Banka Kombetare Tregtare Sh.a.

Independent auditor’s report and
Consolidated financial statements
as at and for the year ended 31 December 2014

Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of Banka Kombetare Tregtare Sh.a.:

We have audited the accompanying consolidated financial statements of Banka Kombetare Tregtare Sh.a., which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As explained in note 3 (b), Banka Kombetare Tregtare Sh.a. has treated its share capital issued in United States Dollar (USD) as a monetary item in the consolidated financial statements and recognized the resulting revaluation differences for the year ended December 31, 2014 within net profits in the consolidated statement of comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the share capital been treated as a non-monetary item and carried at the exchange rates as of the dates capital contributions were made, the net profit would have been increased by USD 17,282,439 and foreign currency translation differences would have been decreased by USD 1,339,023 and for the year ended December 31, 2014. Accordingly, the share capital and translation reserve as at December 31, 2014 would have been decreased respectively by USD 15,943,416 and USD 1,339,023 and retained earnings would have been increased by USD 17,282,439. Consequently, this would not have affected the total shareholders' equity.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Banka Kombetare Tregtare Sh.a. as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Audit Albania sh.p.k.
February 24, 2015
Tirana, Albania

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Banka Kombetare Tregtare Sh.a.

Consolidated statement of financial position as at 31 December 2014

(Amounts in USD)

	Notes	31 December 2014	31 December 2013
Assets			
Cash and balances with Central Bank	7	227,950,918	237,473,002
Placement and balances with banks	8	139,345,055	201,279,874
Treasury bills	9	276,418,401	236,724,368
Trading and available-for-sale securities	10	745,191,900	697,179,575
Held-to-maturity securities	11	198,822,024	217,755,420
Loans to banks	12	173,290,510	121,650,866
Loans to customers	13	920,268,253	886,202,417
Investment in associates	14	1,458,925	1,651,128
Property and equipment	15	24,183,398	27,942,467
Intangible assets	16	1,230,590	1,235,689
Other assets	17	44,460,622	46,647,434
Total assets		**2,752,620,596**	**2,675,742,240**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	18	2,140,818,985	2,154,265,396
Due to banks and financial institutions	19	326,914,452	278,355,823
Due to third parties	20	2,123,604	1,738,013
Deferred tax liabilities	21	1,846,611	3,264,859
Accruals and other liabilities	22	15,994,899	9,355,434
Subordinated debt	23	18,287,260	13,796,864
Total liabilities		**2,505,985,811**	**2,460,776,389**
Shareholder's equity			
Share capital	24	166,403,900	138,965,905
Translation reserve	24	(3,403,714)	1,140,491
Fair value reserve	24	(3,835,505)	(3,196,237)
Retained earnings	24	87,470,104	78,055,692
Total shareholder's equity		**246,634,785**	**214,965,851**
Total liabilities and shareholder's equity		**2,752,620,596**	**2,675,742,240**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

The consolidated financial statements were authorised for release by the Board of Directors on 27 January 2015 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skender Emini
Head of Financial and IT Group

Consolidated statement of comprehensive income for the year ended 31 December 2014

(Amounts in USD)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest			
Interest income	25	143,762,664	151,939,082
Interest expense	26	(53,933,307)	(75,024,078)
Net interest margin		**89,829,357**	**76,915,004**
Non-interest income, net			
Fees and commissions, net	27	11,631,888	9,557,408
Foreign exchange revaluation gain/(loss), net	28	5,623,813	(4,035,425)
Foreign exchange trading activities loss, net		(6,102,286)	(1,623,197)
Securities trading (loss)/gain, net		(1,189,395)	1,645,526
Other income, net	29	3,853,025	10,743,743
Total non-interest income, net		**13,817,045**	**16,288,055**
Operating expenses			
Personnel expenses	30	(18,612,881)	(17,105,138)
Administrative expenses	31	(22,790,078)	(20,974,604)
Depreciation and amortization	15,16,17	(4,838,625)	(5,090,334)
Total operating expenses		**(46,241,584)**	**(43,170,076)**
Impairment of loans	13	(4,529,160)	(6,199,500)
Profit before taxes		**52,875,658**	**43,833,483**
Income tax	32	(8,944,762)	(4,530,730)
Net profit for the year		**43,930,896**	**39,302,753**
Foreign currency translation differences		(4,544,205)	746,300
Net change in fair value reserves		(639,268)	(10,042,202)
Other comprehensive expense for the year, net of income tax		**(5,183,473)**	**(9,295,902)**
Total comprehensive income for the year		**38,747,423**	**30,006,851**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Consolidated statement of changes in equity for the year ended 2014

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2013	**100,000,000**	**3,410,723**	**394,191**	**6,845,965**	**73,652,910**	**184,303,789**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	38,965,905	(3,282,146)	-	-	(35,683,759)	-
Adjustment for translation of legal reserve		(128,577)			128,577	-
Appropriation of year 2012 translation difference	-	-	-	-	394,191	394,191
Adjustment of retained earnings with 2013 year end exchange rate	-	-	-	-	261,020	261,020
Total transactions with owners recorded in equity	*38,965,905*	*(3,410,723)*	-	-	*(34,899,971)*	*655,211*
Comprehensive income for the year						
Net profit for the year	-	-	-	-	39,302,753	39,302,753
Other comprehensive income/(expense), net of income tax						
Net change in fair value reserve	-	-	-	(10,042,202)	-	(10,042,202)
Foreign currency translation differences	-	-	746,300	-	-	746,300
Total other comprehensive income/(expense)	-	-	746,300	(10,042,202)	-	(9,295,902)
Total comprehensive income for the year	-	-	*746,300*	*(10,042,202)*	*39,302,753*	*30,006,851*
Balance as at 31 December 2013	**138,965,905**	**-**	**1,140,491**	**(3,196,237)**	**78,055,692**	**214,965,851**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Consolidated statement of changes in equity for the year ended 2014

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2014	**138,965,905**	**-**	**1,140,491**	**(3,196,237)**	**78,055,692**	**214,965,851**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserve	-	7,355,870	-	-	(7,355,870)	-
Increase in share capital	27,437,995	(6,867,867)			(20,570,128)	-
Adjustment for translation of legal reserve	-	(488,003)			488,003	-
Appropriation of year 2013 translation difference	-	-	-	-	1,140,491	1,140,491
Adjustment of retained earnings with 2014 year end	-	-	-	-	(8,218,980)	(8,218,980)
Total transactions with owners recorded in equity	*27,437,995*	-	-	-	*(34,516,484)*	*(7,078,489)*
Comprehensive income for the year						
Net profit for the year	-	-	-	-	43,930,896	43,930,896
Other comprehensive income/(expense), net of income tax						
Net change in fair value reserve	-	-	-	(639,268)	-	(639,268)
Foreign currency translation differences	-	-	(4,544,205)	-	-	(4,544,205)
Total other comprehensive income/(expense)	-	-	(4,544,205)	(639,268)	-	(5,183,473)
Total comprehensive income for the year	-	-	*(4,544,205)*	*(639,268)*	*43,930,896*	*38,747,423*
Balance as at 31 December 2014	**166,403,900**	**-**	**(3,403,714)**	**(3,835,505)**	**87,470,104**	**246,634,785**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of cash flows for the year ended 31 December 2014

