INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements as at

31 December 2014

(with independent auditors' report thereon)

Contents

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Independent Auditors' Report

To the shareholders of
Intesa Sanpaolo Albania Sh.a.

Tirana, 2 February 2015

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Steven Nutley
Partner

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Intesa Sanpaolo Bank Albania Sh.a.

Statement of financial position
As at 31 December 2014
(in thousands of Lek)

	Notes	2014	2013
Assets			
Cash and cash equivalents	7	15,890,476	12,466,255
Loans and advances to banks	8	25,343,535	21,027,977
Financial investments Available-for-sale	9	3,969,543	2,363,630
Financial investments Held-to-maturity	10	57,309,439	56,162,536
Loans and advances to customers	11	40,341,394	43,431,412
Property and equipment	12	1,398,437	1,454,468
Intangible assets	13	554,635	449,216
Deferred tax assets	17	76,962	75,174
Current tax assets		507,139	508,867
Other assets	14	2,642,524	1,298,252
Total Assets		**148,034,084**	**139,237,787**
Liabilities			
Due to banks	15	5,663,139	5,264,048
Due to customers	16	121,279,675	114,700,816
Current accounts		40,636,690	31,784,246
Time deposits		80,642,985	82,916,570
Current tax liabilities		300,272	-
Provisions	18	431,973	511,766
Other liabilities	19	1,075,398	761,645
Total Liabilities		**128,750,457**	**121,238,275**
Equity			
Share capital	20	5,562,518	5,562,518
Share premium	20	1,383,880	1,383,880
Legal and regulatory reserves	21	1,744,615	1,695,524
Fair Value reserve	22	99,569	70,976
Foreign currency translation reserve	22	(11,077)	2,865
Other comprehensive items	22	714,555	714,555
Retained earnings		9,789,567	8,569,194
Total Equity		**19,283,627**	**17,999,512**
Total Liabilities and Equity		**148,034,084**	**139,237,787**

The notes on pages 6 to 55 are an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2014

(in thousands of Lek)

	Notes	2014	2013
Interest income		6,687,516	7,949,553
Interest expense		(2,233,639)	(3,116,189)
Net interest income	23	**4,453,877**	**4,833,364**
Fee and commission income		741,342	740,464
Fee and commission expense		(137,047)	(110,117)
Net fee and commission income	24	**604,295**	**630,347**
Net other income	25	439,718	583,938
Other operating expenses, net	26	(244,587)	(213,908)
Operating income		**5,253,303**	**5,833,741**
Net impairment loss on financial assets	11	(572,419)	(2,503,065)
Net impairment loss on off-balance sheet	18	(7,259)	(2,150)
Impairment of other assets		(145,376)	-
Personnel expenses	27	(1,033,426)	(989,528)
Operating lease expenses	31	(163,839)	(162,421)
Depreciation and amortization	12,13	(316,539)	(283,617)
Amortization of leasehold improvements	14	(11,122)	(14,577)
Other administration expenses	28	(613,541)	(658,984)
Provisions for risk and expenses	18	94,034	-
Total expenses		**(2,769,487)**	**(4,614,342)**
Net income before taxes		**2,483,816**	**1,219,399**
Income tax expense	29	(428,899)	(237,582)
Profit for the period		**2,054,917**	**981,817**
Other comprehensive income		**-**	**-**
Change in fair value of Available-for-sale investment securities		28,593	111,600
Foreign currency translation difference		(13,942)	(1,065)
Income tax effect		-	-
Other comprehensive income for the period, net of tax		**14,651**	**110,535**
Total comprehensive income for the period, net of tax		**2,069,568**	**1,092,352**

The notes on pages 6 to 55 are an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.

Statement of changes in equity
For the year ended 31 December 2014
(in thousands of Lek)

	Share capital	Share premium	Legal and Regulatory Reserves	Fair Value reserve	Foreign Currency Translation reserve	Comprehensive item	Retained earnings	Total
Balance at 1 January 2013	**5,562,518**	**1,383,880**	**1,655,632**	**(40,624)**	**3,931**	**714,555**	**7,627,269**	**16,907,161**
Profit for the year	-	-	-	-	-	-	981,817	**981,817**
Other comprehensive income								
Net change in fair value of AFS investment securities	-	-	-	111,600	-	-	-	**111,600**
Total other comprehensive income	**-**	**-**	**-**	**111,600**	**-**	**-**	**-**	**111,600**
Total comprehensive income for the year	**-**	**-**	**-**	**111,600**	**-**	**-**	**981,817**	**1,093,417**
Transaction with owners, recorded directly in equity								
Appropriation of retained earnings	-	-	39,892	-	-	-	(39,892)	**-**
Foreign currency translation difference	-	-	-	-	(1,066)	-	-	**(1,066)**
Total contributions by and distribution to owners	**-**	**-**	**39,892**	**-**	**(1,066)**	**-**	**(39,892)**	**(1,066)**
Balance at 31 December 2013	**5,562,518**	**1,383,880**	**1,695,524**	**70,976**	**2,865**	**714,555**	**8,569,194**	**17,999,512**

Intesa Sanpaolo Bank Albania Sh.a.

Statement of changes in equity (continued)
For the year ended 31 December 2014
(in thousands of Lek)

	Share capital	Share premium	Legal and Regulatory Reserves	Fair Value reserve	Foreign Currency Translation reserve	Comprehensive item	Retained earnings	Total
Balance at 1 January 2014	**5,562,518**	**1,383,880**	**1,695,524**	**70,976**	**2,865**	**714,555**	**8,569,194**	**17,999,512**
Profit for the year	-	-	-	-	-	-	2,054,917	**2,054,917**
Other comprehensive income		-	-		-	-	-	**-**
Net change in fair value of AFS investment securities				28,593				**28,593**
Net amount reclassified to profit and loss change in fair value of AFS investment securities								**-**
Total other comprehensive income	**-**	**-**	**-**	**28,593**	**-**	**-**	**-**	**28,593**
Total comprehensive income for the year	**-**	**-**	**-**	**28,593**	**-**	**-**	**2,054,917**	**2,083,510**
Transaction with owners, recorded directly in equity								**-**
Appropriation of retained earnings	-	-	49,091		-	-	(49,091)	**-**
Dividends to equity holders	-	-		-		-	(785,453)	**(785,453)**
Foreign currency translation difference	-	-	-	-	(13,942)	-		**(13,942)**
Total contributions by and distribution to owners	**-**	**-**	**49,091**	**-**	**(13,942)**	**-**	**(834,544)**	**(799,396)**
Balance at 31 December 2014	**5,562,518**	**1,383,880**	**1,744,615**	**99,569**	**(11,077)**	**714,555**	**9,789,567**	**19,283,627**

The notes on pages 6 to 55 are an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.

Statement of cash flows
For the year ended 31 December 2014
(in thousand Lek)

	2014	2013
Cash flows from operating activities		
Profit for the period	**2,707,420**	**862,386**
Adjustments to reconcile profits before tax with net cash provided by operating activities		
Depreciation of property and equipment	163,225	161,249
Amortization of intangible assets	122,783	84,413
Depreciation of leasehold improvements	11,122	14,577
Disposals of property and equipment	32,922	7,332
Amortization of investments HTM-treasury bills	139,661	100,724
Amortization of investments HTM-other than treasury bills	(75,463)	(265,081)
Amortization of AFS investment securities	(7,179)	(25,412)
Impairment on financial assets	19,434	2,670,688
Decrease (increase) in interest receivable	(609,505)	1,783,857
Increase (decrease) in interest payable	(335,951)	(112,428)
Foreign exchange differences	-	-
Changes in operating assets and liabilities		
Change in loans and advances to banks	(4,315,558)	(9,792,372)
Change in loans and advances to customers	2,978,682	(1,371,241)
Change in other assets	(926,231)	(658,050)
Change in due to banks	399,091	1,593,760
Change in due to customers	6,914,810	7,383,549
Change in other liabilities and provisions	228,647	(59,323)
Change in current taxes	(131,407)	(374,378)
Net cash provided by operating activities	**4,609,082**	**1,141,864**
Cash flows from investing activities		
(Purchase)/sale of securities Available-for-sale	(1,515,485)	(108,713)
Sale/(purchase) of Held-to-maturity investments	(1,211,103)	(4,636,884)
Sale/(purchase) of intangible assets	(230,166)	(299,662)
Sale/(purchase) of property and equipment	(150,075)	(230,466)
Proceeds from the sale of property and equipment	-	11,042
Net cash used in investing activities	**(3,157,232)**	**(5,264,683)**
Cash flows from financing activities		
Increase of subordinated debt	-	(530,442)
Dividend paid	(785,454)	-
Net Cash (used in)/from financing activities	**(785,454)**	**(530,442)**
Net increase/(decrease) in cash during the year	**3,424,219**	**(3,790,875)**
Cash and cash equivalents at beginning of the year	12,466,255	16,257,130
Cash and cash equivalents at end of period	**15,890,474**	**12,466,255**
Operational cash flows from interest:		
Interest paid	2,571,583	3,223,806
Interest received	6,757,192	9,270,529

The notes from page 5 to 34 are an integral part of these financial statements.

On behalf of the Bank, these financial statements are signed by:

Silvio Pedrazzi
Chief Executive Officer

Vincenzo Petraroli
Head of Accounting and Taxes

Notes to the financial statements for the period ended 31 December 2014

1. Reporting entity

Intesa Sanpaolo Bank Albania Sh.a, (hereinafter called the “Bank”), incorporated on May 1998, was authorized to undertake banking activity in Albania according to the law no. 8365, “For the banking system in Albania”, dated 2 July 1998 and substituted by law no. 9662 “On the Banks in Albania” dated 18 December 2006 enforced in June 2007. The Bank started operations on 24 September 1998.

The Bank with its principal location in Tirana and registered office at “Ismail Qemali” street, no.27, operates through a network of 32 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Berat, Gjirokastra, Korca, Lushnja, Shkoder, Lezhe, Kavaje (2013: 31 branches and agencies).

The Bank had 569 employees as at 31 December 2014 (2013: 536).

Upon the final approval from the Bank of Albania, effective on 13 October 2008, the Bank’s previous name was changed from American Bank of Albania to Intesa Sanpaolo Bank Albania.

2. Basis of Preparation

(a) Statement of compliance

In compliance with the local accounting legislation, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for Available-for-sale financial instruments, which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Lek, which is the Bank’s functional and presentation currency. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in note 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Bank.

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of available for sale financial instruments are recognized in other comprehensive income. Foreign currency differences arising from retranslation of transaction with owners are recorded directly in equity.

