
<b>At 31 December 2014</b>	<b>(613,041)</b>	<b>(272,190)</b>	<b>(885,231)</b>
At 1 January 2015	(613,041)	(272,190)	(885,231)
Amortization charge	(209,581)	(15,869)	(225,450)
<b>At 31 December 2015</b>	<b>(822,622)</b>	<b>(288,059)</b>	<b>(1,110,681)</b>
<b>Net book value</b>			
At 1 January 2015	1,409,288	92,712	1,502,000
<b>At 31 December 2015</b>	<b>1,346,589</b>	<b>237,515</b>	<b>1,584,104</b>

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

**RAIFFEISEN BANK SH.A.**

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

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

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

	<b>Land and Buildings</b>	<b>Computers and ATMs</b>	<b>Vehicles</b>	<b>Work in progress</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>						
At 1 January 2014	1,486,883	2,323,735	359,159	44,109	625,648	4,839,534
Additions	12,619	168,564	16,619	117,075	26,355	341,232
Disposals	(168,270)	(212,450)	(102,728)	-	(50,461)	(533,909)
Transfers	35,331	115,826	42	(159,004)	7,805	-
<b>At 31 December 2014</b>	<b>1,366,563</b>	<b>2,395,675</b>	<b>273,092</b>	<b>2,180</b>	<b>609,347</b>	<b>4,646,857</b>
At 1 January 2015	1,366,563	2,395,675	273,092	2,180	609,347	4,646,857
Additions	10,474	129,757	33,127	117,679	46,170	337,207
Disposals	(32,782)	(204,547)	(10,499)	-	(34,295)	(282,123)
Transfers	101,662	41,797	18,159	(110,958)	6,263	56,923
<b>At 31 December 2015</b>	<b>1,445,917</b>	<b>2,362,682</b>	<b>313,879</b>	<b>8,901</b>	<b>627,485</b>	<b>4,758,864</b>
<b>Accumulated depreciation</b>						
At 1 January 2014	(603,436)	(1,649,150)	(243,701)	-	(475,925)	(2,972,212)
Depreciation charge	(83,438)	(283,610)	(38,772)	-	(55,314)	(461,134)
Disposals	74,400	209,358	87,157	-	47,678	418,593
<b>At 31 December 2014</b>	<b>(612,474)</b>	<b>(1,723,402)</b>	<b>(195,316)</b>	<b>-</b>	<b>(483,561)</b>	<b>(3,014,753)</b>
At 1 January 2015	(612,474)	(1,723,402)	(195,316)	-	(483,561)	(3,014,753)
Depreciation charge	(71,015)	(286,760)	(37,907)	-	(53,837)	(449,519)
Disposals	23,831	201,093	9,095	-	31,393	265,412
<b>At 31 December 2015</b>	<b>(659,658)</b>	<b>(1,809,069)</b>	<b>(224,128)</b>	<b>-</b>	<b>(506,005)</b>	<b>(3,198,860)</b>
<b>Net Book Value</b>						
<b>At 31 December 2014</b>	<b>754,089</b>	<b>672,272</b>	<b>77,777</b>	<b>2,180</b>	<b>125,786</b>	<b>1,632,104</b>
<b>At 31 December 2015</b>	<b>786,259</b>	<b>553,613</b>	<b>89,751</b>	<b>8,901</b>	<b>121,480</b>	<b>1,560,004</b>

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

**RAIFFEISEN BANK SH.A.**

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

**15. OTHER ASSETS**

	31 December 2015	31 December 2014
Inventories	1,525,273	1,510,158
Prepaid expenses and accruals	123,863	71,657
Sundry debtors, net	122,887	5,152
Money gram	12,067	12,576
<b>Total</b>	<b>1,784,090</b>	<b>1,599,543</b>

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

Sundry debtors comprise the following:

	31 December 2015	31 December 2014
Sundry debtors	276,223	161,084
Provisions for losses from other debtors	(153,336)	(155,932)
<b>Total Sundry debtors, net</b>	<b>122,887</b>	<b>5,152</b>

Movements in the provisions for sundry debtors are as follows:

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

**16. DUE TO BANKS AND FINANCIAL INSTITUTIONS**

	31 December 2015	31 December 2014
<b>Current accounts</b>		
Resident banks and financial institutions	516,745	1,298,646
Non-resident banks and financial institutions	38,358	77,249
Accrued interest	2	41
	<b>555,105</b>	<b>1,375,936</b>
<b>Deposits</b>		
Resident banks and financial institutions	1,677,824	1,495,393
Non-resident banks and financial institutions	-	122,346
Accrued interest	176	176
	<b>1,677,824</b>	<b>1,617,915</b>
<b>Total</b>	<b>2,232,929</b>	<b>2,993,851</b>