(Amounts in USD)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities:			
Profit before taxes		52,875,658	43,833,483
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	26	53,933,307	75,024,078
Interest income	25	(143,762,664)	(151,939,082)
Depreciation and amortization	15,16,17	4,838,625	5,090,334
Gain on sale of property and equipment		(98,341)	(25,936)
Gain on sale of treasury bills		(36,380)	(168,018)
Gain on sale of non-current assets		(31,336)	(95,933)
Gain on recovery of written-off loans to customers		(15,633)	(40,425)
Write-off of property and equipment		40,738	2,594
Write-off of loans to customers		157,905	24,068
Movement in the fair value reserve		(1,103,494)	(9,939,563)
Impairment of loans	13	4,529,160	6,199,500
Cash flows from operating profits before changes in operating assets and liabilities		(28,672,455)	(32,034,900)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(908,538)	(514,566)
Placements and balances with banks		(18,452,992)	(10,704,937)
Loans to banks		(71,846,843)	74,438,070
Loans to customers		(154,791,482)	(3,875,408)
Other assets		(4,627,968)	(21,383,389)
		250,627,823	37,959,770
Increase/(decrease) in operating liabilities:			
Customer deposits		267,079,542	188,495,231
Due to third parties		641,533	(577,864)
Accruals and other liabilities		4,523,114	(2,146,658)
Subordinated debt		6,637,277	57,733
		278,881,466	185,828,442
Interest paid		(62,680,759)	(75,022,796)
Interest received		143,845,750	148,007,896
Income taxes paid		(5,028,856)	(4,980,028)
Net cash flows from operating activities		**75,717,323**	**259,758,384**
Cash flows from investing activities			
Purchases of investment securities		(143,398,016)	(283,360,513)
Purchases of treasury bills		(105,751,178)	(8,726,332)
Investment in associates		683	(1,591,746)
Purchases of property and equipment		(5,264,259)	(3,534,302)
Proceeds from sale of property and equipment		896,900	75,601
Proceeds from sale of treasury bills		28,666,679	45,312,300
Net cash flows used in investing activities		**(224,849,191)**	**(251,824,991)**
Cash flows from financing activities			
Proceeds from short term borrowings		88,386,898	28,848,590
Net cash from financing activities		**88,386,898**	**28,848,590**
Net (decrease)/increase in cash and cash equivalents		**(60,744,970)**	**36,781,982**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		(10,203,863)	2,192,912
Cash and cash equivalents at the beginning of the year	7	**238,615,381**	**199,640,486**
Cash and cash equivalents at the end of the year	7	**167,666,548**	**238,615,381**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

1. General

Banka Kombetare Tregtare Sh.a. is a commercial bank offering a wide range of universal services. The consolidated financial statements comprise the bank and its branch (together referred to as the "Bank" or "BKT").

The Bank provides banking services to state and privately owned enterprises and to individuals. The main sources of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, internet banking, mobile banking, on-line banking facilities, qualified international banking services and various treasury products. It also invests in securities and takes part actively in the local and international inter-bank markets.

BKT was established in its present legal form on 30 December 1992, although its first branch was opened on 30 November 1925.

BKT is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholder's Decision dated 25 March 2014, the Bank created legal reserves of Lek 747,430 thousand (equivalent of USD 7,355,870). The remaining part of statutory profit for the year 2013 was kept as retained earnings.

Upon the Shareholder's Decision dated 17 October 2014, the Bank increased its paid-up capital by Lek 2,986,077 thousand (equivalent of USD 27,437,995), using the legal reserves of Lek 747,430 thousand (equivalent of USD 6,867,867.11) and part of the retained earnings of Lek 2,238,647 thousand (equivalent of USD 20,570,127.89). The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 17 October 2014 (108.83 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 2,221,700. The shareholding structure as at 31 December 2014 and 31 December 2013 was as follows:

	31 December 2014			*31 December 2013*		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	13,474,000	166,403,900	100	11,252,300	138,965,905	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 61 branches and 2 custom agencies. Twenty-five branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat and Koplik, followed by custom agencies in Durres Seaport and Rinas Airport. In 2014, the Bank opened three new branches in Tirana.

The network in Kosovo includes 25 units. Six units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Hani i Elezit, Dheu i Bardhe, Prishtina Airport and Skenderaj.

The Bank had 1,287 (2013: 1,161) employees as at 31 December 2014, out of which 337 (2013: 274) are employees of the Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value, investment property, which is measured at fair value, and assets held for sale, which are measured at the lower of carrying amount and fair value less costs to sell.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

These consolidated financial statements are presented in USD. Albanian Lek ("Lek") is the Bank's functional currency.

The Bank has chosen to present its financial statements in USD, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

(d) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, 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 recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 5.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities (branches) controlled by the Bank. Control exists when the Bank has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

On 3 September 2007 BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo. The functional currency of the branch is the EURO. The effect of translating foreign operations into the Bank's functional currency is explained in note 3.(b).(ii) below.

(ii) Transactions eliminated on consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows (except for foreign currency transaction gains or losses) relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per Special Law No. 8634, dated 6 July 2000, between the Bank's shareholders and the Republic of Albania on the Bank's privatisation.

Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets, and it is therefore treated as a monetary item, with the revaluation difference being taken to profit or loss together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Lek at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Lek at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income. Such differences have been recognised in the foreign currency translation reserve.

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(iii) Translation of financial statements from functional currency to presentation currency

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date, which is Bank of Albania's rate at 1 USD = 115.23 Lek (2013: 101.86).
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period and share capital, are translated at exchange rates at the dates of the transactions.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

(iv) Spot foreign exchange transactions

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

(c) Interest

Interest income and expense are recognised in the 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. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

(d) Fees and commission

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

(e) Lease payments made

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

3. Significant accounting policies (continued)

(f) Income tax expense

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 realised. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) Classification

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss' (FVTPL), ‘held-to-maturity' investments, ‘available-for-sale' (AFS) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

See also accounting policies 3(h), (i) and (j).

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised 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 derecognised 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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to 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 derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise 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.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

(v) Amortised cost measurement

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

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

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The Bank considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and held-to-maturity investment securities with similar risk characteristics.

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value 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 objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(h) Cash and cash equivalents

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

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

(j) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3(g),(vi).

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, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity, which do not meet the definition of loans receivables, that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

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

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(iii) Held-for-trading

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

These financial assets are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3. Significant accounting policies (continued)

(l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated 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.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

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

- Buildings and leasehold improvements 20 years
- Motor vehicles and other equipment 5 years
- Office equipment 5 years
- Computers and electronic equipment 4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(m) Intangible assets

Intangible assets comprise software acquired by the Bank. Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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

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

3. Significant accounting policies (continued)

(n) Assets acquired through legal process

Assets acquired through legal process have been acquired through the enforcement of security over financial receivables, and accounted for depending on their classification as either noncurrent assets held for sale, or investment property.

(i) Non-current assets held for sale

Noncurrent assets held for sale are expected to be recovered primarily through sale rather than through continuing use. Immediately before classification as held for sale, the assets are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(ii) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes. Investment property held for capital appreciation is measured at fair value with reference to the market prices, and with any change therein recognised in profit or loss. Investment property leased to third parties is measured at cost less depreciation. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(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 recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(p) Investments in associates

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. In accordance with IAS 28 "Investments in Associates and Joint Ventures", under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

(q) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are part of 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 recognised in the Bank's financial statements.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

(r) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 22, “Reserve fund for retiring employees”) during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.
The amount due to employees based on the above plan would be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It would be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to a minimum of 75% of their state monthly pension until the accumulated fund for the employee is consumed.
Based on the Board of Directors resolution effective on 30 September 2010, the Bank stopped the investment in this fund (SSP), by transforming it into the Staff Retention Credit Program (SRCP). The demographic changes in labour force during the last ten years and the employees’ average age at 31, where 80% of employees are below the age of 40, has resulted in SSP not being attractive for most employees of the Bank, as it can only be enjoyed at retirement. In contrast, SRCP will be more readily beneficial for all the Bank’s staff, as it will provide consumer and home loans with preferential terms. The entire due amount calculated for eligible employees in Staff Support Program has been frozen on the same date. The frozen amount due to change of SSP into SRCP on 30 September 2010 and the corresponding annual interest that will be gained by the investment in AAA sovereign bonds in the future until retirement age, is recorded as a liability by the Bank.

(iii) Short-term benefits

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

3. Significant accounting policies (continued)

(t) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other Components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see Note 6). The Bank's format for segment reporting is based on geographical segments.

(u) Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets" -** Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

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

(v) Standards and Interpretations in issue not yet adopted

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018) Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also will require a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss. The amendments from November 2013 bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. It allows the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments,
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),

3. Significant accounting policies (continued)

(v) Standards and Interpretations in issue not yet adopted (continued)

- **IFRS 15 "Revenue from Contracts with Customers"**(effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture(effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 10"Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** -Investment Entities: Applying the Consolidation Exception(effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements" -** Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" -** Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -** Agriculture: Bearer Plants(effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits" -** Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

- **Amendments to IAS 27 "Separate Financial Statements" -** Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Except for the impact of IFRS 9, which will be assessed by the Bank during 2015, the Bank anticipates that the adoption of the other standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g)(vii).

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(g)(vi). For financial instruments that trade 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. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3(g)(vi).