(b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. Calculation of effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(c) 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, investment management fees, sales commission and placement fees are recognized as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

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

(e) Dividend income

Dividend income is recognized when the right to receive income is to be established. Usually, this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income on other financial instruments at fair value or other operating income based on the underlying classification of the equity instrument.

(f) Leases and Leasehold improvements – the Bank as a lessee

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The Bank has only operating lease agreements, payments of which are recognized in profit or loss on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(f) Leases and Leasehold improvements – the Bank as a lessee (continued)

Restructuring costs made in the premises used under these agreements are accounted for as other assets and amortized over the term of the lease on a straight-line basis.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(g) Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(i) Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(h) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits and borrowings on the date that they are originated. Regular purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(ii) Classification

Financial Assets

The Bank classifies its financial assets in one of the following categories:
- loans and receivables;
- held-to-maturity; or
- available-for-sale.

See notes 3 (i), (j) and (k).

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

See notes 3 (o),(p) and (q).

(iii) De-recognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability. The Bank derecognizes a financial liability when its contractual obligations are discharged, canceled or expired.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognized separately either as assets or liabilities, as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank writes off certain loans when they are determined to be uncollectible. The recovery of a written off item is recorded under the other operating income/expenses in profit or loss (see note 26).

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Off-setting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realize 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 Bank similar transactions such as in the trading activity.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(ii) Amortized cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction of impairment.

(iii) 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 recognized valuation models for determining the fair value of financial instruments including options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(iv) 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. A financial assets or a group of financial assets is individually impaired when objective evidence or judgmental criteria demonstrate that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank because of financial difficulties experienced by the client and 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 nationally or locally observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group, or a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. The Bank considers evidence of impairment for loans and advances and Available-for-sale investment securities at both specific asset and collective level. All individually significant loans and advances and Available-for-sale investment securities are assessed for individual impairment. Those found not to be individually impaired are then collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

With regard to provisions management, the Bank can decide on the classification of the exposure based on subjective evidence, independently of the criteria defined above, applying other not commonly met criteria which could appear in some individual cases. Thus, past due loans and advances more than 90 days overdue and exceeding the Banks materiality criteria, are subject to individual assessment. The impairment is measured as a difference between carrying value of the loan, and present value of estimated future cash flows, which consider the cash flows originated by collateral recoveries and/or guarantees securing the exposure.

All loans for which “no objective evidence of impairment is identified”, are subject to collective assessment.

These loans are divided into segments creating buckets with similar credit characteristics. The Bank calculates Annual Default Rates (ADR) and simplified Loss Given Default (LGD) for segments/ buckets with similar credit characteristics considering drivers such as Customer Segmentation, Days past due (“DPDs”) Security (collaterals coverage) and exposure/ Limit approved.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(iv) Identification and measurement of impairment (continued)

Default rates are determined on the basis of long-term averages of customers' migrations from performing loans to non-performing loans. For each performing segment/bucket the performance of debtors in the initial moment ''t'' and 12 months later ''t+12'' is conducted. Measurement is performed by counting counterparts, that migrate from low risk classes in the non performing loss portfolio in that year, compared to total existing counterparts at initial time. In the period under review, the client status is considered in maximum default in terms of loan classification. In the calculation of ADR, the Bank uses the simple average of the annual default rates of the last two years. The Bank policy is to review ADRs every year.

LGD are determined by calculating the reduction of exposure to a client/transaction from the moment of default (the moment when client/transaction becomes high risk) to the end of the observance period (the date of the analysis). LGD is defined for each position belonging to the "non-performing" categories (doubtful, substandard, restructured and past due). The Bank uses the Simplified LGD Approach considering that no historical data series are available for the calculation of "Workout LGD Approach". Simplified LGD is calculated for each category, defined above, using the individual provisions of loans. In the end the Expected Loss (EL) is calculated by multiplying ADR, LR and EAD (exposure at default) - performing exposures at calculation date. The "expected loss" EL is transformed into "incurred loss" (IL) by multiplying with the LCP "Loss Confirmation Period" (the factor representing the time period between occurrence of the event that generates the default and the manifestation of the signal of default.) On the calculation date, for any customers with exposure of more than 10 % of Regulatory Capital and considered as "Large exposures" the IL is calculated by multiplying the current exposure with the minimum required rate suggested from the Bank.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(iv) Identification and measurement of impairment (continued)

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Expected cash flows of loans and advances are represented by the discounted value of collateral. Collateral is discounted with specific ratios and recovery timing depending on the collateral type. Carrying amount is the sum of regular principal, past due principal, regular interest, past due interest, penalties and court fees after deducting unamortized adjustment.

When possible the Bank seeks to restructure/renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then the asset is assessed for individual impairment. All customers with any restructured credit facility are subject to individual impairment testing and remain so for a period of at least 2 years from the restructuring, independently from the payments performed pursuant to the new terms of repayments. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances or Available-for-sale investment securities, if any. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on Available-for-sale investment securities are recognized by reclassifying the losses that has been recognized in other comprehensive income reserve to profit or loss as a reclassifying adjustment. The cumulative loss that is reclassified from comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired Available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognized through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognized in OCI

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances with banks, 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 amortized cost in the statement of financial position.

(j) Loans and advances

Loans and advances to banks and customers 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. Loans and advances are initially measured at fair value and subsequently measured at amortized cost plus incremental direct transaction costs, using the effective interest method. After initial measurement, they are subsequently measured at amortized cost using effective interest rate, less allowance for impairment. The amortization is included in the interest income in profit or loss. The losses arising from impairment are recognized in the profit or loss in net impairment loss on financial assets.

3. Significant accounting policies (continued)

(k) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, 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 non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, which are not designated at fair value through profit or loss or Available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of more than insignificant amount of Held-to-maturity investments would result in the reclassification of all Held-to-maturity investments as Available-for-sale, and prevent the Bank from classifying investment securities as Held-to-maturity for the current and following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as Available-for-sale investments or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. Unquoted debt 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 recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on Available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss. Other fair value changes are recognized in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss previously recognized in other comprehensive income is reclassified to profit and loss.

(l) Property and equipment

(i) Recognition and measurement.

Items of property 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. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized with other income in profit or loss.

(ii)Subsequent costs.

The cost of replacing part of an item of property or equipment is recognized 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.

(iii)Depreciation is recognized in profit or loss using the straight-line method over the estimated useful life of each part of an item of property and equipment. Land and Fine Arts are not depreciated. The estimated useful live for the current and comparative periods are as follows:

• Buildings	20 years
• IT and Electrical Equipment	4 to 8 years
• Furniture	3 to 10 years
• Other non-electrical assets	5 years

3. Significant accounting policies (continued)

(m) Intangible assets

Software, licenses and trademarks compose intangible assets and are stated at cost less accumulated amortization. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is charged on a straight-line basis in profit or loss over the estimated useful lives, from the date that it is available for use. The estimated useful lives for the current and comparative periods are as follows:

- Software 4 years
- Licenses and trademarks 10 years

(n) Inventory (Repossessed assets)

Repossessed assets acquired through enforcement of security over non-performing loan and advances to customer that are not held for sale, do not earn rental, not own used and are intended for disposal in a reasonably short period of time, without significant restructuring, are classified as inventory. Repossessed assets are measured at the lower of cost and net realizable value and any write down is recognized in the profit or loss.

(o) 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 recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. 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 amortization, if no impairment loss had been recognized.

(p) Deposit and subordinated liabilities

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

Deposits and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

(q) Repurchase agreements and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralized financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized in the statement of financial position or derecognized from the statement of financial position, unless control of the contractual rights that comprise these securities is relinquished. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement.

Cash collateral on reverse repurchases / repurchases agreements

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Detailed information has been disclosed in notes 10 and 15.

3. Significant accounting policies (continued)

(r) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee.

The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(s) Provisions

A provision is recognized 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.

(t) Employee benefits

(i) Defined contribution plans

The Bank makes only 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. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred.

(ii) 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 recognized 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.

3. Significant accounting policies (continued)

(p) New standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

New or amended standards	Summary of the requirement	Possible impact on financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's Financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15

The following new or amended standards are not expected to have a significant impact of the Bank's financial statements.

- *Defined Benefit Plans: Employee Contribution (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010-2012 Cycle.*
- *Annual Improvements to IFRSs 2011-2013 Cycle.*
- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisition of Interest in Joint Operations (Amendments to IAS 16 and IAS 38).*
- *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012-2014 Cycle-various standards.*

4. Financial Risk Management

The Bank is exposed to the following risks from financial instruments:

a. credit risk
b. liquidity risk
c. market risk
d. operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Governance Committees (Executive Committee, Executive Directors Committee, Credit Risk Committee, Financial Risk Committee, Operational Risk Committee, Local Credit Committee, Asset Quality Committee and Other Committees) that have the authority for decision making on their specified areas.

Risk Management Division is responsible for developing and monitoring the Bank's risk management policies in these areas. All the Bank's 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 analyze 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.

(a) Credit Risk

In the normal course of its business, the Bank is exposed to credit risk on its loans and advances to customers and financial institutions, investment securities and other off-balance sheet items. Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and on funds with other financial institutions and other off-balance sheet items. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

Management of credit risk

The Board of Directors of the Bank has delegated responsibility of decision-making to the CEO. The latter has delegated and distributed the authority of decision making to the Local Credit Committee. The Risk Management Division, reporting to the CEO, is responsible for the oversight and management 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.
- *Reviewing and assessing credit risk*. The Bank's Credit Risk Department assesses all credit exposures, prior to commitment with customers by the Bank. 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).

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

- *Developing and maintaining the Bank's risk classifications* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment may be required against specific credit exposures.

According to the Bank's methodology, all exposures are classified between Performing and Non Performing exposures (including Past Due, Restructured, Substandard and Doubtful). The Bank classifies the Non Performing portfolio by analyzing the exposures based on a set of rules harmonized with the Group guidelines. These rules include objective evidence being: breach of contract, such as default or delinquency in interest or principal payments; significant financial difficulty of the borrower; and other significant adverse financial information relating to the customer.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types. Detailed analyses are provided monthly to the Asset Quality Committee on the credit quality of customers' loan portfolio and specific actions are proposed.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

Maximum Exposure to Credit Risk without taking account of any collateral and other credit enhancements (gross of any impairment).