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

**RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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**17. DUE TO CUSTOMERS**

	31 December 2015	31 December 2014
Current accounts	120,720,278	84,783,524
Deposits	120,759,113	145,068,610
Other accounts	5,500,818	4,017,102
<b>Total</b>	<b>246,980,209</b>	<b>233,869,236</b>

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

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

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 SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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**17. DUE TO CUSTOMERS (CONTINUED)**

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

	31 December 2015			31 December 2014		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
<b>Current accounts</b>	53,851,512	66,868,690	120,720,202	41,504,067	43,279,270	84,783,337
Accrued interest	20	56	76	134	53	187
	<b>53,851,532</b>	<b>66,868,746</b>	<b>120,720,278</b>	<b>41,504,201</b>	<b>43,279,323</b>	<b>84,783,524</b>
<b>Deposits</b>						
On demand	5,473,022	4,549,747	10,022,769	5,476,849	4,534,360	10,011,209
1 month - 3 months	2,958,541	950,316	3,908,857	4,331,799	2,376,128	6,707,927
3 months - 6 months	3,756,096	7,102,255	10,858,351	5,388,208	7,716,931	13,105,139
6 months - 12 months	5,883,717	7,453,240	13,336,957	9,011,358	8,542,448	17,553,806
12 months - 24 months	38,433,686	39,977,757	78,411,443	48,963,548	43,218,208	92,181,756
24 months - 36 months	783,745	1,202,637	1,986,382	1,364,999	1,247,215	2,612,214
36 months	197,801	100,820	298,621	291,387	148,046	439,433
60 months	211,560	1,459,279	1,670,839	379,645	1,557,341	1,936,986
Accrued interest on deposits	86,641	178,253	264,894	332,091	188,049	520,140
	<b>57,784,809</b>	<b>62,974,304</b>	<b>120,759,113</b>	<b>75,539,884</b>	<b>69,528,726</b>	<b>145,068,610</b>
<b>Other accounts</b>						
Guarantee deposits	2,509,008	2,102,111	4,611,119	729,185	2,059,741	2,788,926
Dormant customer accounts	10,450	116	10,566	16,876	268	17,144
Cheques customer accounts	700	9,754	10,454	700	1,121	1,821
Other	866,202	2,150	868,352	1,203,778	4,016	1,207,794
Accrued interest	156	171	327	1,135	282	1,417
	<b>3,386,516</b>	<b>2,114,302</b>	<b>5,500,818</b>	<b>1,951,674</b>	<b>2,065,428</b>	<b>4,017,102</b>
<b>Total</b>	<b>115,022,857</b>	<b>131,957,352</b>	<b>246,980,209</b>	<b>118,995,759</b>	<b>114,873,477</b>	<b>233,869,236</b>



**RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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**18. OTHER LIABILITIES**

	31 December 2015	31 December 2014
Other creditors	176,759	128,693
Accrued expenses	203,232	315,845
Due to employees	260,086	299,252
Withholding Tax payable	67,495	39,687
Provision for Contingent Liabilities	25,602	19,339
Deferred income	72,972	36,715
Due to Social Insurance	36,626	30,761
Provision for litigations	764,637	24,442
Negative FV derivative - Economic hedge	5,871	-
Suspense accounts	201,622	1,117,735
VAT payable	34,316	1,029
<b>Total</b>	<b>1,849,218</b>	<b>2,013,498</b>

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

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

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

The movements in the provisions for litigations are as follows:

	31 December 2015	31 December 2014
Balance at the beginning of the year	24,442	18,470
Provisions expense for the period	794,503	6,934
Reversal of provisions for the year	(54,308)	(962)
<b>Balance at the end of the year</b>	<b>764,637</b>	<b>24,442</b>

## RAIFFEISEN BANK SH.A.

Notes to the separate financial statements for the year ended 31 December 2015  
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### 19. SUBORDINATED DEBT

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

During 2015, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 15,000 thousand. The debt carries an interest rate of 4,962 % p.a. (2014: 5none) and matures on 28 June 2020. The debt ranks after all other creditors in case of liquidation.