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

4. Use of estimates and judgements (continued)

Valuation of financial instruments (continued)

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)

Fair values

The table below sets out the carrying amounts and fair values of the financial assets and liabilities and analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2014	**Note**	**Carrying Amount**		**Fair Value**		
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	139,345,055	-	139,345,055	-	139,345,055
Treasury bills	9	276,418,401	-	276,418,401	-	276,418,401
Trading and available-for-sale securities	10	745,191,900	201,932,405	480,422,876	62,836,619	745,191,900
Held-to-maturity securities	11	198,822,024	75,800,377	115,521,376	-	191,321,753
Loans to banks	12	173,290,510	-	173,290,510	-	173,290,510
Loans to customers	13	920,268,253	-	920,268,253	-	920,268,253
Total financial assets		**2,453,336,143**	**277,732,782**	**2,105,266,471**	**62,836,619**	**2,445,835,872**
Customer deposits	18	2,140,818,985	-	2,140,818,985	-	2,140,818,985
Due to banks and financial institutions	19	326,914,452	-	326,914,452	-	326,914,452
Subordinated debt	23	18,287,260	-	18,287,260	-	18,287,260
Total financial liabilities		**2,486,020,697**	**-**	**2,486,020,697**	**-**	**2,486,020,697**

31 December 2013	**Note**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	201,279,874	-	201,279,874	-	201,279,874
Treasury bills	9	236,724,368	-	236,724,368	-	236,724,368
Trading and available-for-sale securities	10	697,179,575	194,903,826	423,269,186	79,006,563	697,179,575
Held-to-maturity securities	11	217,755,420	49,736,912	168,512,656	-	218,249,568
Loans to banks	12	121,650,866	-	121,650,866	-	121,650,866
Loans to customers	13	886,202,417	-	886,202,417	-	886,202,417
Total financial assets		**2,360,792,520**	**244,640,738**	**2,037,639,367**	**79,006,563**	**2,361,286,668**
Customer deposits	18	2,154,265,396	-	2,154,265,396	-	2,154,265,396
Due to banks and financial institutions	19	278,355,823	-	278,355,823	-	278,355,823
Subordinated debt	23	13,796,864	-	13,796,864	-	13,796,864
Total financial liabilities		**2,446,418,083**	**-**	**2,446,418,083**	**-**	**2,446,418,083**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 17 and 22. During the year there have been no transfers between level 1 and level 2 of the fair value hierarchy.

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

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.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

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

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

(b) Credit Risk

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 to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Treasury bills	276,418,401	236,724,368
Due from other banks	312,635,565	322,930,740
Loans to customers, net	920,268,253	886,202,417
Trading and available-for-sale securities	745,191,900	697,179,575
Held-to-maturity securities	198,822,024	217,755,420
Financial guarantees	63,203,153	115,317,133
Standby letters of credit	12,090,058	6,303,982
Commitments to extend credit	124,572,829	69,075,578
Maximum exposures to credit risk	**2,653,202,183**	**2,551,489,213**

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to D in the Bank's internal credit risk grading system. The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

5. Financial risk management (continued)

(b) Credit Risk (continued)

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It relates to the specific loss component for individually significant exposures. Refer to note 4.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

	Loans to customers			
31 December 2014	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	195,822,774	510,637,365	929,310	707,389,449
Past due and individually tested but not impaired	79,125,651	123,544,780	50,746	202,721,177
Individually impaired	13,308,460	22,777,359	1,976,526	38,062,345
Total Loans, gross (Note 13)	**288,256,885**	**656,959,504**	**2,956,582**	**948,172,971**
Allowance for individual impairment	(8,750,727)	(8,036,574)	(1,973,932)	(18,761,233)
Allowance for collective impairment	(2,771,823)	(6,361,861)	(9,801)	(9,143,485)
Total Loans, net of impairment	**276,734,335**	**642,561,069**	**972,849**	**920,268,253**

	Loans to customers			
31 December 2013	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	211,744,057	409,285,716	1,144,557	622,174,330
Past due and individually tested but not impaired	75,978,262	174,803,779	49,766	250,831,807
Individually impaired	15,858,186	21,758,502	2,456,922	40,073,610
Total Loans, gross (Note 13)	**303,580,505**	**605,847,997**	**3,651,245**	**913,079,747**
Allowance for individual impairment	(7,992,067)	(7,663,202)	(2,450,472)	(18,105,741)
Allowance for collective impairment	(2,902,201)	(5,857,445)	(11,943)	(8,771,589)
Total Loans, net of impairment	**292,686,237**	**592,327,350**	**1,188,830**	**886,202,417**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	31 December 2014	31 December 2013
A – Good	7,045,304	28,421,605
B – Acceptable	507,649,811	379,012,101
C – Close Monitoring	104,930,535	167,212,776
D – Unacceptable	33,849,908	26,326,381
(Note 13)	**653,475,558**	**600,972,863**
Accrued interest	5,487,891	6,530,079
Less: unamortized deferred fee income	(2,003,945)	(1,654,945)
Total	**656,959,504**	**605,847,997**

Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

	Loans to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
31 December 2014	4,207,392	63,741,384	82,517	68,031,293
31 December 2013	2,885,200	50,714,803	94,448	53,694,451

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually:

	Loans to customers			
31 December 2014	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	21,922,786	34,595,221	333,921	56,851,928
Past due 32-60 days	9,076,360	6,022,202	98,692	15,197,254
Past due 61-90 days	9,874,341	8,544,548	289,328	18,708,217
Past due 91-180 days	3,364,313	5,566,294	54,615	8,985,222
Past due 181 days- 365 days	5,608,049	13,250,257	-	18,858,306
Past due 1-2 years	4,341,699	8,832,323	283,517	13,457,539
Past due over 2 years	5,984,478	13,997,415	384,555	20,366,448
Total	**60,172,026**	**90,808,260**	**1,444,628**	**152,424,914**

	Loans to customers			
31 December 2013	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	23,744,989	32,906,292	415,842	57,067,123
Past due 32-60 days	9,956,652	17,191,408	251,268	27,399,328
Past due 61-90 days	11,763,344	15,336,162	393,839	27,493,345
Past due 91-180 days	4,948,616	8,268,727	70,808	13,288,151
Past due 181 days- 365 days	6,197,129	20,218,937	357,697	26,773,763
Past due 1-2 years	3,264,641	16,990,811	83,329	20,338,781
Past due over 2 years	4,837,391	13,338,243	364,558	18,540,192
Total	**64,712,762**	**124,250,580**	**1,937,341**	**190,900,683**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans to customers		
31 December 2014	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	742,130,430	1,087,673,589	1,829,804,019
Financial assets	20,767,879	159,522,709	180,290,588
Other	63,128,008	176,832,726	239,960,734
Total	**826,026,317**	**1,424,029,024**	**2,250,055,341**

	Loans to customers		
31 December 2013	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	798,889,479	1,067,778,384	1,866,667,863
Financial assets	25,629,305	237,331,108	262,960,413
Other	44,818,518	204,748,961	249,567,479
Total	**869,337,302**	**1,509,858,453**	**2,379,195,755**

Credit quality of other financial assets, based on the internal rating system of the Bank is detailed as follows:

31 December 2014	**Treasury Bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Total**
Good	276,418,401	312,635,565	745,191,900	198,822,024	1,533,067,890
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**276,418,401**	**312,635,565**	**745,191,900**	**198,822,024**	**1,533,067,890**

31 December 2013	**Treasury Bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Total**
Good	236,724,368	322,930,740	697,179,575	217,755,420	1,474,590,103
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**236,724,368**	**322,930,740**	**697,179,575**	**217,755,420**	**1,474,590,103**

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Treasury Bills, Investments Available for Sale, and Investments Held to Maturity are rated as follows:

Moody's Ratings or equivalent	**Note**	**31 December 2014**	**31 December 2013**
Government bonds and treasury bills	**9,10,11**		
Rated A2 to Aa1		-	7,284,168
Rated Baa3 to Baa1		5,999,661	23,001,535
Rated Ba3 to Ba1		30,960,279	35,653,642
Rated B2 to B1		779,136,509	710,196,189
Not rated		60,162,111	7,520,709
Corporate bonds and asset backed securities	**10,11**		
Rated Baa3 to Baa1		85,894,224	93,850,379
Rated Ba3 to Ba1		9,830,436	9,169,587
Not rated		6,197,751	3,472,047
Bank bonds	**10,11**		
Rated A3 to A1		-	4,343,666
Rated Baa3 to Baa1		83,976,117	107,984,117
Rated Ba2 to Ba1		82,774,696	58,753,506
Rated Ba3		11,462,093	3,071,900
Rated B2 to B1		32,867,968	24,337,913
Not rated		6,088,361	32,763,016
Investments in equity			
Not rated		25,082,119	30,256,989
Total		**1,220,432,325**	**1,151,659,363**

The rating for Loans to banks is detailed in Note 12.