The following table shows the current maximum exposure to credit risk for the applicable components of statement of financial position:

	Gross Maximum Exposure	
	31 December 2014	**31 December 2013**
Cash Balances with Central Bank (excluding cash on hand)	14,890,459	11,080,842
Due from banks	25,343,535	21,027,977
Financial assets Available-for-sale	3,969,543	2,363,630
Financial assets Held-to-maturity	57,309,439	56,162,536
Loans and advances to customers	47,188,237	50,912,099
Total	**148,701,213**	**141,547,081**
Un-drawn credit commitments	7,425,526	3,974,300
Letters of credit	829,112	126,603
Guarantees in favor of customers	5,346,600	4,766,894
Total credit related commitments	**13,601,238**	**8,867,797**
Total Credit Risk Exposure	**162,302,451**	**150,414,881**

The maximum credit exposure of any single client, or group of clients, as at 31 December 2014 is Lek 6,626,215 thousand (2013: Lek 6,287,714 thousand) before taking account of collaterals or other credit enhancements.

Where the financial assets are recorded at fair value, the amounts shown represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values. The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of the customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar credit risks, which are mitigated by the same control processes and policies. Every month the Bank assesses the financial commitments for impairment. Subject to individual impairment assessment are commitments granted to non-performing customers or customers with any of credit facilities restructured.

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Credit Quality by class of financial assets

The tables below show the credit quality of the financial assets exposed to credit risk, based on the Bank's internal ratings. In the past due classification below, loans and advances include exposures more than 90 days past due and collectively impaired (2013: 90 days). The collective impairment is allocated as per default rate of the group with similar credit risk characteristics where customers belong.

The financial assets in the tables below are gross of impairment allowances for both financial years ended as at 31 December 2014 and 31 December 2013:

	Neither past due nor individually impaired	Past due, not individually impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	14,890,459	-	-	14,890,459
Due from Banks	25,343,535	-	-	25,343,535
Loans and advances to customers:				
Commercial lending	27,749,739	1,169,413	9,600,674	38,519,825
Mortgage lending	4,835,224	833,697	1,117,527	6,786,448
Consumer lending	1,715,477	21,686	144,801	1,881,964
Financial Assets-Available-for-sale				
Listed companies	2,106,528	-	-	2,106,528
Unlisted companies	1,863,015	-	-	1,863,015
Financial Assets-Held-to-maturity				
Listed companies	5,114,010	-	-	5,114,010
Unlisted companies	52,195,429	-	-	52,195,429
Total	**135,813,415**	**2,024,796**	**10,863,001**	**148,701,213**

31 December 2013	Neither past due nor individually impaired	Past due, not individually impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	11,080,842	-	-	11,080,842
Due from Banks	21,027,977	-	-	21,027,977
Loans and advances to customers:				
Commercial lending	26,634,673	2,237,831	12,633,420	41,505,924
Mortgage lending	4,609,991	989,781	696,239	6,296,011
Consumer lending	1,271,834	297,481	1,540,851	3,110,166
Financial Assets-Available-for-sale				
Listed companies	726,459	-	-	726,459
Unlisted companies	1,637,170	-	-	1,637,170
Financial Assets-Held-to-maturity				
Listed companies	6,518,909	-	-	6,518,909
Unlisted companies	49,643,627	-	-	49,643,627
Total	**123,151,480**	**3,525,093**	**14,870,510**	**141,547,083**

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Credit Quality by class of financial assets (continued)

Loans and advances to customers are the only class of financial assets resulting with a category of past due but not individually impaired. The remaining financial assets have no past due category. Past due respective aging analysis as at 31 December 2014 and 2013 are shown in the tables below:

31 December 2014	91 to 180 days	more than 180 days	Total
Loans and advances to customers:			
Commercial lending	681,261	488,152	1,169,413
Mortgage lending	217,836	615,861	833,697
Consumer lending	10,771	10,915	21,686
Total	**909,868**	**1,114,928**	**2,024,796**

31 December 2013	91 to 180 days	more than 180 days	Total
Loans and advances to customers:			
Commercial lending	730,956	1,506,875	2,237,831
Mortgage lending	350,525	639,256	989,781
Consumer lending	8,376	289,105	297,481
Total	**1,089,857**	**2,435,236**	**3,525,093**

Carrying amount by class of financial assets whose terms have been renegotiated

The table below shows the carrying amount of restructured loans and advances to customers by product:

	31 December 2014	31 December 2013
Commercial lending	96,091	54,785
Mortgage lending	43,291	2,075
Consumer lending	1,858	1,347
Total	**141,240**	**58,207**

Impaired loans and securities

Impaired loans and securities are the ones 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 agreement(s). The Bank classifies loans and advances to customers in performing and non performing category in accordance with Bank's IFRS methodology; meanwhile it performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective loans carrying amount.

Loans that do not show objective evidence for individual impairment are assessed collectively for impairment using the Bank's Annual Default Rates, Loss rates, Loss confirmation period, for the groups of loans with similar risk characteristics. Collective impairment is allocated for the customers tested individually but with no resulting need for individual impairment.

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

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.

The table below shows the net loans and advances to customers categorized within two main groups: Individually and Collectively Impaired.

	Net Exposure to Loans and advances to customers	
Individually impaired	**31 December 2014**	**31 December 2013**
Gross amount	10,863,001	14,870,510
Allowance for impairment	(6,313,594)	(6,927,895)
Carrying amount	**4,549,407**	**7,942,615**
Collectively impaired		
Gross amount	36,325,236	36,041,590
Allowance for impairment	(533,249)	(552,793)
Carrying amount	**35,791,987**	**35,488,797**
Total carrying amount on Loans and advances to customers	**40,341,394**	**43,431,412**

Separate movements for both individual and collective impairments are presented in note 11.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans by risk classification:

	Individually Impaired Loans and advances to customers	
	Gross	**Net**
31 December 2014		
Performing	38,905	37,913
Past Due	190,857	131,923
Substandard	1,757,718	1,313,380
Doubtful	23,609	15,664
Restructured	8,851,912	3,050,527
Total	**10,863,001**	**4,549,407**
31 December 2013		
Performing	1,227,273	1,194,994
Past Due	714,074	506,026
Substandard	2,132,480	1,393,557
Doubtful	11,792	-
Restructured	10,784,891	4,848,038
Total	**14,870,510**	**7,942,615**

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Write-off policy

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

The estimated cash flows derived from the collaterals and/or guarantees securing the exposures are considered as future cash flows of the credit lines. Some of the valuation parameters used for the calculation are:

- *Realizable* value of collaterals, which is estimated by reducing the appraised collateral value with a "discount factor". This takes into account the characteristics of similar groups of collaterals. It presumes the average recoverable value of specific collateral, based on Bank's experience on the collateral's recovering process.
- *Timing of the expected cash flow*, which represent the expected recovery time (in years) of a specific type of collateral.

The recovery costs are deducted from estimated future cash flows. Collateral generally is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are also updated every three years. An estimate of the undiscounted and discounted fair value of collaterals and other security enhancements held against financial assets is shown below:

	Collateral of Loans and advances to customers 31 December 2014		**Collateral of Loans and advances to customers 31 December 2013**	
	Undiscounted	**Discounted**	**Undiscounted**	**Discounted**
Against individually impaired				
Property	20,882,198	9,328,777	14,471,874	5,687,758
Debt securities	1,067,334	351,071	893,750	272,652
Pledge & Guarantees	8,284,333	130,040	5,715,025	218,555
Other	56,056	-	56,080	-
Total	**30,289,921**	**9,809,888**	**21,136,729**	**6,178,965**

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net amount shows the present value of the same collaterals under this test. The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired. These collaterals do not undergo the same testing procedures as for the above group, hence only their gross value is presented. The information on the table below provides information on how much the collectively impaired loans and advances to customers are secured against their respective collaterals.

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Against Collectively Impaired	Collateral of Loans and advances to customers 31 December 2014	31 December 2013
Property	69,706,670	81,544,351
Pledge and Guarantees	22,059,328	17,119,023
Cash	3,642,598	2,759,553
Debt Securities	1,392,875	1,319,699
Other	2,524,448	1,549,309
Total	**99,325,919**	**104,291,935**

It is the Bank's policy to dispose of assets possessed through the recovering process. The amounts collected from the proceeds are used to reduce or liquidate the carrying amount of the non-performing loans.

In case of collateral properties under the ownership of the Bank, their conversion into cash is the first aim of the Bank, through marketing the properties for sale. If there is no satisfactory offer collected, the Bank practice is to keep the asset for sale until receiving the best offer. Depending on the Bank operational needs and the suitability of the asset to fulfill those needs, management may decide to make use of the property; consequently a reclassification into operational fixed assets of the Bank is performed. The nature and the respective amounts of these collateral properties are disclosed in note 14.

The Bank monitors concentration of credit risk by sector and location. An analysis of credit risk at the reporting date is shown below:

Concentration by sector	Net Loans and advances to customers 31 December 2014	31 December 2013
Services	15,440,707	15,796,447
Wholesale	7,288,615	8,253,323
Construction	4,599,689	4,816,806
Manufacturing	3,898,728	4,822,682
Real Estate	193,604	330,401
Other	1,045,669	1,192,819
Corporate	**32,467,012**	**35,212,478**
Mortgage	6,152,666	5,605,009
Consumer	1,721,716	2,613,925
Retail	**7,874,382**	**8,218,934**
Carrying amount	**40,341,394**	**43,431,412**

Concentration by sector	Loans and advances to banks 31 December 2014	31 December 2013
Bank	25,343,535	21,027,977
Carrying amount	**25,343,535**	**21,027,977**

Concentration by sector	Financial Investments 31 December 2014	31 December 2013
Sovereign	57,713,956	54,796,491
Bank	3,565,026	3,729,675
Carrying amount	**61,278,982**	**58,526,166**

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for financial investments is measured based on the location of the bank entity holding the security as an asset.

An analysis of credit quality of the maximum credit exposure of financial investment based on rating agency Moody's ratings where applicable is as follows:

	Financial Investments	
Sovereign	**31 December 2014**	**31 December 2013**
Rated Aaa	419,472	419,570
Rated Baa2	3,671,550	3,446,518
Rated B1	52,239,960	49,687,623
Rates non available	1,382,974	1,242,780
	57,713,956	**54,796,491**
Bank		
Rated Aaa	1,131,368	563,392
Rate Baa1	786,914	1,723,558
Rate Baa2	1,220,355	1,062,156
Rate Baa3	247,168	219,159
Rate Ba3	-	161,410
Rate Ba1	179,221	-
	3,565,026	**3,729,675**
Total carrying amount	**61,278,982**	**58,526,166**

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed. The settlement risk with financial institutions and government counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring.

The Parent Company counterparty limits with financial institutions have been breached during September 2014 with Societe Generale due to exchange rate fluctuations. Meanwhile, the Bank of Albania counterparty limit exposure towards Albanian Government set as 20% of regulatory capital has been breached on 31 December 2014 due to decreased capital adequacy ratio.