### 20. SHARE CAPITAL

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

### 21. OTHER RESERVES

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

### 22. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Loans and advances to customers	7,124,220	8,234,805
Investment securities	3,144,719	4,038,476
Bank deposits	23,516	177,938
Reverse repurchase agreement bought	-	-
<b>Total</b>	<b>10,292,455</b>	<b>12,451,219</b>

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

### 23. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Customers	171,862	902,097
Repurchase agreement sold	-	20,954
Banks	485,773	532,853
<b>Total</b>	<b>657,635</b>	<b>1,455,904</b>

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Notes to the separate financial statements for the year ended 31 December 2015  
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**24. FEE AND COMMISSION INCOME**

Fees and commissions received were comprised as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Funds transfers	1,344,955	1,281,115
Lending activities	195,136	201,656
Other banking services	431,586	366,144
<b>Total</b>	<b>1,971,677</b>	<b>1,848,915</b>

**25. FEE AND COMMISSION EXPENSE**

	Year ended 31 December 2015	Year ended 31 December 2014
Payments transfer business	393,558	312,121
Loan and guarantee business	10,624	10,080
Other banking services	44,727	45,403
<b>Total</b>	<b>448,909</b>	<b>367,604</b>

**26. NET TRADING INCOME**

	Year ended 31 December 2015	Year ended 31 December 2014
Income from transactions with securities	1,931,804	1,950,950
Foreign exchange gains	206,767	596,629
<b>Total</b>	<b>2,138,571</b>	<b>2,547,579</b>

**27. NET OTHER OPERATING EXPENSE**

	Year ended 31 December 2015	Year ended 31 December 2014
Other revenues	105,992	757,238
Other expenses	(1,062,089)	(423,536)
<b>Total</b>	<b>(956,097)</b>	<b>333,702</b>

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

**RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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**28. DEPOSIT INSURANCE PREMIUM**

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

**29. PERSONNEL EXPENSES**

Personnel expenses are composed as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries	2,097,935	2,031,583
Social insurance	258,127	258,642
Personnel training	40,495	39,241
Other personnel costs	17,161	13,737
<b>Total</b>	<b>2,413,718</b>	<b>2,343,203</b>

**30. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	Year ended 31 December 2015	Year ended 31 December 2014
Rent expense	616,056	621,127
IT maintenance expense	660,577	527,750
Advertising, public relations and promotional expenses	283,363	297,158
Legal, advisory and consulting expenses	361,932	233,371
Sundry administrative expenses	312,931	163,602
Car expenses	58,287	59,146
Office supplies	62,488	66,165
Communication expenses	29,737	36,860
Travelling expenses	31,487	30,730
Security expenses	7,272	14,338
<b>Total</b>	<b>2,424,130</b>	<b>2,050,247</b>

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

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

**31. INCOME TAX**

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

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax	287,028	761,960
Deferred tax	10,969	28,852
<b>Income tax expense for the year</b>	<b>297,997</b>	<b>790,812</b>

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

	Effective tax rate	Year ended 31 December 2015	Effective tax rate	2014
Profit before taxes		2,063,430		5,514,537
<i>Prima facie tax calculated at 15%</i>	15%	309,515	15%	827,181
Non tax deductible expenses at	0.49%	68,042	0.07%	25,287
Tax savings by tax-exempted income	(0.58)%	(79,560)	(0.17)%	(61,656)
Tax expense/(income) for former periods	-	-	-	-
<b>Income tax expense</b>	<b>14.92%</b>	<b>297,997</b>	<b>14.90%</b>	<b>790,812</b>

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

## **RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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### **32. FINANCIAL RISK MANAGEMENT**

#### **(a) Overview**

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

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

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

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

#### **(b) Credit risk**

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

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

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

## **RAIFFEISEN BANK SH.A.**

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

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### **32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **(b). Credit risk (continued)**

##### *Management of credit risk*

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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

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

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

## **RAIFFEISEN BANK SH.A.**

Notes to the separate financial statements for the year ended 31 December 2015  
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### **32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **(b) Credit risk (continued)**

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

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

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

#### **(c) Market risks**

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

##### ***Management of market risks***

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

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

##### ***Exposure to foreign exchange risk***

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



**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)***32. FINANCIAL RISK MANAGEMENT (CONTINUED)****(c) Market risks (continued)**