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2014 and 2013 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		2014	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount	9-11,12,13	920,268,253	886,202,417	173,290,510	121,650,866	1,220,432,325	1,151,659,363
Concentration by sector							
Corporate		637,834,184	589,813,727	-	-	127,004,530	136,749,002
Government		4,726,885	2,513,624	-	-	876,258,560	783,656,243
Banks		-	-	173,290,510	121,650,866	217,169,235	231,254,118
Retail		277,707,184	293,875,066	-	-	-	-
Total		**920,268,253**	**886,202,417**	**173,290,510**	**121,650,866**	**1,220,432,325**	**1,151,659,363**

Concentration by location	**Note**	**Loans to customers**		**Loans to banks**		**Investment securities**	
		2014	**2013**	**2014**	**2013**	**2014**	**2013**
Albania		615,583,145	645,257,574	-	-	779,136,509	710,196,188
Kosovo		150,898,845	132,207,055	-	-	60,162,111	7,520,709
Europe		109,032,758	88,631,921	162,220,209	121,650,866	329,503,551	414,537,222
Asia		-	-	6,055,750	-	27,150,109	14,003,811
Middle East and Africa		44,753,505	20,105,867	5,014,551	-	12,293,462	5,401,433
South America		-	-	-	-	12,186,583	-
Total	9-11,12,13	**920,268,253**	**886,202,417**	**173,290,510**	**121,650,866**	**1,220,432,325**	**1,151,659,363**

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) 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. Bank’s LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank’s LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

LRM Reports: Bank’s LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under “business as usual” scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time buckets up to one year as at 31 December 2014. This resulted mainly because of the following three assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- Bank’s reserve requirements held with BoA are considered as non-liquid assets.

An analysis of the Bank’s expected timing of cash flows by simple remaining maturity is shown in the following tables.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2014, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	227,950,918	-	-	-	-	227,950,918
Placement and balances with banks	122,611,769	7,837,533	8,895,753	-	-	139,345,055
Treasury bills	53,772,139	89,303,204	133,343,058	-	-	276,418,401
Trading and available-for-sale securities	15,124,593	9,388,219	140,292,244	393,464,746	186,922,098	745,191,900
Held-to-maturity securities	5,589,981	34,903,276	68,517,308	88,798,437	1,013,022	198,822,024
Loans to banks	78,114	33,574,192	134,773,499	4,864,705	-	173,290,510
Loans to customers	47,552,806	48,531,391	229,029,904	384,528,780	210,625,372	920,268,253
Investment in associates	-	-	-	-	1,458,925	1,458,925
Other assets	11,449,980	-	26,168,034	-	6,842,608	44,460,622
Total assets	**484,130,300**	**223,537,815**	**741,019,800**	**871,656,668**	**406,862,025**	**2,727,206,608**
Liabilities						
Customer deposits	696,138,879	273,741,333	960,425,491	192,883,838	17,629,444	2,140,818,985
Due to banks and financial institutions	244,075,173	58,513,608	2,987,857	18,583,175	2,754,639	326,914,452
Due to third parties	2,123,604	-	-	-	-	2,123,604
Deferred tax liabilities	-	-	-	1,846,611	-	1,846,611
Accruals and other liabilities	14,942,095	-	-	-	1,052,804	15,994,899
Subordinated debt	-	-	44,615	12,161,763	6,080,882	18,287,260
Total liabilities	**957,279,751**	**332,254,941**	**963,457,963**	**225,475,387**	**27,517,769**	**2,505,985,811**
Net Position	**(473,149,451)**	**(108,717,126)**	**(222,438,163)**	**646,181,281**	**379,344,256**	**221,220,797**
Cumulative Net Position	**(473,149,451)**	**(581,866,577)**	**(804,304,740)**	**(158,123,459)**	**221,220,797**	

LRM reports are produced for each single currency Lek, Euro and USD and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2013, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	237,473,002	-	-	-	-	237,473,002
Placement and balances with banks	174,861,169	22,408,966	4,009,739	-	-	201,279,874
Treasury bills	56,476,281	95,237,882	85,010,205	-	-	236,724,368
Trading and available-for-sale securities	829,966	44,735,106	155,381,622	397,579,329	98,653,552	697,179,575
Held-to-maturity securities	15,561,509	25,483,707	77,023,207	98,671,808	1,015,189	217,755,420
Loans to banks	16,886	15,086,920	67,778,489	38,768,571	-	121,650,866
Loans to customers	120,846,826	30,909,223	196,588,657	340,070,792	197,786,919	886,202,417
Investment in associates	-	-	-	-	1,651,128	1,651,128
Other assets	11,793,932	547,605	26,691,903	-	7,613,994	46,647,434
Total assets	**617,859,571**	**234,409,409**	**612,483,822**	**875,090,500**	**306,720,782**	**2,646,564,084**
Liabilities						
Customer deposits	654,012,811	337,450,625	1,003,914,886	149,714,082	9,172,992	2,154,265,396
Due to banks and financial institutions	240,722,237	11,482,006	2,752,798	20,900,618	2,498,164	278,355,823
Due to third parties	1,738,013	-	-	-	-	1,738,013
Deferred tax liabilities	-	-	-	3,264,859	-	3,264,859
Accruals and other liabilities	8,255,564	-	-	-	1,099,870	9,355,434
Subordinated debt	-	-	32,874	-	13,763,990	13,796,864
Total liabilities	**904,728,625**	**348,932,631**	**1,006,700,558**	**173,879,559**	**26,535,016**	**2,460,776,389**
Net Position	**(286,869,054)**	**(114,523,222)**	**(394,216,736)**	**701,210,941**	**280,185,766**	**185,787,695**
Cumulative Net Position	**(286,869,054)**	**(401,392,276)**	**(795,609,012)**	**(94,398,071)**	**185,787,695**	

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 the total liquidity ratio should be at a minimum of 25%, whereas the minimum of individual ratios for local and foreign currencies (FX) at 20%. Meanwhile, based on the latest changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio is decreased to 20% and that of individual ratios to 15%.

As per this regulation, article 19 point 4, liquid assets are considered: cash balance, current accounts with BoA including mandatory reserve, T-bills and securities according to their remaining maturity and ability to turn into liquidity, where the non-resident counterparties' balances are discounted with the respective haircuts according to international credit rating. Short-term liabilities are considered all liabilities with remaining maturity up to one year.

Details of the reported Bank ratio at the reporting dates were as follows:

	31-Dec-2014	**31-Dec-2013**
Total Liquid Assets/Total Short Term Liabilities Ratio	35.27%	32.67%
Liquid Assets in local currency/Short Term Liabilities in local currency Ratio	50.65%	38.23%
Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio	20.48%	27.15%

(d) Market risk

1) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the USD equivalent amounts of monetary assets and liabilities by currency as at 31 December 2014 and 31 December 2013:

31 December 2014	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	94,322,807	14,709,439	111,350,791	7,567,881	227,950,918
Placements and balances with banks	229,220	61,857,406	55,552,176	21,706,253	139,345,055
Treasury bills	228,195,053	-	48,223,348	-	276,418,401
Trading and available-for-sale securities	463,922,877	106,791,956	99,044,795	75,432,272	745,191,900
Held-to-maturity securities	46,772,601	68,263,545	83,785,878	-	198,822,024
Loans to banks	-	11,070,301	162,220,209	-	173,290,510
Loans to customers	439,547,928	78,015,475	402,349,499	355,351	920,268,253
Investment in associates	-	-	1,458,925	-	1,458,925
Other assets	30,085,704	169,099	9,456,678	4,749,141	44,460,622
Total assets	**1,303,076,190**	**340,877,221**	**973,442,299**	**109,810,898**	**2,727,206,608**
Foreign exchange contracts	**852,035**	**112,139,390**	**105,796,728**	**46,761,519**	**265,549,672**
Liabilities					
Customer deposits	1,073,027,227	113,729,515	929,463,656	24,598,587	2,140,818,985
Due to banks and financial institutions	223,090,535	41,217,734	47,224,934	15,381,249	326,914,452
Due to third parties	2,123,604	-	-	-	2,123,604
Deferred tax liabilities	1,846,611	-	-	-	1,846,611
Accruals and other liabilities	8,759,555	4,426,757	2,180,641	627,946	15,994,899
Subordinated debt	-	-	18,287,260	-	18,287,260
Total liabilities	**1,308,847,532**	**159,374,006**	**997,156,491**	**40,607,782**	**2,505,985,811**
Foreign exchange contracts	**-**	**86,171,402**	**70,158,164**	**109,220,106**	**265,549,672**
Net position (GAP)	(4,919,307)	207,471,203	11,924,372	6,744,529	221,220,797
Total assets / Total liabilities	99.62%	184.49%	101.12%	104.50%	107.98%
GAP / FX denominated assets		0.46	0.011	0.0431	0.07
Sensitivity analysis					
Lek depreciates by 10%		18,861,018	1,084,034	613,139	20,558,191
Lek depreciates by 5%		9,879,581	567,827	321,168	10,768,576
Lek appreciates by 5%		(10,919,537)	(627,599)	(354,975)	(11,902,111)
Lek appreciates by 10%		(23,052,356)	(1,324,930)	(749,392)	(25,126,678)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2013	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	88,398,635	14,054,276	131,691,494	3,328,597	237,473,002
Placements and balances with banks	503,524	34,692,695	151,616,453	14,467,202	201,279,874
Treasury bills	229,203,659	-	7,520,709	-	236,724,368
Trading and available-for-sale securities	365,916,891	131,970,458	96,623,675	102,668,551	697,179,575
Held-to-maturity securities	81,047,193	38,444,508	98,263,719	-	217,755,420
Loans to banks	-	3,017,936	118,632,930	-	121,650,866
Loans to customers	474,788,271	67,968,196	342,888,136	557,814	886,202,417
Investment in associates	-	-	1,651,128	-	1,651,128
Other assets	28,791,579	421,960	11,331,927	6,101,968	46,647,434
Total assets	**1,268,649,752**	**290,570,029**	**960,220,171**	**127,124,132**	**2,646,564,084**
Foreign exchange contracts	**3,533,708**	**93,419,603**	**117,801,192**	**67,970,719**	**282,725,222**
Liabilities					
Customer deposits	1,077,306,152	122,734,529	930,366,459	23,858,256	2,154,265,396
Due to banks and financial institutions	195,861,186	12,851,246	40,329,888	29,313,503	278,355,823
Due to third parties	1,738,013	-	-	-	1,738,013
Deferred tax liabilities	3,264,859	-	-	-	3,264,859
Accruals and other liabilities	3,755,457	3,715,804	1,661,830	222,343	9,355,434
Subordinated debt	-	-	13,796,864	-	13,796,864
Total liabilities	**1,281,925,667**	**139,301,579**	**986,155,041**	**53,394,102**	**2,460,776,389**
Foreign exchange contracts	**-**	**72,646,335**	**79,369,972**	**130,708,915**	**282,725,222**
Net position (GAP)	(9,742,207)	172,041,718	12,496,350	10,991,834	185,787,695
Total assets / Total liabilities and equity	99.24%	181.17%	101.17%	105.97%	106.77%
GAP / FX denominated assets		0.45	0.012	0.0563	0.06
Sensitivity analysis					
Lek depreciates by 10%		15,640,156	1,136,032	999,258	17,775,446
Lek depreciates by 5%		8,192,463	595,064	523,421	9,310,948
Lek appreciates by 5%		(9,054,827)	(657,703)	(578,518)	(10,291,048)
Lek appreciates by 10%		(19,115,746)	(1,388,483)	(1,221,315)	(21,725,544)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2014 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	1.58%	N/A	N/A
Placement and balances with banks	2.60%	0.65%	1.92%
Treasury bills	3.53%	N/A	1.98%
Investment securities	6.33%	4.61%	3.68%
Loans to banks	N/A	4.93%	0.83%
Loans to customers	7.06%	7.38%	7.39%
Liabilities			
Customer deposits	2.27%	1.10%	1.02%
Due to banks and financial institutions	2.25%	1.49%	1.54%
Subordinated debt	-	-	5.18%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2013 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	2.10%	N/A	N/A
Placement and balances with banks	3.05%	3.56%	0.43%
Treasury bills	5.79%	N/A	1.70%
Investment securities	7.53%	4.84%	4.66%
Loans to banks	N/A	3.51%	1.76%
Loans to customers	8.75%	7.39%	7.93%
Liabilities			
Customer deposits	3.84%	1.85%	1.90%
Due to banks and financial institutions	3.02%	0.95%	2.28%
Subordinated debt	-	-	5.37%

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2014 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	227,950,918	-	-	-	-	227,950,918
Placement and balances with banks	122,611,769	7,837,533	8,895,753	-	-	139,345,055
Treasury bills	53,772,139	89,303,204	133,343,058	-	-	276,418,401
Trading and available-for-sale securities	15,744,058	9,998,982	142,436,883	390,577,179	186,434,798	745,191,900
Held-to-maturity securities	5,589,983	43,762,102	63,599,327	84,870,612	1,000,000	198,822,024
Loans to banks	36,563,404	127,578,227	9,148,879	-	-	173,290,510
Loans to customers	616,213,977	35,772,392	198,463,501	57,425,246	12,393,137	920,268,253
Total	**1,078,446,248**	**314,252,440**	**555,887,401**	**532,873,037**	**199,827,935**	**2,681,287,061**
Liabilities						
Customer deposits	696,138,878	273,741,333	960,425,491	192,883,839	17,629,444	2,140,818,985
Due to banks and financial institutions	244,075,174	70,675,371	12,163,907	-	-	326,914,452
Subordinated debt	-	-	18,287,260	-	-	18,287,260
Total	**940,214,052**	**344,416,704**	**990,876,658**	**192,883,839**	**17,629,444**	**2,486,020,697**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2013 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Assets						
Cash and balances with Central Bank	237,473,002	-	-	-	-	237,473,002
Placement and balances with banks	174,861,169	22,408,966	4,009,739	-	-	201,279,874
Treasury bills	56,476,280	95,237,882	85,010,206	-	-	236,724,368
Trading and available-for-sale securities	803,955	46,417,643	155,971,643	396,322,011	97,664,323	697,179,575
Held-to-maturity securities	15,561,509	25,516,487	77,525,536	98,151,888	1,000,000	217,755,420
Loans to banks	8,275,280	84,154,071	29,221,515	-	-	121,650,866
Loans to customers	656,917,757	20,623,823	149,202,181	52,411,413	7,047,243	886,202,417
Total	**1,150,368,952**	**294,358,872**	**500,940,820**	**546,885,312**	**105,711,566**	**2,598,265,522**
Liabilities						
Customer deposits	654,012,811	337,450,625	1,003,914,886	149,714,082	9,172,992	2,154,265,396
Due to banks and financial institutions	240,722,236	37,633,587	-	-	-	278,355,823
Subordinated debt	-	-	13,796,864	-	-	13,796,864
Total	**894,735,047**	**375,084,212**	**1,017,711,750**	**149,714,082**	**9,172,992**	**2,446,418,083**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate to the net profit, when the change is applied to the GAP position as per re-pricing terms presented in note above, assuming all the other variables are held constant:

	31 December 2014		*31 December 2013*	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	(278,393)	10,165,361	(1,720,569)	8,153,627
Interest rate increases by 1.5%	(208,795)	7,624,021	(1,290,426)	6,115,221
Interest rate increases by 1%	(139,197)	5,082,680	(860,284)	4,076,814
Interest rate decreases by 1%	139,197	(5,082,680)	860,284	(4,076,814)
Interest rate decreases by 1.5%	208,795	(7,624,021)	1,290,426	(6,115,221)
Interest rate decreases by 2%	278,393	(10,165,361)	1,720,569	(8,153,627)

(e) Operational risks

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

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

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

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

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

5. Financial risk management (continued)

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%, while the Bank has maintained this ratio at 15.6% as at 31 December 2014 (2013: 14.6%).

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum modified capital adequacy is 6%, while the Bank has maintained this ratio at 14.4% as at 31 December 2014 (2013: 13.5%).

Risk-Weighted Assets (RWAs)

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

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

Compliance

The Bank and its individually regulated operations have complied with all internally and externally imposed capital requirements throughout the year.