(b) Liquidity Risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty of easily unwinding positions in financial assets without negatively and significantly affecting their price due to the inadequate market depth or temporary market disruptions.

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 stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan which are subject to review by Group structures and approval by the Bank's Financial Risk Committee and Board of Directors. The Finance and Capital Market Division are responsible for liquidity management and the Risk Management Division are responsible for monitoring indicators and verifying the adherence of the limits.

The Bank's Regulation on Liquidity Risk Management was updated in order to fully comply with the new Group Liquidity Risk Guideline issued on January 2014, and has been approved from the Board of Directors in September 2014. The Bank monitors liquidity, in accordance with this regulation, in order to manage its obligations when they fall due and activate emergency procedures in case of escalation. A balanced ratio should be maintained between incoming sources and outflows, in both the short and medium-long term. This target is organized through the use of the following specific metrics "Liquidity Coverage Ratio up to 30 days" and "Net Stable Funding Ratio":

- **Liquidity Coverage Ratio (LCR):** aims to ensure that the bank maintains an adequate level of unencumbered high-quality liquid assets (HQLA) to meet its short term liquidity needs under liquidity stress scenario (LCR≥80%).
- **Net Stable Funding Ratio (NSFR):** has the purpose of guaranteeing an adequate liquidity position over a medium/long-term time horizon. It establishes a minimum "acceptable" amount of funding over one year horizon in relation to the needs arising from the liquidity characteristics and the residual maturities of assets and off-balances exposures (NSFR≥90%).

4. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

Holding reserves of liquid assets (so-called Liquidity Buffer) is one of the main tools for mitigating liquidity risk. For the purpose of identifying and measuring this risk, both short and medium-long term, the classification of highly-liquid assets takes on crucial importance.
Furthermore, the Bank prepares liquidity scenarios, based on assumptions provided by the Group guidelines, such as market or firm specific crisis situations.

A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limits established by the Central Bank of Albania, which should be above 20% for all currencies and above 15% separately for the local currency and foreign currencies. The Central Bank of Albania regulation provides that the Bank shall keep 10% of its customer deposits with maturity less than 2 years as an obligatory reserve with the Central Bank.

The Bank's short term liquidity ratios are periodically monitored by the Group with reference to Group internal limits and guidelines and by Central Bank of Albania.

The short term liquidity ratios have been within limits during 2014. In addition the Bank's structural liquidity ratios are calculated by the Group with reference to Bank of Italy liquidity regulations and methodology, which were also within the limits required.

4. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, based on internal local regulations and Group Liquidity Guidelines, as at 31 December 2014 and 31 December 2013. It considers the undiscounted cash flows in/out of the Bank for on and off-balance sheet financial assets and liabilities, according to contractual maturity and not reflecting any retention history assumptions or earlier repayment. It reflects assumptions of one scenario as: liquidity reserves - 1st line, 2nd line and 3rd line reserve (see below for classification of held-to-maturity and available for sale investment), behavioral coefficients applied for current accounts and overdrafts to customers, and drawdown percentages for off balance sheets categories as committed credit lines and guarantees.

31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets (Cash Flow IN)	**69,413,547**	**10,685,874**	**17,908,314**	**38,827,757**	**11,353,156**	**148,188,648**
Net Cash	999,313	-	-	-	-	999,313
Minimum reserve requirements	208,984	-	-	11,086,393	-	11,295,377
Advances to banks	8,913,033	-	-	-	-	8,913,033
Held-to-maturity and Available-for-sale Investment Securities – 1st line reserves	560,849	-	-	-	-	560,849
Other Held-to-maturity and Available-for-sale Investment Securities – 2nd line reserves	49,077,073	-	-	-	-	49,077,073
Other Held-to-maturity and Available-for-sale Investment Securities – 3rd line reserve	1,235,689	4,979,919	4,140,285	7,550,718	843,866	18,750,477
Loans to banks	5,968,183	3,696,655	7,811,639	2,856,634	-	20,333,111
Loans and advances to customers (gross performing loans)	2,450,423	2,009,300	5,956,390	17,334,012	10,509,290	38,259,415
31 December 2014						
Liabilities (Cash flow OUT)	**(18,751,363)**	**(14,506,632)**	**(43,963,666)**	**(18,979,670)**	**(31,858,892)**	**(128,060,223)**
Deposits from banks and customers- Current accounts	(4,492,938)	(1,930,842)	(3,861,684)	(7,723,368)	(31,858,892)	**(49,867,724)**
Current accounts with banks	(102,745)	-	-	-	-	**(102,745)**
Current accounts with customers	(4,390,193)	(1,930,842)	(3,861,684)	(7,723,368)	(31,858,892)	**(49,764,979)**
Deposits from banks	(4,512,558)	(1,047,758)	-	-	-	**(5,560,316)**
of which: cash on repo and on securities lent	(708,500)	(1,047,758)	-	-	-	**(1,756,258)**
Deposits from customers- Time deposits	(9,745,867)	(11,528,032)	(40,101,982)	(9,728,951)	-	**(72,632,183)**
Total gap on-balance sheet	**50,662,184**	**(3,820,758)**	**(26,055,352)**	**19,848,087**	**(20,505,736)**	**20,128,452**
Off Balance sheet (Cash flow in)	-	-	-	-	-	**-**
Off Balance sheet (Cash flow out)	(813,524)	-	-	-	-	**(813,524)**
Total gap off-balance sheet	**(813,524)**	**-**	**-**	**-**	**-**	**(813,524)**
Total gap 31 December 2014	**49,848,660**	**(3,820,758)**	**(26,055,352)**	**19,848,087**	**(20,505,736)**	**19,314,901**
Cumulated gap 31 December 2014	**49,848,660**	**46,027,902**	**19,972,550**	**39,820,637**	**19,314,901**	

4. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets (Cash Flow IN)	**35,478,141**	**8,202,982**	**15,171,054**	**54,639,953**	**14,173,612**	**127,665,742**
Net Cash						
Minimum reserve requirements						
Advances to banks	3,415,493	-	-	-	-	**3,415,493**
Held-to-maturity and Available-for-sale Investment Securities – 1st line reserves	570,072	-	-	-	-	**570,072**
Other Held-to-maturity and Available-for-sale Investment Securities – 2nd line reserves	20,329,162	-	-	-	-	**20,329,162**
Other Held-to-maturity and Available-for-sale Investment Securities – 3rd line reserve	1,041,666	5,206,145	4,322,129	33,169,492	3,153,700	**46,893,132**
Loans to banks	7,684,081	1,025,416	5,065,440	4,657,961	-	**18,432,898**
Loans and advances to customers (gross performing loans)	2,437,667	1,971,421	5,783,485	16,812,500	11,019,912	**38,024,985**
31 December 2013						
Liabilities (Cash flow OUT)	**(19,741,209)**	**(14,775,880)**	**(49,975,554)**	**(10,325,185)**	**(24,351,119)**	**(119,168,947)**
Deposits from banks and customers- Current accounts	(5,650,139)	(1,475,825)	(2,951,651)	(5,903,302)	(24,351,119)	**(40,332,036)**
Current accounts with banks	(1,443,586)	-	-	-	-	**(1,443,586)**
Current accounts with customers	(4,206,553)	(1,475,825)	(2,951,651)	(5,903,302)	(24,351,119)	**(38,888,450)**
Deposits from banks	(3,815,942)	-	**-**	**-**	**-**	**(3,815,942)**
of which: cash on repo and on securities lent	(1,814,893)	-	-	-	-	**(1,814,893)**
Deposits from customers- Time deposits	(10,275,128)	(13,300,055)	(47,023,903)	(4,421,883)	-	**(75,020,969)**
Total gap on-balance sheet	**15,736,932**	**(6,572,898)**	**(34,804,500)**	**44,314,768**	**(10,177,507)**	**8,496,795**
Off Balance sheet (Cash flow in)	-	-	-	-	-	**-**
Off Balance sheet (Cash flow out)	(454,033)	-	-	-	-	**(454,033)**
Total gap off-balance sheet	**(454,033)**	**-**	**-**	**-**	**-**	**(454,033)**
Total gap 31 December 2013	**15,282,899**	**(6,572,898)**	**(34,804,500)**	**44,314,768**	**(10,177,507)**	**8,042,762**
Cumulated gap 31 December 2013	**15,282,899**	**8,710,001**	**(26,094,499)**	**18,220,269**	**8,042,762**	

4. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

The information provided relates to cash flows deriving from financial liabilities, therefore it considerably differs from the face of the statement of financial position. The analysis does not include non-financial liabilities and equity and comprises cash flows of contractual interest.

The table below shows the Bank's financial contingent liabilities and financial commitments.

31 December 2014	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years	Total
Commitments	7,425,526	-	-	-	-	**7,425,526**
Guarantees	6,175,712	-	-	-	-	**6,175,712**
31 December 2013						
Commitments	4,212,662	-	-	-	-	**4,212,662**
Guarantees	4,893,497	-	-	-	-	**4,893,497**

The Bank expects only a small part of the commitments to be demanded within one month and guarantees to be closed at maturity date. Refer also to note 30 Commitment and contingencies.

Reconciliation between contingent liabilities and commitments maturity table and note 30 Commitment and contingencies is as follows:

	31 December 2014	31 December 2013
Commitments	**7,425,526**	**4,212,662**
Un-drawn credit facilities	7,425,526	4,212,662
Guarantees	**6,175,712**	**4,893,497**
Letters of credit	829,112	126,603
Guarantees in favor of customers	5,346,600	4,766,894

c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Bank holds its bond portfolio in accordance with IAS 39 as either Trading, Held to Maturity or Available-for-sale portfolio.

4. Financial Risk Management (continued)

c) Market Risk (continued)

Exposure to Foreign Exchange rate risk

"Foreign exchange rate risk" is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Bank's statement of financial position. The key sources of exchange rate risk consist of:

- Foreign currency loans and deposits held by corporate and retail customers;
- Investment securities in foreign currencies;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, administrative costs, etc. in foreign currencies.

The Bank's exposure to exchange rate risk is monitored on a daily basis by Market and Operational Risk Department ensuring compliance with the internal and regulatory limits. Internal regulations set limits for each open currency position, global open position, maximum loss and Value at Risk (VaR). A detailed analysis was carried out on a one year historical data in order to confirm/establish the aforementioned limits. The local regulatory limits refer to a maximum of 20% of the regulatory capital for each open currency position and 30% for the overall open currency position.

The VaR methodology introduced in the internal procedure is based on the weighted historical simulation technique. The weights used in the model are assigned employing an exponentially declining function with a decay factor of 0.992 and the time window covers a period of 250 days, which is in line with the Group Guidelines. The 1-day, 99% VaR was Lek 0.6 million as of 31 December 2014, with an average of Lek 0.5 million during the year (2013: Lek 1.2 million and average Lek 0.5 million).