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

	At 31 December 2015			At 31 December 2014		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Albanian LEK	134,729,222	115,561,557	19,167,665	139,227,265	119,372,710	19,854,555
US Dollars	20,803,426	15,180,281	5,623,145	16,440,873	14,182,146	2,258,727
Euros	122,051,323	121,209,406	841,917	108,806,237	105,074,312	3,731,925
Other	6,367,317	6,368,983	(1,666)	5,646,712	5,383,711	263,001
<b>Total</b>	<b>283,951,288</b>	<b>258,320,226</b>	<b>25,631,061</b>	<b>270,121,087</b>	<b>244,012,879</b>	<b>26,108,208</b>

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

<i>In thousands of LEK</i>	At 31 December 2015	At 31 December 2014
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 10% (2014: strengthening by 10%)	411	42,208
US Dollar weakening by 10% (2014: weakening by 10%)	(411)	(42,208)
Euro strengthening by 10% (2014: strengthening by 10%)	633,073	46,277
Euro weakening by 10% (2014: weakening by 10%)	(633,073)	(46,277)
Other strengthening by 10% (2014: strengthening by 10%)	(374)	22,318
Other weakening by 10% (2014: weakening by 10%)	374	(22,318)

**RAIFFEISEN BANK SH.A.**

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

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)****(c) Market risks (continued)***Exposure to interest rate risk*

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position is as follows:

If interest rates had been 100 basis points higher (2014: [100] basis points higher, with all other variables held constant, loss would have been LEK 744,195 thousand (2014: LEK 737,697 thousand) higher.

If interest rates had been 100 basis points lower (2014: [100] basis points lower), with all other variables held constant, profit would have been LEK 410,19 thousand (2014: LEK 496,656 thousand) lower.

**2015**

	<b>up to 1 Year scenarios</b>	
	100 bp Increase	100 bp decrease
Estimated profit / (loss) effect	744,195	(410,193)

**2014**

	<b>up to 1 Year scenarios</b>	
	100 bp Increase	100 bp decrease
Estimated profit/ (loss) effect	737,697	(496,656)

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

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Market risks (continued)**

A summary of the Bank'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 2015	
						Non-specific	Total
<b>Assets</b>							
Cash and cash equivalents	78,049,476	-	-	-	-	-	78,049,476
Restricted balances	28,632,500	-	-	-	-	-	28,632,500
Investments held for trading	160	557,108	1,217,541	3,859,968	15,363,266	-	20,998,043
Held-to-maturity investment securities	3,981,088	6,920,289	5,844,383	15,569,095	19,620,151	-	51,935,006
Other securities designated at fair value through profit or loss	-	-	-	450,310	2,973,548	-	3,423,858
Loans and advances to customers	14,201,282	14,925,675	14,865,834	55,128,365	2,389,826	(598,576)	100,912,406
Other assets	12,067	-	-	-	-	-	12,067
<b>Total</b>	<b>124,876,573</b>	<b>22,403,072</b>	<b>21,927,758</b>	<b>75,007,738</b>	<b>40,346,791</b>	<b>(598,576)</b>	<b>283,963,356</b>
<b>Liabilities</b>							
Due to banks and financial institutions	2,232,929	-	-	-	-	-	2,232,929
Due to customers	151,209,204	21,012,189	16,423,649	56,218,298	2,116,869	-	246,980,209
Subordinated capital	-	-	-	-	9,107,088	-	9,107,088
<b>Total</b>	<b>153,442,133</b>	<b>21,012,189</b>	<b>16,423,649</b>	<b>56,218,298</b>	<b>11,223,957</b>	<b>-</b>	<b>258,320,226</b>
<b>Gap at 31 December 2015</b>	<b>(28,565,560)</b>	<b>1,390,883</b>	<b>5,504,109</b>	<b>18,789,440</b>	<b>29,122,834</b>	<b>(598,576)</b>	<b>25,643,130</b>

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**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

## **RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK'000, unless otherwise stated)*

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### **32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **(c) Liquidity risk**

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

#### ***Management of liquidity risk***

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

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

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

**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (continued)**

The following table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately. Balances presented in the table below equal their carrying balances presented in the Statement of Financial Positions as the impact of discounting is not significant due to their short term maturity.