6. Segmental reporting

	31 December 2014			31 December 2013		
Geographical Segments	**Albania**	**Kosovo**	**Consolidated**	**Albania**	**Kosovo**	**Consolidated**
Assets						
Cash and balances with Central Bank	183,697,203	44,253,715	227,950,918	177,969,351	59,503,651	237,473,002
Placement and balances with banks	138,840,835	504,220	139,345,055	201,073,192	206,682	201,279,874
Treasury bills	229,604,013	46,814,388	276,418,401	229,217,218	7,507,150	236,724,368
Trading and available-for-sale securities	731,888,733	13,303,167	745,191,900	697,179,575	-	697,179,575
Held-to-maturity securities	198,822,024	-	198,822,024	217,755,420	-	217,755,420
Loans to banks	173,290,510	-	173,290,510	121,650,866	-	121,650,866
Loans to customers	769,369,408	150,898,845	920,268,253	753,995,362	132,207,055	886,202,417
Investment in associates	1,458,925	-	1,458,925	1,651,128	-	1,651,128
Property and equipment	19,861,924	4,321,474	24,183,398	22,309,339	5,633,128	27,942,467
Intangible assets	1,230,590	-	1,230,590	1,235,689	-	1,235,689
Other assets	5,763,277	38,697,345	44,460,622	(51,159,450)	97,806,884	46,647,434
Total assets	**2,453,827,442**	**298,793,154**	**2,752,620,596**	**2,372,877,690**	**302,864,550**	**2,675,742,240**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	1,882,396,886	258,422,099	2,140,818,985	1,884,959,892	269,305,504	2,154,265,396
Due to banks and financial institutions	314,740,524	12,173,928	326,914,452	271,457,353	6,898,470	278,355,823
Due to third parties	2,123,604	-	2,123,604	1,738,013	-	1,738,013
Deferred tax liabilities	1,846,611	-	1,846,611	3,264,859	-	3,264,859
Accruals and other liabilities	13,776,000	2,218,899	15,994,899	8,317,842	1,037,592	9,355,434
Subordinated debt	18,287,260	-	18,287,260	13,796,864	-	13,796,864
Total liabilities	**2,233,170,885**	**272,814,926**	**2,505,985,811**	**2,183,534,823**	**277,241,566**	**2,460,776,389**
Shareholder's equity						
Share capital			166,403,900			138,965,905
Legal reserve			-			-
Translation reserve			(3,403,714)			1,140,491
Fair value reserve			(3,835,505)			(3,196,237)
Retained earnings			87,470,104			78,055,692
Total shareholder's equity			**246,634,785**			**214,965,851**
Total liabilities and shareholder's equity			**2,752,620,596**			**2,675,742,240**

The amount of USD 36,396,029 represents intragroup transactions between Head Office/Branches in Albania and Kosova Branch as at 31 December 2014, and has been eliminated on consolidation (31 December 2013: USD 95,562,491).

6. Segmental reporting (continued)

Geographical Segments	2014			2013		
	Albania	**Kosovo**	**Consolidated**	**Albania**	**Kosovo**	**Consolidated**
Interest						
Interest income	126,537,064	17,225,600	143,762,664	135,188,077	16,751,005	151,939,082
Interest expense	(49,607,235)	(4,326,072)	(53,933,307)	(67,490,029)	(7,534,049)	(75,024,078)
Net interest margin	**76,929,829**	**12,899,528**	**89,829,357**	**67,698,048**	**9,216,956**	**76,915,004**
Non-interest income, net						
Fees and commissions, net	8,611,121	3,020,767	11,631,888	6,234,447	3,322,961	9,557,408
Foreign exchange revaluation gain/(loss), net	5,621,801	2,012	5,623,813	(4,035,440)	15	(4,035,425)
Foreign exchange trading activities loss, net	(5,968,481)	(133,805)	(6,102,286)	(1,557,849)	(65,348)	(1,623,197)
Securities trading (loss)/gain, net	(1,189,395)	-	(1,189,395)	1,645,526	-	1,645,526
Other income, net	3,876,849	(23,824)	3,853,025	10,741,940	1,803	10,743,743
Total non-interest income, net	**10,951,895**	**2,865,150**	**13,817,045**	**13,028,624**	**3,259,431**	**16,288,055**
Operating expenses						
Personnel	(14,348,687)	(4,264,194)	(18,612,881)	(12,883,320)	(4,221,818)	(17,105,138)
Administrative	(18,053,110)	(4,736,968)	(22,790,078)	(16,157,317)	(4,817,287)	(20,974,604)
Depreciation and amortization	(3,541,117)	(1,297,508)	(4,838,625)	(3,320,773)	(1,769,561)	(5,090,334)
Total operating expenses	**(35,942,914)**	**(10,298,670)**	**(46,241,584)**	**(32,361,410)**	**(10,808,666)**	**(43,170,076)**
Impairment of loans	(2,949,134)	(1,580,026)	(4,529,160)	(4,932,357)	(1,267,143)	(6,199,500)
Profit before taxes	**48,989,676**	**3,885,982**	**52,875,658**	**43,432,905**	**400,578**	**43,833,483**
Income tax	(8,737,237)	(207,525)	(8,944,762)	(4,530,730)	-	(4,530,730)
Net profit for the year	**40,252,439**	**3,678,457**	**43,930,896**	**38,902,175**	**400,578**	**39,302,753**

Interest income of USD 2,009,015 (2013: USD 1,787,428), which represents interest earned from Kosovo Branch on intra-group balances was eliminated on consolidation.

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2014 and 2013 are detailed as follows:

	31 December 2014	31 December 2013
Cash on hand	47,514,034	39,442,451
Deposits with the Central Bank of Kosovo	28,277,553	49,207,253
Bank of Albania		
Current account	257,336	694,379
Statutory reserve	151,867,461	148,077,326
Accrued interest	34,534	51,593
	152,159,331	148,823,298
	227,950,918	**237,473,002**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a statutory reserve account, which during the month can be decreased to 60% of this level, provided that the monthly average is maintained.

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo and the cash deposit pledged as capital equivalency deposit.

Cash and cash equivalents as at 31 December 2014 and 2013 are presented as follows:

	31 December 2014	31 December 2013
Cash and balances with Central Bank	227,950,918	237,473,002
Statutory reserve in Albania	(151,867,461)	(148,077,326)
Statutory reserve in Kosovo	(21,259,553)	(23,019,592)
Capital equivalency deposit in Kosovo	(8,513,234)	(9,634,793)
Current accounts with banks	65,790,441	19,591,543
Accrued interest with banks	306,512	418,627
Placements with maturities of 3 months or less	55,258,925	161,863,920
	167,666,548	**238,615,381**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2014 and 31 December 2013 consisted as follows:

	31 December 2014	31 December 2013
Placements	68,264,888	176,837,103
Cash collateral held by financial institutions	4,983,214	4,432,601
Current accounts	65,790,441	19,591,543
Accrued interest	306,512	418,627
	139,345,055	**201,279,874**

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by financial institutions in relation to letters of credit issued to the Bank's clients and cash deposits that secure risks in relation to the credit cards activity of the Bank.

9. Treasury bills

Treasury bills portfolio is composed as follows:

	31 December 2014	31 December 2013
Treasury bills available-for-sale	276,418,401	236,724,368
	276,418,401	**236,724,368**

Treasury bills available-for-sale by original maturity as at 31 December 2014 and 31 December 2013 are presented as follows:

	31 December 2014			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	28,581,355	10,634	(3,615)	28,588,374
6 months	28,097,573	124,588	39,768	28,261,929
12 months	215,010,982	4,577,576	(20,460)	219,568,098
	271,689,910	**4,712,798**	**15,693**	**276,418,401**

	31 December 2013			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	1,768,353	598	108	1,769,059
6 months	8,666,145	87,410	6,682	8,760,237
12 months	216,359,950	9,128,739	706,383	226,195,072
	226,794,448	**9,216,747**	**713,173**	**236,724,368**

10. Trading and available-for-sale securities

The Bank's trading and available-for-sale portfolio as at 31 December 2014 includes financial assets held for trading amounting USD 5,999,661 (31 December 2013: none) and financial assets available for sale amounting USD 739,192,239 (31 December 2013: USD 697,179,575).