The effectiveness of the VaR calculations was monitored daily via backtesting by comparing the estimates of value at risk with the end of the day unrealized losses. The backtesting indicates that the VaR accurately predicts the amount of unrealized daily losses. The VaR level was within the limit during 2014 and 2013, and the Stop Loss limit was within the limit during 2014 and 2013.

The Bank has been within the limits of the Central Bank of Albania regulation during the year 2014.

Financial assets denominated in foreign currencies are disclosed in each relevant note to the financial statements.

4. Financial Risk Management (continued)

c) Market Risk (continued)

Assets	**LEK**	**USD**	**EUR**	**OTHER**	**TOTAL**
Cash and cash equivalents	644,486	4,626,236	10,197,018	422,736	15,890,476
Loans and advances to banks	4,714,663	3,500,191	16,948,063	180,618	25,343,535
Financial Investments Available-for-sale	39,445	2,823,151	738,940	368,007	3,969,543
Financial Investments Held-to-maturity	49,733,088	2,774,416	4,444,608	357,327	57,309,439
Loans and advances to customers	14,314,834	2,121,819	23,904,656	85	40,341,394
Property and equipment	1,398,437	-	-	-	1,398,437
Intangible assets	554,635	-	-	-	554,635
Deferred tax assets	76,962	-	-	-	76,962
Current tax assets	507,139	-	-	-	507,139
Other assets	434,998	10,858	2,194,470	2,198	2,642,524
Total Assets (1)	**72,418,687**	**15,856,671**	**58,427,755**	**1,330,971**	**148,034,084**
Liabilities					
Due to Banks	5,586,440	1,858	74,829	12	5,663,139
Due to customers	49,847,106	15,089,168	55,031,875	1,311,526	121,279,675
Subordinated debt	-	-	-	-	-
Provisions	249,594	3,499	178,738	142	431,973
Other liabilities	850,474	24,099	200,162	663	1,075,398
Current tax liabilities	300,272	-	-	-	300,272
Deferred tax liabilities	-	-	-	-	-
Net Equity	19,184,058	95,798	(2,481)	6,252	19,283,627
Total Liabilities (2)	**76,017,944**	**15,214,422**	**55,483,123**	**1,318,595**	**148,034,084**
Net FX Position at 31 December 2014 (1)-(2)	**(3,599,257)**	**642,249**	**2,944,632**	**12,376**	**-**
Off balance sheet Assets	8,613,617	9,267,566	113,015,476	-	130,896,659
Off balance sheet Liabilities	8,613,617	9,267,566	113,015,476	-	130,896,659
Net Off balance sheet FX Position at 31 December 2014	**82,885**	**53,249**	**(135,981)**	**14,026**	**14,179**
Total Net FX Position at 31 December 2014	**(3,516,372)**	**695,498**	**2,808,651**	**26,402**	**14,179**
Balance sheet Assets as at 31 December 2013	**65,995,499**	**17,167,493**	**54,843,712**	**1,231,083**	**139,237,787**
Balance sheet Liabilities as at 31 December 2013	**69,503,177**	**16,746,682**	**51,763,417**	**1,224,511**	**139,237,787**
Net Off balance sheet FX Position at 31 December 2013	**82,885**	**53,249**	**(135,981)**	**14,026**	**14,179**
Total Net FX Position at 31 December 2013	**(3,424,793)**	**474,060**	**2,944,314**	**20,598**	**14,179**

4. Financial Risk Management (continued)

c) Market Risk (continued)

Exposure to Interest Rate risk

The principal Interest Rate risk to which the Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. This risk arises primarily from securities portfolio, retail and corporate banking. Interest rate risk is managed principally through periodic monitoring of interest rate spreads between Bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

The method used to measure Interest Rate risk of the Bank's assets and liabilities is based on the sensitivity analysis. Shift sensitivity of fair value quantifies the change in economic value of a financial portfolio resulting from adverse movements in the interest rates. The adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. This measure highlights the effect of the variation in market interest rates on the portfolio being measured, with the assumption of no future changes in the mix of assets and liabilities. The sensitivity of equity is calculated by revaluing the Available-for-sale securities portfolio. The Bank's financial assets and liabilities have variable interest rate or have a re-pricing date of less than one year, except for certain non-Albanian investment securities, which have coupon rate between 2.2 -6.9% for USD denominated securities (2013: 0.8 – 6.8%), between 1.6 - 4.5% for EUR denominated securities (2013: 1.8 - 7.5%) and between 1 -5.6% for GBP denominated securities (2013: 0.9 - 5.5%).

Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity analysis of ± 100 basis points, registered in 2014 a value of Lek 733 million (for +100 basis points) at year end (2013: Lek 803 million). The table below shows the currency breakdown of the shift sensitivity for the year end 2014 and 2013.

Shift sensitivity 31 December 2014	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p.	(127,930)/59,849	(124,330)/59,316	(3,600)/533
USD	+100 b.p. / -100 b.p.	(339,413)/384,918	(274,653)/321,676	(64,760)/63,242
LEK	+100 b.p. / -100 b.p.	(264,476)/275,241	(264,476)/275,241	
Other (GBP & CHF)	+100 b.p. / -100 b.p.	(9,745)/10,229	1,101/(861)	(10,846)/11,089

Shift sensitivity 31 December 2013	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p.	(192,053)/204,844	(192,053)/204,844	-
USD	+100 b.p. / -100 b.p.	(306,974)/349,054	(239,014)/285,386	(67,960)/63,668
LEK	+100 b.p. / -100 b.p.	(290,825)/302,050	(290,825)/302,050	-
Other (GBP & CHF)	+100 b.p. / -100 b.p.	(13,563)/14,258	(338)/393	(12,225)/13,865

A different method used to measure Interest Rate risk is required by the Central Bank of Albania, which consist of quarterly monitoring of the interest rate risk exposure towards a parallel shock of ±200 basis points of the interest rate curve. For all the financial categories of assets & liabilities divided into either fixed or floating rate, their present value is calculated and is distributed in 14 time buckets. The total present value is then multiplied accordingly with the estimated modified duration of each time bucket. The limit for this exposure is 20% of the Bank's regulatory capital. For the year 31 December 2014 the Bank has been within the limit with the interest rate risk exposures at 31 December 2014 being 1.73% of the Bank's regulatory capital.

4. Financial Risk Management (continued)

d) Operational Risks

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'. This definition includes: legal risk, or the risk of losses resulting from violations of law or regulations, from contractual or constructive liability or from other disputes; model risk, defined as the potential loss which can be suffered by an entity, resulting from decisions mainly based on the results of internal models, caused by errors occurred during their development, implementation or use; Compliance risk, defined as the risk to incur judicial or administrative penalties, relevant financial losses resulting from the violation of mandatory rules or self-regulation; ICT risk (Information and Communication Technology, or simply computer risk), defined as the risk to incur economic losses related to the use of information and communication technology. Strategic and reputational risks are excluded.

The Bank's Board of Directors has approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk.

The Bank's Operational Risk Management Committee (hereinafter as ORCO) is responsible for the management of the operational risk of the Bank in terms of reviewing operational risk governance documentation and approving changes, prepare policies, standards and methodologies regarding operational risk management. During 2014 ORCO approved 15 new internal Key Risk Indicators, in addition to the 11 Key Risk Indicators already reported to Bank of Albania and the internal policy on Operational Risk Capital Requirement.

The Bank's Risk Management Division is responsible for the identification, assessment, management and mitigation of its operational risks, the verification of mitigation effectiveness and reporting to the Bank Senior Management and Group Risk Management with the aim of assessing the potential economic impact of particularly serious operational events.

The Bank carries out an annual assessment campaign set up by Intesa Sanpaolo Group, Self-Diagnosis process, which consists of the operational risk identification and assessment linked to the activity of a single unit within a structure.

The objectives of the Self Diagnosis process are to identify, measure, monitor, and mitigate operational risks. The Self Diagnosis process contributes to the spread of risk - control culture within the Bank. This process is composed of phases relative to the Assessment of the Business Environment, which determines the quality of each structure's risk control profile through the analysis of the importance and the level of management of risk factors in the operating context and phases relative to Scenario Analysis, which determine the size of each structure's risk profile by collecting subjective data from Business and Operational Units Responsible.

The Bank has the same responsibilities towards Central Bank of Albania, referring to the new regulation on management of operational risk, entered into force on January 2011. It prepares reports on the exposure of key indicators and classifications of effective operational losses as per business lines according to the regulatory requirements.

Regulatory Capital

The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing the impact of the level of capital on shareholders' return. The Bank recognizes 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.

During 2014 the Supervisory Council of Bank of Albania issued a new draft "On Regulatory Capital" expected to be in force on 31 March 2015. The Bank believes that considering the current supervisory financial reporting implemented, the new regulation "On Regulatory Capital" will have no impact to the Bank regulatory capital.

4. Financial Risk Management (continued)

d) Operational Risks (continued)

Capital Adequacy Ratio

Implementing the current capital requirements, the Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off balance sheet items, at a minimum level of 12%. During financial year 2014 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2014 is calculated at 18.2% (2013: 21%).

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off balance sheet items, is another limit set by Banks' supervisory authority at a percentage of 6%. Even this ratio, during the year 2014 followed the same tendency to be much higher compared to the regulatory limit and as at 31 December 2014 it amounted to 18.2% (2013: 21%).

Throughout the period, there were no material changes in the Bank's management of capital and all externally imposed capital requirements were complied with.

The new regulation calculates the Capital Adequacy Ratio (CAR) based on Basel II criteria and is in line with the European Directives for Financial Institutions resulting in a reducing CAR, however due to the capital the Bank possesses, management consider the Bank will continue to remain well above the minimum level required.

5. Use of estimates and judgments

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

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

Management discusses with the Group Management the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of material adjustment within the next financial year and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed below. These disclosures supplement the commentary on financial risk management (see note 4).

(a) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilization, etc.) and other concentrations of risks and economic data. The impairment losses on loans and advances are disclosed in more details in note 11.