*Residual contractual maturities of financial assets and liabilities*

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
<b>Assets</b>							<b>31 December 2015</b>
Cash and cash equivalents	78,049,476	-	-	-	-	-	78,049,476
Restricted balances	28,632,500	-	-	-	-	-	28,632,500
Investments held for trading	160	557,108	1,217,541	3,859,968	15,363,266	-	20,998,043
Held-to-maturity investment securities	3,981,088	6,920,289	5,844,383	15,569,095	19,620,151	-	51,935,006
Other securities designated at fair value through profit or loss	-	-	-	450,310	2,973,548	-	3,423,858
Loans and advances to customers	17,962,291	12,698,772	7,832,025	33,482,055	42,305,526	(13,368,264)	100,912,405
Other assets	12,067	-	-	-	-	-	12,067
<b>Total</b>	<b>128,637,582</b>	<b>20,176,169</b>	<b>14,893,949</b>	<b>53,361,428</b>	<b>80,262,491</b>	<b>(13,368,264)</b>	<b>283,963,355</b>
<b>Liabilities</b>							
Due to banks and financial institutions	2,232,929	-	-	-	-	-	2,232,929
Due to customers	151,209,204	21,012,189	16,423,649	56,218,298	2,116,869	-	246,980,209
Other liabilities	1,849,218	-	-	-	-	-	1,849,218
Subordinated capital	-	-	-	-	9,107,088	-	9,107,088
<b>Total</b>	<b>155,291,351</b>	<b>21,012,189</b>	<b>16,423,649</b>	<b>56,218,298</b>	<b>11,223,957</b>	<b>-</b>	<b>260,169,444</b>
Guarantees and commitments	1,168,594	1,623,309	1,798,917	8,868,863	12,164,492	-	25,624,175
<b>Liquidity risk at 31 December 2015</b>	<b>(25,485,175)</b>	<b>787,289</b>	<b>269,217</b>	<b>6,011,993</b>	<b>81,203,026</b>	<b>(13,368,264)</b>	<b>49,418,086</b>
<b>Cumulative</b>	<b>(25,485,175)</b>	<b>(24,697,886)</b>	<b>(24,428,669)</b>	<b>(18,416,676)</b>	<b>62,786,349</b>	<b>49,418,086</b>	<b>-</b>

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**32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (continued)**

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

## **RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)*

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### **32. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **(e) Operational risk**

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

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

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

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

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



## RAIFFEISEN BANK SH.A.

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

### 33. CAPITAL MANAGEMENT

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

#### *Regulatory capital*

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

#### *Capital Adequacy Ratio*

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

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

#### *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.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Total risk weighted assets	140,834,515	129,420,983
Regulatory capital	24,868,268	24,221,636
Capital adequacy ratio	<u>17.66%</u>	<u>18.72%</u>

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.

**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)***34. CONTINGENCIES AND COMMITMENTS**

	31 December 2015		31 December 2014	
	LEK	Foreign currency	Total	Total
<i>Contingent liabilities</i>				
Bank Guarantees issued	2,929,734	6,977,344	9,907,078	7,335,589
Letters of Credit	-	2,763,180	2,763,180	3,702,307
Unused credit lines	4,115,773	8,838,145	12,953,918	18,281,591
<b>Total</b>	<b>7,045,507</b>	<b>18,578,669</b>	<b>25,624,176</b>	<b>29,319,487</b>

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

At 31 December 2015, the Bank was involved in litigation proceedings with the General Tax Directorate Albania in relation to a tax assessment performed by the latter during 2013. Total additional liabilities and penalties to be paid by the Bank amount to Lek 673 mln. In February 2016 the whole amount is paid. The additional taxes charged have been challenged from the Bank in the District Court. Based on Law no. 9920 "On tax procedures of the Republic of Albania", 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. Now the case is in Appeal Court. Management intends to vigorously defend the Bank's positions and interpretations that were challenged by the tax authorities. 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.

**Operating lease commitments**

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

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

**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK'000, unless otherwise stated)***35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2015			
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Loans and advances to banks and financial institutions	-	30,064,621	29,370,047	59,434,668
Loans to customers	-	-	100,912,406	100,912,406
Trading Assets	-	20,998,043	-	20,998,043
Other securities designated at fair value through profit or loss	-	3,423,858	-	3,423,858
Held to maturity investment securities	-	52,502,144	-	52,502,144
Due to banks and financial institutions	-	4,811	2,228,118	2,232,929
Due to customers	-	-	246,989,620	246,989,620
Subordinated Debt	-	9,107,088	-	9,107,088
Guarantees and commitments	-	1,639,967	23,984,208	25,624,175

**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK'000, unless otherwise stated)***35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