Trading and available-for-sale securities as at 31 December 2014 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	456,530,832	191,859	7,245,216	(45,030)	463,922,877
USD denominated	104,068,212	1,564,145	1,428,144	(268,545)	106,791,956
EUR denominated	95,816,210	1,802,658	1,914,593	(488,666)	99,044,795
TRY denominated	55,012,967	-	7,823,652	-	62,836,619
CAD denominated	11,555,413	-	-	(3,006,217)	8,549,196
GBP denominated	3,728,848	78,609	129,595	76,482	4,013,534
SEK denominated	79,813	-	-	(46,890)	32,923
	726,792,295	**3,637,271**	**18,541,200**	**(3,778,866)**	**745,191,900**

In August 2014, the Bank reclassified available for sale securities into the held to maturity securities portfolio. The fair value of the available for sale reclassified portfolio at reclassification date amounting USD 39,218,164 became the held to maturity securities portfolio's amortised cost.

10. Trading and available-for-sale securities (continued)

Trading and available-for-sale securities as at 31 December 2013 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	355,468,105	272,922	6,299,647	3,876,217	365,916,891
USD denominated	129,422,632	1,890,535	1,697,758	(1,040,467)	131,970,458
EUR denominated	90,278,009	1,927,882	2,931,070	1,486,715	96,623,676
TRY denominated	86,724,924	(43,769)	5,142,057	(4,475,360)	87,347,852
CAD denominated	12,566,607	-	-	(3,678,859)	8,887,748
GBP denominated	6,090,210	119,667	215,953	7,120	6,432,950
	680,550,487	**4,167,237**	**16,286,485**	**(3,824,634)**	**697,179,575**

11. Held-to-maturity securities

Held-to-maturity securities as at 31 December 2014 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	45,994,966	2,827	774,808	46,772,601
USD denominated	65,569,894	1,352,795	1,340,856	68,263,545
EUR denominated	82,283,067	338,259	1,164,552	83,785,878
	193,847,927	**1,693,881**	**3,280,216**	**198,822,024**

Held-to-maturity securities as at 31 December 2013 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	79,198,070	6,888	1,842,235	81,047,193
USD denominated	37,923,712	82,493	438,303	38,444,508
EUR denominated	96,335,266	446,450	1,482,003	98,263,719
	213,457,048	**535,831**	**3,762,541**	**217,755,420**

12. Loans to banks

The Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

Moody's or equivalent	31 December 2014	31 December 2013
Rated Baa3 to Baa1	137,259,755	59,124,561
Rated Ba2 to Ba1	13,400,855	36,514,785
Rated Ba3	3,043,236	12,427,280
Rated B2 to B1	11,070,301	8,946,891
Not rated	8,516,363	4,637,349
	173,290,510	**121,650,866**

13. Loans to customers

Loans to customers consisted of the following:

	31 December 2014	31 December 2013
Loans to customers, gross	945,243,177	908,528,043
Accrued interest	7,167,299	8,704,282
Less allowances for impairment on loans	(27,904,718)	(26,877,330)
Less unamortized deferred fee income	(4,237,505)	(4,152,578)
	920,268,253	**886,202,417**

Movements in the allowance for impairment on loans:

	2014	2013
At 1 January	26,877,330	19,675,821
Impairment charge for the year, net	4,529,160	6,199,500
Translation difference	(3,501,772)	1,002,009
At the end of the year	**27,904,718**	**26,877,330**

The effect of current year write offs included in the impairment charge for the year is USD 91,674.

All the loans are denominated in Lek, Euro, USD, CHF and GBP and bear interest at the following rates:

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.50% to 22.00%
Loans in USD	1.58% to 11.50%
Loans in CHF	4.54% to 5.21%
Loans in CHF	3.00% to 3.00%

The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals or are granted to personnel under special conditions.

13. Loans to customers (continued)

The classification of business loans by industry is as follows:

	31 December 2014		31 December 2013	
	USD	%	USD	%
Wholesale Trade	115,419,486	17%	100,667,527	16%
Overdraft	87,513,829	12%	18,688,430	3%
Construction	50,611,147	7%	63,549,488	11%
Electricity, Gas and Water Supply	45,462,695	7%	82,893,194	13%
Financial Intermediation	36,885,943	6%	41,012,105	7%
Retail Trade	32,483,477	5%	34,097,476	6%
Real Estate, Renting and Business Activity	29,681,139	5%	21,317,914	4%
Manufacturing of Other Non-metallic Products	29,410,570	5%	35,955,531	6%
Other Community, Social and Personal Activities	24,599,132	4%	19,244,791	3%
Manufacture of Food Products, Beverages	23,696,895	4%	23,391,192	4%
Manufacturing of Basic Metals and Fabricated Metal Products	15,416,079	2%	10,684,014	2%
Education	13,772,342	2%	17,262,681	3%
Personal Needs	11,925,612	2%	8,046,355	1%
Hotels and Restaurants	10,825,112	2%	13,617,873	2%
Manufacture of Rubber and Plastic Products	5,279,368	1%	6,887,446	1%
Health and Social Work	4,600,841	1%	8,626,846	1%
Manufacture of Pulp, Paper and Paper Products	4,177,399	1%	5,265,125	1%
Agriculture, Hunting and Forestry	4,138,257	1%	15,127,617	3%
Transport, Storage and Communication	3,720,267	1%	4,352,514	1%
Manufacture of Wood and Wood Products	3,348,508	1%	4,805,987	1%
Other Sectors	100,507,460	14%	65,478,757	11%
	653,475,558	**100%**	**600,972,863**	**100%**

The classification of retail loans by type is as follows:

	31 December 2014		31 December 2013	
	USD	%	USD	%
Home purchase	187,053,961	62%	200,197,318	62%
Home improvement	25,288,577	9%	28,387,014	10%
Super Loan	25,356,675	9%	20,636,930	7%
Overdraft and credit cards	16,252,243	6%	15,024,603	4%
Shop purchase	12,241,354	4%	13,960,174	5%
Home reconstruction	7,918,127	3%	9,829,137	4%
Home advances	2,935,474	1%	3,618,398	2%
Technical equipment	746,912	1%	796,664	1%
Car purchase	403,745	1%	636,013	1%
Other types	13,570,551	4%	14,468,929	4%
	291,767,619	**100%**	**307,555,180**	**100%**

14. Investment in associates

Investment in associates of USD 1,458,925 (31 December 2013: 1,651,128) represents the equivalent amount of an investment of EUR 1,199,600 into the share capital of Albania Leasing Sh.a (the "Company") at a participation ratio of 29.99%. The Company was established in August 2, 2013 (inception date) as a Joint Stock Company. The Company obtained the license from the Bank of Albania on April 21, 2014 and started its leasing activity in June 2014.

15. Property and equipment

Property and equipment as at 31 December 2014 and 2013 are composed as follows:

	Land, buildings and leasehold improvements	**Vehicles and other equipment**	**Computers and electronic equipment**	**Office equipment**	**Total**
Gross value					
At 1 January 2013	**30,178,657**	**5,252,112**	**14,165,775**	**1,899,639**	**51,496,183**
Additions	706,908	647,171	1,426,117	234,039	**3,014,235**
Disposals / transfers	-	(154,810)	(31,338)	-	**(186,148)**
Translation difference	1,117,480	213,007	575,869	77,113	**1,983,469**
At 31 December 2013	**32,003,045**	**5,957,480**	**16,136,423**	**2,210,791**	**56,307,739**
Additions	993,262	549,873	1,718,619	260,759	**3,522,513**
Disposals / transfers	(559,675)	(59,565)	(89,038)	(47,464)	**(755,742)**
Translation difference	(3,714,765)	(691,886)	(1,874,203)	(256,759)	**(6,537,613)**
At 31 December 2014	**28,721,867**	**5,755,902**	**15,891,801**	**2,167,327**	**52,536,897**
Accumulated depreciation					
At 1 January 2013	**(8,437,448)**	**(3,902,425)**	**(9,747,902)**	**(1,239,624)**	**(23,327,399)**
Charge for the year	(1,365,362)	(631,832)	(1,860,137)	(277,940)	**(4,135,271)**
Disposals / write offs	-	152,099	31,338	-	**183,437**
Translation difference	(385,147)	(181,057)	(459,466)	(60,369)	**(1,086,039)**
At 31 December 2013	**(10,187,957)**	**(4,563,215)**	**(12,036,167)**	**(1,577,933)**	**(28,365,272)**
Charge for the year	(1,381,978)	(483,028)	(1,804,297)	(200,892)	**(3,870,195)**
Disposals / write offs	134,241	47,689	50,517	19,837	**252,284**
Translation difference	1,300,928	572,546	1,554,695	201,515	**3,629,684**
At 31 December 2014	**(10,134,766)**	**(4,426,008)**	**(12,235,252)**	**(1,557,473)**	**(28,353,499)**
Net book value					
At 1 January 2013	**21,741,209**	**1,349,687**	**4,417,873**	**660,015**	**28,168,784**
At 31 December 2013	**21,815,088**	**1,394,265**	**4,100,256**	**632,858**	**27,942,467**
At 31 December 2014	**18,587,101**	**1,329,894**	**3,656,549**	**609,854**	**24,183,398**

As at 31 December 2014 the gross value of the assets which were fully depreciated was USD 14,582,199 (2013: USD 14,584,516).