5. Use of estimates and judgments (continued)

(b) Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data when possible, and if they are not available, judgment is required to establish fair values. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The valuation of financial instruments is disclosed in more detail in note 6.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The analysis of financial instruments recorded at fair value by hierarchy level is presented below:

31 December 2014	Level 1	Level 2	Level 3	Total
Financial investments Available-for-sale				
Quoted investments				
Government debt securities	435,420	-	-	**435,420**
Other debt securities	1,671,109	1,818,483	-	**3,489,592**
Unquoted investments	-	44,531	-	**44,531**
Total	**2,106,529**	**1,863,014**	**-**	**3,969,543**

31 December 2013	Level 1	Level 2	Level 3	Total
Financial investments Available-for-sale				
Quoted investments				
Government debt securities	391,530	-	-	**391,530**
Other debt securities	334,929	1,593,175	-	**1,928,104**
Unquoted investments	-	43,996	-	**43,996**
Total	**726,459**	**1,637,171**	**-**	**2,363,630**

(c) Deferred tax assets

Deferred tax assets arising from tax losses and temporary differences are recognized as an asset when it is probable that future taxable income would be sufficient to allow the benefit of the loss to be realized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits and future tax planning strategies. Please refer to notes 3 (g) and 17 for more details.

6. Financial Assets and Liabilities

Accounting classification and fair values:

	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
31 December 2014							
Cash and cash equivalents	7	-	15,890,476	-	-	15,890,476	15,890,476
Loans and advances to banks	8	-	25,343,535	-	-	25,343,535	25,343,535
Loans and advances to customers	11	-	40,341,394	-	-	40,341,394	40,341,394
Investment securities:							
Measured at fair value	9	-	-	3,969,543	-	3,969,543	3,969,543
Measured at amortized cost	10	57,309,439	-		-	57,309,439	58,442,774
Total		**57,309,439**	**81,575,405**	**3,969,543**	**-**	**142,854,387**	**143,987,722**
Deposits from banks	15	-	-	-	5,663,139	5,663,139	5,663,139
Deposits from customers	16	-	-	-	121,279,675	121,279,675	121,666,275
Total		**-**	**-**	**-**	**126,942,814**	**126,942,814**	**127,329,414**

Available-for-sale and Held-to-maturity Albanian Government securities are fixed and floating rate bonds. The floating rate bond is given as the average yield of the last three Treasury Bill auctions with the maturity of one year plus the spread. The measurement of the Fair Value for these securities is performed using the mark to market model valuation technique, by discounting all future cash flows deriving from such instruments. The rest of the Available-for-sale and Held-to-maturity foreign securities denominated in foreign currencies represent Banks and Financial Institutions securities. Their fair value is provided from either Bloomberg or State Street depending on where the custody of the bond is, or in the case of Austria Republic (EUR) and Italian Government International bonds (GBP) since prices are not found within State Street, values are taken from Bloomberg.

Loans and advances to customers have a book value, which is also their fair value, as the whole portfolio is based on floating interest rates and they are re-priced on quarterly, semiannually and yearly basis. The fair value of Time Deposits from customers is re-priced using the net present value. The interest rates applied are the market interest rates published from Central Bank of Albania. These rates are an estimate of the market rates (refer also to note 4 on Accounting Policies on fair value measurement). The fair value of current accounts, savings accounts is considered to approximate their carrying amount.

6. Financial Assets and Liabilities (continued)

	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
31 December 2013							
Cash and cash equivalents	7	-	12,466,255	-	-	**12,466,255**	**12,466,255**
Loans and advances to banks	8	-	21,027,977	-	-	**21,027,977**	**21,027,977**
Loans and advances to customers	11	-	43,431,410	-	-	**43,431,410**	**43,431,410**
Investment securities:							
Measured at fair value	9	-	-	2,363,630	-	**2,363,630**	**2,363,630**
Measured at amortized cost	10	56,162,536	-	-	**-**	**56,162,536**	**58,137,169**
Total		**56,162,536**	**76,925,642**	**2,363,630**	**-**	**135,451,808**	**137,426,441**
Deposits from banks	15	-	-	-	5,264,048	**5,264,048**	**5,264,048**
Deposits from customers	16	-	-	-	114,700,816	**114,700,816**	**115,548,646**
Total		**-**	**-**	**-**	**119,964,864**	**119,964,864**	**120,812,724**

7. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2014 and 31 December 2013 can be detailed as follows:

	31 December 2014	31 December 2013
Cash on hand	1,000,016	1,385,413
Balances with banks	8,843,780	3,409,358
Unrestricted balances with central bank	82,484	3,167
Money market placements	5,964,196	7,668,317
Total	**15,890,476**	**12,466,255**

8. Loans and advances to banks

Loans and advances to banks as at 31 December 2014 and 31 December 2013 are composed as follows:

	31 December 2014	31 December 2013
Compulsory reserve	11,097,753	10,631,176
Correspondent banks deposits	14,245,782	10,396,801
Total	**25,343,535**	**21,027,977**

9. Financial Investments Available-for-sale

Financial Investments Available-for-sale as at 31 December 2014 and 31 December 2013 can be detailed as follows:

	31 December 2014	31 December 2013
Albanian Government:	**44,532**	**43,996**
Listed Companies:	**2,106,529**	**726,459**
-Banks & Financial Institutions	937,255	334,929
-EU Government	1,169,274	391,530
Unlisted Companies:	**1,818,482**	**1,593,175**
-Banks & Financial Institutions	1,818,482	1,593,175
Total	**3,969,543**	**2,363,630**

The Bank reviews its debt securities classified as Available-for-sale investments at each reporting date to assess whether there is any objective evidence that they are impaired.

10. Financial Investments Held-to-maturity

Financial Investments Held-to-maturity as at 31 December 2014 and 31 December 2013 can be detailed as follows:

	31 December 2014	31 December 2013
Foreign Government and others:	**4,304,722**	**4,717,338**
-US and EU government	4,304,722	4,717,338
Listed companies: Banks	**809,288**	**1,801,571**
Albanian Government bonds	**52,195,429**	**49,643,627**
Total	**57,309,439**	**56,162,536**

As at 31 December 2014, Albanian Held-to-maturity investments securities of Lek 2,000,000 thousand (2013: Lek 2,080,000 thousand) have been pledged as collateral for Reverse REPO Agreements. These transactions are conducted under terms that are usual to the customary standard lending, securities borrowing and lending activities as well as requirements determined by Central Bank of Albania. As at 31 December 2014, the average yield of Held-to-maturity investment securities pledged as collateral for the Reverse REPO Agreements amounts to 3.78% (2013: 5.60%).

11. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2014	31 December 2013
Loans to customers	28,858,135	30,481,459
Overdrafts to customers	18,409,840	20,501,865
Deferred disbursement fee	(79,738)	(71,225)
Gross amount	**47,188,237**	**50,912,099**
Allowance for impairment	(6,846,843)	(7,480,687)
Total	**40,341,394**	**43,431,412**

Movement in the allowance for impairment losses on loans and advances to customers is as follows:

	2014	2013
Specific Allowance for impairment		
Balance at 1 January	**6,973,681**	**4,494,537**
Impairment loss for the year		
Charge for the year	1,782,851	3,409,390
Recoveries	(1,165,336)	(754,229)
Effect of movements in foreign exchange	131,436	(37,122)
Write-offs	(1,341,214)	(138,895)
Balance at 31 December	**6,381,418**	**6,973,681**
Collective Allowance for impairment		
Balance at 1 January	**507,006**	**657,660**
Impairment loss for the year		
Charge for the year	78,557	4,579
Recoveries	(123,653)	(156,675)
Effect of movements in foreign exchange	3,515	1,442
Write-offs	-	-
Balance at 31 December	**465,425**	**507,006**
Total Allowance for Impairment	**6,846,843**	**7,480,687**

12. Property and Equipment

Property and Equipment as at 31 December 2014 and 31 December 2013 is as follows:

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipment	Total
Cost						
Balance as at 1 January 2013	**1,616,616**	**1,077,108**	**188,228**	**288,484**	**66,281**	**3,236,717**
Additions	-	114,534	3,900	13,409	98,623	230,466
Disposals	-	(26,654)	(8,253)	(44,704)	(29)	(79,640)
Balance as at 31 December 2013	**1,616,616**	**1,164,988**	**183,875**	**257,189**	**164,875**	**3,387,543**
Additions	15,154	122,434	7,517	4,970	-	150,075
Disposals	-	(70,003)	(6,848)	(2,993)	(6,617)	(86,461)
Balance as at 31 December 2014	**1,631,770**	**1,217,419**	**184,544**	**259,166**	**158,258**	**3,451,157**

Disposals for period ending 31 December 2014 are mainly due to the regular process of physical inventory write off. Additions for the period ending 31 December 2014 result mainly from IT equipment. As at 31 December 2014 the Bank had no contractual commitments on Property and Equipment and there is no pledge on Property and Equipment. According to the latest assessment the Bank has carried out there is no indication that any asset may be impaired.

12. Property and Equipment (continued)

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipment	Total
Accumulated Depreciation						
Balance as at 1 January 2013	**572,211**	**830,090**	**163,989**	**254,073**	**-**	**1,820,363**
Depreciation for the year	80,831	85,016	6,693	16,447	-	188,987
Disposals	-	(24,268)	(8,018)	(43,987)	-	(76,273)
Balance as at 31 December 2013	**653,042**	**890,838**	**162,664**	**226,533**	**-**	**1,933,077**
Depreciation for the year	81,110	94,425	6,060	10,197	-	191,792
Disposals	-	(62,568)	(6,681)	(2,900)	-	(72,149)
Balance as at 31 December 2014	**734,152**	**922,695**	**162,043**	**233,830**	**-**	**2,052,720**
Carrying amount						
At 1 January 2013	**1,044,405**	**247,018**	**24,239**	**34,411**	**66,281**	**1,416,354**
At 31 December 2013	**963,575**	**274,151**	**21,210**	**30,656**	**164,876**	**1,454,468**
At 31 December 2014	**897,618**	**294,724**	**22,501**	**25,336**	**158,258**	**1,398,437**

As at 31 December 2014 the fully depreciated items represent an amount of Lek 945,917 thousand (2013: Lek 852,799 thousand).

13. Intangible Assets

Intangible assets as at 31 December 2014 and 31 December 2013 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2013	**826,204**	**70,950**	**897,154**
Additions during period	123,259	176,402	299,661
Disposals	-	-	-
Balance as at 31 December 2013	**949,463**	**247,352**	**1,196,815**
Additions during period	238,691	-	238,691
Disposals	-	(8,525)	(8,525)
Balance as at 31 December 2014	**1,188,154**	**238,827**	**1,426,981**
Amortisation and Impairment Losses			
Balance as at 1 January 2013	**652,969**	**-**	**652,969**
Amortisation charge for the year	94,630	-	94,630
Disposals	-	-	-
Balance as at 31 December 2013	**747,599**	**-**	**747,599**
Amortisation charge for the year	124,747	-	124,747
Balance as at 31 December 2014	**872,346**	**-**	**872,346**
Carrying amount			
At 1 January 2013	**173,235**	**70,950**	**244,185**
At 31 December 2013	**201,864**	**247,352**	**449,216**
At 31 December 2014	**315,808**	**238,827**	**554,635**

Acquisitions during 2014 represent investments in licenses and software, mainly related to the upgrade of the core banking system. As at 31 December 2014 the fully amortised items represent an amount of Lek 594,201 thousand (2013: Lek 410,134 thousand).