2014

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Loans and advances to banks and financial institutions	-	20,128,723	39,657,169	59,785,892
Loans to customers	-	-	111,921,473	111,921,473
Trading Assets	-	28,341,284	-	28,341,284
Other securities designated at fair value through profit or loss	-	6,841,526	-	6,841,526
Held to maturity investment securities	-	59,559,996	-	59,559,996
Due to banks and financial institutions	-	194,890	2,798,962	2,993,852
Due to customers	-	-	233,881,121	233,881,121
Subordinated Debt	-	-	7,149,792	7,149,792
Guarantees and commitments	-	-	29,319,487	29,319,487

*Cash and cash equivalents*

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

*Investment securities*

Investment securities include treasury bills and government bonds. The fair value for these investment securities has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

*Loans and advances to customers*

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

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

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

*Due to customers*

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

*Subordinated debt*

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

*Guarantees and commitments*

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

**RAIFFEISEN BANK SH.A.**

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

(amounts in LEK '000, unless otherwise stated)

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

*Sensitivity of fair value measurement*

The valuation technique, inputs used in the fair value measurement for level 2 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015:

<i>In thousands of LEK</i>	<b>Fair value</b>	<b>Valuation technique</b>	<b>Inputs used</b>	<b>Range of inputs (weighted average)</b>	<b>Reasonable change</b>	<b>Sensitivity of fair value measurement</b>	<b>Sensitivity of fair value measurement</b>
<b>FINANCIAL Assets at Fair Value</b>							
<i>Trading securities</i>							
Albanian treasury bills	1,932	Discounted cash flows ("DCF")	Government bills yield curve ("TBill")	2.5% - 9.9%	+ 1 %/-1%	(10)	10
Albanian government bonds	20,996,111	DCF	Government bonds yield curve("TBonds")	2.5% - 9.9%	+ 1 %/-1%	(327,485)	336,083
<i>Other securities designated at fair value through profit or loss</i>							
Albanian government bonds	3,423,858	DCF	TBonds	2.5%-9.9%	+1%/-1%	(120,251)	126,482

**RAIFFEISEN BANK SH.A.**

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

(amounts in LEK '000, unless otherwise stated)

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

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

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

**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)***36. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY**

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

	<b>Loans and receivables</b>	<b>Other securities designated at fair value</b>	<b>Trading assets</b>	<b>Held to maturity</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	78,049,658	-	-	-	78,049,658
Restricted balances	28,632,318	-	-	-	28,632,318
Investments held for trading	-	-	20,998,043	-	20,998,043
Other securities designated at fair value through profit or loss	-	3,423,858	-	-	3,423,858
Held-to-maturity investment securities	-	-	-	51,935,006	51,935,006
Loans and advances to customers	100,912,406	-	-	-	100,912,406
<b>Total financial assets</b>	<b>207,594,382</b>	<b>3,423,858</b>	<b>20,998,043</b>	<b>51,935,006</b>	<b>283,951,289</b>

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

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

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

**RAIFFEISEN BANK SH.A.**

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

*(amounts in LEK '000, unless otherwise stated)***37. RELATED PARTIES**

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Bank has a related party relationship with Raiffeisen International AG, Raiffeisen Zentralbank Osterreich Aktiengesellschaft, with fellow subsidiaries and its subsidiaries, and with its directors and executive officers. The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Amounts due from</b>		
Affiliated companies	23,306,331	11,790,226
Key management personnel	214,363	108,518
<b>Assets total</b>	<u><b>23,520,694</b></u>	<u><b>11,898,744</b></u>
<b>Amounts due to</b>		
Affiliated companies	9,183,452	7,479,346
Key management personnel	122,513	74,535
<b>Liabilities total</b>	<u><b>9,305,965</b></u>	<u><b>7,553,881</b></u>
	<b>Year ended</b>	<b>Year ended</b>
	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Net Interest expense</b>		
Affiliated companies	(390,947)	(301,137)
<b>Net Fee and Commission expense</b>		
Affiliated companies	(193,271)	(179,315)
<b>Administrative expenses</b>		
Affiliated companies	(449,206)	(501,745)
<b>Wages, salaries and bonuses</b>		
Key management personnel	(270,477)	(211,227)
<b>Total</b>	<u><u><b>(1,303,901)</b></u></u>	<u><u><b>(1,193,424)</b></u></u>

The aggregate value of the contingent liabilities of the Bank to the affiliated companies as at 31 December 2015 was LEK 2,830,810 thousand (31 December 2014: LEK 4,481,888 thousand) and represents Bank Guarantees, Letters of Credit and Commitments issued.

**38. EVENTS AFTER THE END OF THE REPORTING PERIOD**

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

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