14. Other Assets

Other assets as at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Inventory	2,111,434	895,358
Sundry debtors	204,267	210,742
ATM & POS transactions	135,002	18,709
Leasehold improvements	28,924	28,423
Prepayments	61,336	44,300
Cheques for collection	2,037	7,168
Others	99,524	93,552
Total	**2,642,524**	**1,298,252**

Inventory represent repossessed assets acquired through enforcement of security over non-performing loans and advances to customers. Repossessed assets comprise a number of properties including land and building not earning income rentals or own used. During 2014, the Bank tested the related properties for impairment and wrote down certain properties to their net realizable value, which resulted in an impairment allowance of Lek 148,680 thousand (2013: Lek 2,750 thousand).

The movement of repossessed assets item during the reporting period is presented as follows:

	2014	2013
At beginning of the period	**895,358**	**321,042**
Additions during period	1,874,261	576,407
Disposal of the period	(512,606)	(3,363)
Impairment allowance	(148,680)	(2,750)
Effect of movements in foreign exchange	3,102	4,022
At end of the period	**2,111,434**	**895,358**

The movement of leasehold improvements during the reporting period is presented as follows:

	31 December 2014	31 December 2013
At beginning of the period	**28,423**	**32,484**
Additions during period	11,623	10,516
Amortization of the period	(11,122)	(14,577)
At end of the period	**28,924**	**28,423**

15. Due to banks

Due to banks as at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Due to Central Bank	**1,504**	**1,026,190**
Correspondent banks		
Current accounts	**106,909**	**423,428**
Resident	999	2,002
Non-resident	105,910	421,426
Deposits	**3,803,097**	**2,000,720**
Resident	3,803,097	2,000,720
Non-resident	-	-
Repurchase Agreements	**1,751,629**	**1,813,710**
Total	**5,663,139**	**5,264,048**

Repurchase agreements as at 31 December 2014 and as at 31 December 2013 are comprised as follows:

31-Dec-14

Maturity	Interest Rate	Nominal value	Accrued interest	Book value
5-Mar-15	2.29%	433,282	761	434,043
5-Jan-15	2.25%	259,969	449	260,418
12-Mar-15	2.27%	608,476	795	609,271
5-Jan-15	2.25%	447,732	165	447,897
		1,749,459	**2,170**	**1,751,629**

31-Dec-13

Maturity	Interest Rate	Nominal value	Accrued interest	Book value
3-Jan-14	3.25%	415,750	1000	416,750
16-Jan-14	3.02%	260,308	280	260,588
16-Jan-14	3.03%	262,145	283	262,428
3-Jan-14	3.00%	700,689	346	701,035
23-Jan-14	3.01%	172,823	86	172,909
		1,811,715	**1,995**	**1,813,710**

The Bank has placed Treasury Bills as collateral for an amount of Lek 2,000,000 thousand (2013: Lek 2,080,000 thousand) as previously described in note 10.

16. Due to customers

Due to customers as at 31 December 2014 and 31 December 2013 are composed as follows:

	31 December 2014			31 December 2013		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	4,202,177	8,269,853	12,472,030	2,780,026	6,182,045	8,962,071
Corporate	11,834,533	16,330,127	28,164,660	8,889,798	13,932,377	22,822,175
	16,036,710	**24,599,980**	**40,636,690**	**11,669,824**	**20,114,422**	**31,784,246**
Deposits						
Retail	32,729,196	41,219,520	73,948,716	31,189,836	43,263,137	74,452,973
Corporate	1,081,199	5,613,070	6,694,269	3,017,531	5,446,066	8,463,597
	33,810,395	**46,832,590**	**80,642,985**	**34,207,367**	**48,709,203**	**82,916,570**
Total	**49,847,105**	**71,432,570**	**121,279,675**	**45,877,191**	**68,823,625**	**114,700,816**

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

	31 December 2014			31 December 2013		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**16,036,710**	**24,599,980**	**40,636,690**	**11,936,283**	**19,847,963**	**31,784,246**
Deposits						
On demand	2,336,603	6,840,453	9,177,056	1,718,435	5,385,622	7,104,057
One month	2,710,004	1,826,716	4,536,720	3,499,013	2,789,837	6,288,850
Three months	1,287,484	4,209,593	5,497,077	3,010,347	4,332,360	7,342,707
Six months	3,726,110	6,209,174	9,935,284	3,488,012	6,382,556	9,870,568
Nine months	36,088	4,234	40,322	32,369	19,137	51,506
Twelve months	16,975,418	22,108,487	39,083,905	15,293,935	23,657,502	38,951,437
Twenty four months	4,842,730	2,531,588	7,374,318	5,974,516	3,156,448	9,130,964
Other	1,895,958	3,102,345	4,998,303	1,190,740	2,985,741	4,176,481
	33,810,395	**46,832,590**	**80,642,985**	**34,207,367**	**48,709,203**	**82,916,570**
Total	**49,847,105**	**71,432,570**	**121,279,675**	**45,877,191**	**68,823,625**	**114,700,816**

16. Due to customers (continued)

For current accounts and time deposits the annual published interest rates applicable for the various fixed terms were:

2014	LEK (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.01 – 5.17	0.05 – 3.50	0.001 – 1.14
Time deposits – 1 month	0.50 – 1.35	0.05 – 0.20	0.05 – 0.20
Time deposits – 3 months	0.50 – 2.15	0.10 – 0.50	0.10 – 1.00
Time deposits – 6 months	0.50 – 2.95	0.10 – 0.70	0.10 – 1.20
Time deposits – 9 months	1.55 – 3.15		0.15 – 1.10
Time deposits – 12 months	0.50 – 3.15	0.10 – 1.10	0.10 – 1.90
Time deposits – 24 months	1.95 – 3.60	0.20 – 1.25	0.21 – 2.00
Time deposits – 36 months	2.30 – 4.57		0.35 – 2.30

2013	LEK (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.25 – 5.17	0.10 – 1.10	0.04 – 2.20
Time deposits – 1 month	1.35 – 1.75	0.10 – 0.20	0.15 – 0.30
Time deposits – 3 months	1.00 – 4.15	0.30 – 0.75	0.30 – 2.15
Time deposits – 6 months	1.20 – 5.20	0.40 – 0.95	0.40 – 2.40
Time deposits – 9 months	2.40 – 5.50		1.10 – 2.70
Time deposits – 12 months	1.50 – 6.25	0.50 – 1.45	0.50 – 3.10
Time deposits – 24 months	3.40 – 7.00	1.15 – 2.00	1.40 – 3.40

Different from published rates, Bank's management has offered preferential rates to VIP customers.

All individual customer deposits, in accordance with the Law No. 8873, dated 29.03.2002 "On the Insurance of Deposits", are protected without any cost for customer, up to the amount of Lek 2,500,000 (or in Lek equivalent if in foreign currency) with the Deposit Insurance Agency (ASD).

17. Deferred Tax

Recognized deferred tax assets and liabilities are attributable to the following:

	31 December 2014			31 December 2013		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Financial assets Available-for-sale	-	-	-	-	-	-
Tangible and intangible assets	76,962	-	76,962	75,174	-	75,174
Net deferred tax assets	**76,962**	**-**	**76,962**	**75,174**	**-**	**75,174**

Movements in temporary differences during the year are as follows:

31 December 2014	**Opening balance**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Closing balance**
Financial Assets Available-for-sale	-	-	-	-
Tangible and intangible assets	75,174	1,788	-	76,962
Total	**75,174**	**1,788**	**-**	**76,962**
31 December 2013				
Financial Assets Available-for-sale	150,752	(150,752)	-	-
Tangible and intangible assets	47,821	27,353	-	75,174
Total	**198,573**	**(123,399)**	-	**75,174**

18. Provisions

Movements in provisions during the year are as follows:

	Tax Litigation	**Other Litigations**	**Off-Bsh Provision**	**Other**	**Total**
Balance at 1 January 2014	**215,148**	**280,757**	**15,861**	**-**	**511,766**
Provisions made during the year	-	10,498	9,513	45,270	**65,281**
Provisions used during the year	(1,706)	(149,801)	(2,253)	**-**	**(153,761)**
Effect of movements in foreign exchange		8,680	7	**-**	**8,687**
Balance at 31 December 2014	**213,442**	**150,134**	**23,128**	**45,470**	**431,973**

19. Other liabilities

Other liabilities as at 31 December 2014 and 31 December 2013 are composed as follows:

	31 December 2014	31 December 2013
Invoices to be received	560,235	565,163
Sundry creditors	61,523	61,596
Suspense accounts	6,908	27,664
Bank cheques issued and payments in transit	360,639	11,954
Other tax liabilities	39,284	33,604
Due to third parties	16,955	13,330
Other accrued expenses/deferred income	29,853	48,334
Total	**1,075,398**	**761,645**

20. Share capital and premium

Information regarding share capital and premiums as at 31 December 2014 is presented below:

	Number of Shares (In number)	Nominal Value (In Lek)	Premium Paid (In Lek)	Total Shares Value (In Lek)
Share Capital at 31 December 2014	**15,581,282**	**357**		**5,562,517,674**
Share Premium at 31 December 2014	**1,250,000**		**1,107**	**1,383,880,000**

All the Bank's shares have the same rights; there are no preferences, restrictions or other differences, despite the fact of premiums paid by major shareholders.

The shareholder capital structure of the Bank as at 31 December 2014 and 31 December 2013 is presented below:

	Number of Shares (In number)	Nominal Value (In Lek)	Total Shares Value (In Lek)	Participation (in %)
Share Capital at 31 December 2013	**15,581,282**	**357**	**5,562,517,674**	**100%**
Intesa Sanpaolo S.p.A.	15,364,880	357	5,485,262,160	98.61%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357	77,255,514	1.39%
Share Capital at 31 December 2014	**15,581,282**	**357**	**5,562,517,674**	**100%**
Intesa Sanpaolo S.p.A.	15,581,282	357	5,562,517,674	100%

21. Legal and regulatory reserves

As at 31 December 2014 and 2013, the reserves were:

	31 December 2014	31 December 2013
Regulatory reserve	1,130,983	1,130,983
Legal reserve	613,632	564,541
Total	**1,744,615**	**1,695,524**

The regulatory reserve was established according to the Bank of Albania regulation "On the minimum initial capital for allowed activities of banks and branches of foreign licensed banks", no.51, dated 22 April 1999. Banks and branches of foreign banks create reserves of 1.25% up to 2% of the total risk weighted assets, by appropriating one fifth of the profit after taxes and before payment of dividends.

The provisions of the Commercial Law require the creation of reserves of 5% of the Bank's net income net income after deduction of accumulated losses from previous years. This threshold is not mandatory, when the existing reserves are not less than one tenth of the Bank's capital.

22. Other valuation reserves

Comprehensive items

The balance of Lek 714,555 thousand for the period ending 31 December 2014 and 2013 represents the differences resulted from share capital conversion from USD to LEK. Out of this balance, the amount of Lek 297,666 thousand was received as at 1 January 2008 from the merge with former BIA, as raised by the same denomination currency change of the share capital.

Fair Value reserves

Fair Value reserve represents the changes in the fair value of the Available-for-sale securities. The changes during the financial year ended 31 December 2014 amounted to Lek 28,593 thousand (2013: Lek 111,600 thousand mainly due to the transfer of the impairment loss on certain Available-for-sale securities to profit and loss. See note 9).

Foreign currency translation reserves

As described also in note 3(a) the translation reserves mainly comprise differences arising from the foreign exchange movements of the Available-for-sale reserve. During the financial year ended 31 December 2014 these movements amounted to Lek 13,942 thousand (2013: Lek 1,066 thousand mainly due to the transfer of the accumulated foreign currency translation reserve of the impaired Available-for-sale securities to profit and loss accounts).

23. Net Interest income

Interest income	**2014**	**2013**
Loans and advances to customers	2,719,726	3,457,003
Financial Investments Held-to-maturity	3,594,265	4,099,377
Loans and advances to banks	267,372	297,141
Financial Investments Available-for-sale	106,153	96,032
Total interest income	**6,687,516**	**7,949,553**
Interest expenses		
Time deposits	1,863,588	2,612,377
Deposits from banks	180,395	224,812
Current accounts	189,656	276,561
Subordinated loan	-	2,439
Total interest expenses	**2,233,639**	**3,116,189**
Net interest income	**4,453,877**	**4,833,364**

24. Net fee and commission income

	2014	**2013**
Collection and payment services	292,251	333,642
Active current accounts	208,744	200,936
Active ATMs and POSs	191,116	160,454
Guarantees given	16,464	10,922
Unused/advanced liquidated credit lines	22,088	26,826
Arrangement fees and others	10,679	7,684
Fee and commission income	**741,342**	**740,464**
Active ATMs and POSs	124,663	101,611
Banking services-foreign branches	10,691	6,941
Collection and payment services	552	545
Guarantees received	1,141	1,020
Fee and commission expenses	**137,047**	**110,117**
Net fee and commission income	**604,295**	**630,347**

Fee and commissions do not include fees received for loans and advances to customers (transaction costs) which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method.

25. Net other income

	2014	2013
Foreign exchange gains	439,159	367,017
Others	559	216,921
Total	**439,718**	**583,938**

26. Other operating expenses/income, net

	2014	2013
Premium on deposits insurance	219,399	215,492
(Gain)/loss on sale of fixed assets	(16,008)	(2,940)
Recoveries on written off loans	(1,498)	(2,193)
Sundry net operational losses	42,694	3,549
Total	**244,587**	**213,908**

27. Personnel expenses

	2014	2013
Salaries	833,855	797,630
Personnel on secondment	81,913	83,438
Social Insurance	91,670	80,654
Training & similar	12,000	21,126
Termination indemnities and others	13,988	6,680
Total	**1,033,426**	**989,528**

28. Other expenses

	2014	2013
Software maintenance	152,113	129,567
Telephone and electricity	88,403	106,950
Advertising & Publication	81,775	144,391
Maintenance & repair	62,709	61,333
Stationery	67,491	51,642
Consulting & Legal fees	47,552	48,954
Security	29,608	29,097
Transport and security services	31,883	37,942
Travel & business trips	10,450	6,904
Insurance	28,487	24,203
Other	13,070	18,001
Total	**613,541**	**658,984**

29. Income tax expenses

The components of income tax expense for the year ended 31 December 2014 and 2013 are:

	2014	2013
Current year	430,666	-
Adjustment for prior years	21	139,083
Over provided in prior years	-	(24,900)
Current tax expense	**430,687**	**114,183**
Origination and reversal of temporary differences	(1,788)	123,399
Deferred tax expenses/(income)	**(1,788)**	**123,399**
Income tax expense	**428,899**	**237,582**

During 2013, the Bank has recognized prior year income tax following the findings of a tax audit on 2011 corporate income tax. Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2014 and 2013 is presented as follows:

		2014		2013
Accounting Profit before tax		**2,483,816**		**1,219,399**
Income tax at domestic corporate tax rate	15.00%	372,572	10.00%	121,940
Non-deductible expenses	2.34%	58,094	2.28%	27,800
Tax effect of prior years' taxes recognition	0.00%	21	9.36%	114,183
Origination and reversal of temporary differences	(0.07%)	(1,788)	(2.24%)	(27,353)
Recognition of tax liability	0.00%	-	0.08%	1,012
Income tax Expense	**17.27%**	**428,899**	**19.48%**	**237,582**

Profit before tax is based on the Income Tax Law no. 9228 date 29.04.2004 "Accounting and Financial Statement" and is calculated according to International Financial Reporting Standards. Based on the Instruction no.5, dated 30.01.2006 of the Law "On Income Tax" profit before tax is corrected with non-deductible expenses. Following the amendments of the Law "On Income Tax", approved on 28 December 2013, which became effective 1 January 2014, the corporate income tax rate increased from 10% to 15 %.

During 2013, the Bank sold available-for-sale securities which had been impaired and which had been considered a temporary difference with corresponding deferred tax asset and considered the impairment reversal as non-taxable revenue.

29. Income tax expenses (continued)

Non-deductible expenses are detailed as follows:

	2014	2013
Prior year income tax charge	21	139,083
Depreciation and Amortization	37,807	49,807
Sundry operational losses	22,082	6,482
Rent apartments	8,820	10,812
Office expenses	6,403	10,985
Personnel costs	6,312	6,445
Representation	5,257	5,067
Losses -Unrecoverable Loan and Overdraft	132,956	5,568
Others	22,259	43,748
Impairment assets through legal process	145,375	-
Total	**387,292**	**277,997**

During 2014, the Bank prepaid income tax in the amount of Lek 131,407 thousand (2013: Lek 262,813 thousand).

30. Commitments and contingencies

Commitments and contingencies as at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Contingent Assets	**125,539,705**	**126,143,944**
Guarantees received from credit customers	106,184,219	108,219,611
Guarantees received from government	8,245,000	4,200,000
Un-drawn credit facilities	6,050,526	3,974,300
Letters of credit	829,112	126,603
Money market future dated deals	1,375,000	350,000
Forward foreign exchange contracts	1,846,048	9,273,430
Other	1,009,800	-
Contingent Liabilities	**5,346,600**	**4,766,894**
Guarantees in favor of customers	5,346,600	4,766,894

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralized by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of loans granted.

Contingent assets like letters of credit and un-drawn credit facilities are off balance sheet items representing future commitments where Bank acts as the beneficiary. Forward foreign exchange contracts are off balance sheet items used to offset currency fluctuations and the effect on the income statement is reflected on the maturity date when the contract is executed.

(a) Dispute with tax authorities

In 2013, the Bank initiated a dispute with the tax authorities in relation to the findings of the tax audit on 2011 corporate income tax. The Bank has an ongoing dispute with the tax authorities with regard to Tax Inspection results from former BIA. The Bank is following all legal steps to defend itself as it believes the findings are not in accordance with the Albanian Tax legislation. The cases are currently under Court Proceedings in Supreme Court.

Management believes that the tax risk provision is prudent; they have a strong argument to defend such tax claims.

30. Commitments and contingencies (continued)

(b) Other litigation

The Bank has ongoing legal proceedings, claims, and litigation that arise in the ordinary course of business. Management believes that any existing or potential future litigation will not have a material adverse effect on Bank's financial position, results of operations, or cash flows.

31. Lease commitments and operating lease expenses

Operating lease commitments as at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	**31 December 2013**
Less than one year	152,147	148,749
Between one and five years	347,504	280,325
More than five years	23,466	47,443
Total	**523,117**	**476,517**

The Bank has rental agreements with renewal options for its offices in Albania. During 2014 the amount of Lek 163,839 thousand was recognized as expense in respect of lease rentals (2013: Lek 162,421 thousand). Operating lease contracts are cancelable, if notified for a period of 180 days in advance.

32. Related parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control. A number of banking transactions are entered into with entities related to the parent company Intesa Sanpaolo S.p.A in the normal course of business. The respective transactions include loans, deposits and others for administrators, shareholders and other individuals and parties closely related to them. Other related parties are parties of control or interests of Bank's shareholders, or close family members related to key management.

There are no doubtful debts related to outstanding balances of related parties, consequently no allowances for impairment. During the reporting period, there were neither long term benefits nor termination benefits paid to key management. The outstanding balances and transactions with related parties as at 31 December 2014 and 31 December 2013 are as follows:

	ISP Group companies		**Key management personnel and Other related parties**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Assets at end of year	**11,325,897**	**11,045,690**	**162,327**	**165,035**
Loans and advances to credit institutions	11,325,897	11,045,690	-	-
Loans and advances to customers	-	-	162,327	165,035
Liabilities at end of year	**76,042**	**202,545**	**406,498**	**208,337**
Loans and advances from credit institutions	60,438	186,786	-	-
Customer deposits	4,842	3,056	406,498	208,337
Invoices to be received	10,762	12,703		
Off balance sheet	**2,052,245**	**6,507,159**	**-**	**-**
Letter of credit/Letter of Guarantees given	403,787	-	-	-
Letter of credit/Letter of Guarantees received	791,569	299,147	-	-
Foreign currency contracts	856,889	6,208,012	-	-
Collaterals	-	-	-	-
Income for year ending	**165,474**	**177,067**	**5,058**	**6,264**
Interest income	144,281	171,377	4,488	5,674
Commissions Income	21,193	5,690	570	590
Expenses for the year ending	**89,618**	**77,044**	**2,633**	**4,795**
Interest expense	-	2,439	2,633	4,795
Commission expense and others	89,618	74,605	-	-
Compensation of Key Managers			**118,199**	**157,588**
Net Salary			97,633	81,547
Net Bonus paid			-	43,688
Social & Health Insurance			4,566	2,342
Other expenses			16,000	30,011

33. Subsequent events

The management of the Bank is not aware of any subsequent events that would require either adjustments or additional disclosures in the financial statements.