16. Intangible assets

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

	Software
Gross value	
At 1 January 2013	**6,071,945**
Additions	444,654
Translation difference	237,846
At 31 December 2013	**6,754,445**
Additions	741,476
Translation difference	(783,710)
At 31 December 2014	**6,712,211**
Accumulated depreciation	
At 1 January 2013	**(4,557,034)**
Charge for the year	(754,854)
Translation difference	(206,868)
At 31 December 2013	**(5,518,756)**
Charge for the year	(659,619)
Translation difference	696,754
At 31 December 2014	**(5,481,621)**
Net book value	
At 1 January 2013	**1,514,911**
At 31 December 2013	**1,235,689**
At 31 December 2014	**1,230,590**

Software represents mainly the upgraded Bank’s operating and accounting system, and the license and software for providing internet and mobile banking services. In 2011, the Bank purchased new modules and started the implementation of software upgrade, which was finalised in November 2013.

17. Other assets

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

	31 December 2014	**31 December 2013**
Assets acquired through legal process	33,010,642	29,142,829
Cheques receivable	4,728,196	6,101,806
Administration costs receivable from borrowers	2,943,231	2,794,091
Cheques for collection and payments in transit	1,851,531	2,087,473
Prepaid expenses	667,204	1,270,371
Inventory	441,316	847,030
Advances to suppliers	67,526	734,656
Foreign exchange contracts revaluation gain	-	199,857
Other debtors	750,976	3,469,321
	44,460,622	**46,647,434**

Assets acquired through legal process represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken on behalf of the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets.

17. Other assets (continued)

The fair value of these assets at the reporting date is determined with reference to the current market prices. A number of properties with a carrying amount of USD 6,842,608 (2013: USD 7,613,994) which are leased to third parties, were reclassified in 2012 from property and equipment to assets acquired through legal process (investment property). The depreciation charge of the leased assets for the year ended 31 December 2014 was USD 308,811 (31 December 2013: USD 200,209). Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from investment property of USD 294,937 (31 December 2013: USD 212,328) is recognised in other income.

Cheques for collection and payments in transit represent customers' cheques and payments drawn on other banks that are in the process of being collected.

18. Customer deposits

Customer deposits as at 31 December 2014 and 2013 are composed as follows:

	31 December 2014	31 December 2013
Current accounts:		
Individuals	147,787,286	111,149,607
Private enterprises	183,734,188	162,266,836
State owned entities	28,994,235	21,859,942
	360,515,709	**295,276,385**
Deposits:		
Individuals	1,609,357,547	1,668,832,778
Private enterprises	96,578,848	110,693,639
State owned entities	39,765,264	47,354,847
	1,745,701,659	**1,826,881,264**
Other customer accounts:		
Individuals	4,306,503	2,929,112
Private enterprises	29,812,865	28,442,374
State owned entities	482,249	736,261
	34,601,617	**32,107,747**
	2,140,818,985	**2,154,265,396**

18. Customer deposits (continued)

Current accounts and deposits can be further analysed by original maturity and currency as follows:

	31 December 2014			31 December 2013		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**170,575,363**	**189,940,346**	**360,515,709**	**127,997,416**	**167,278,969**	**295,276,385**
Deposits						
On demand	2,467,267	47,274,211	**49,741,478**	1,391,735	50,245,822	**51,637,557**
Up to 39 days	30,330,124	39,391,099	**69,721,223**	26,889,141	64,854,923	**91,744,064**
40-99 days	57,743,082	53,519,314	**111,262,396**	65,817,946	94,202,623	**160,020,569**
100-189 days	99,672,572	88,819,806	**188,492,378**	109,715,664	109,003,584	**218,719,248**
190- 370 days	528,945,885	508,156,718	**1,037,102,603**	589,332,565	478,404,375	**1,067,736,940**
371 days and over	156,444,549	114,626,183	**271,070,732**	123,750,029	83,553,438	**207,303,467**
Accrued interest on deposits	12,960,878	5,349,971	**18,310,849**	22,036,360	7,683,059	**29,719,419**
Total deposits	**888,564,357**	**857,137,302**	**1,745,701,659**	**938,933,440**	**887,947,824**	**1,826,881,264**
Other customer accounts	**13,887,507**	**20,714,110**	**34,601,617**	**10,375,296**	**21,732,451**	**32,107,747**
Total customer deposits	**1,073,027,227**	**1,067,791,758**	**2,140,818,985**	**1,077,306,152**	**1,076,959,244**	**2,154,265,396**

Other customer accounts are composed as follows:

	31 December 2014			31 December 2013		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Guarantees for letters of credit	1,342,970	9,729	**1,352,699**	-	1,464,517	**1,464,517**
Escrow accounts	7,188,500	14,908,007	**22,096,507**	5,994,544	14,395,580	**20,390,124**
Payment orders to be executed	199,603	54,516	**254,119**	223,380	663,597	**886,977**
Other	5,156,434	5,741,858	**10,898,292**	4,157,372	5,208,757	**9,366,129**
	13,887,507	**20,714,110**	**34,601,617**	**10,375,296**	**21,732,451**	**32,107,747**

Deposit guarantee for letters of credit represent the cash collateral held by the Bank against similar collateral provided by the Bank to correspondent banks for letters of credit opened on behalf of its customers.

Escrow accounts balance represents sums blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts mostly relate to cash coverage received from customers due to the issuance of bid and performance bonds by the bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank.

Other represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

19. Due to banks and financial institutions

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

	31 December 2014	31 December 2013
Treasury bills sold under Repo agreements with Central Bank	170,366,559	160,008,842
FX securities sold under Repo agreement	46,024,913	6,551,212
Deposits from banks	80,285,835	77,885,797
Current accounts of non-resident banks	3,386,664	4,851,687
Current accounts of resident banks	2,912	5,117
Borrowing from financial institutions	26,847,569	29,053,168
	326,914,452	**278,355,823**

Treasury bills and Albanian Government Bonds with a total value of USD 257,707,689 (2013: USD 205,487,925) were used to secure Repo agreements with the Central Bank and borrowings from banks.

Deposits from banks as at 31 December 2014 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents seven-year borrowings of EUR 22,075,392 (2013: EUR 21,108,100), obtained from European Fund for Southeast Europe (EFSE), under the Framework Agreement signed on 20 September 2010 for granting loans to SME customers of the Bank. Part of this borrowing as at 31 December 2014 are the two tranches amounting EUR 5,000,000 each disbursed from EFSE to BKT Kosovo, during December 2013 and June 2014, under the new agreement signed on 13 December 2013.

20. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2014 of USD 2,123,604 (2013: USD 1,738,013) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

21. Deferred tax liabilities

Deferred income taxes are calculated using a tax rate of 15% (2013: 10%). The movement on the deferred income tax account is as follows:

	31 December 2014	31 December 2013
Liability at 1 January	3,264,859	1,978,653
Expense for the year	550,014	1,523,522
Reversal for the year	(1,542,906)	(358,293)
Exchange differences	(425,356)	120,977
Liability at the end of the year	**1,846,611**	**3,264,859**

Deferred income tax liabilities/(assets) are attributable to the following items:

	31 December 2014	31 December 2013
Deferred income on fees on loans	(635,626)	(415,258)
Decelerated depreciation	(681,142)	(485,003)
Allowance for loan impairment	2,279,338	3,178,313
Fair value reserve for AFS securities	884,041	986,807
	1,846,611	**3,264,859**

Based on the local accounting law, starting from 1 January 2008 the Bank must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors and are not in excess of the limits determined by the Central Bank. With the new fiscal package entering into force on January 1st 2014, tax deductible impairment allowances equal IFRS impairment allowances, therefore previous recognized temporary differences in the balance of allowance for loans to customers for financial reporting purposes and the amounts used for taxation purposes in Albania were reversed and accounted for as amounts "Reversed temporary differences payable to tax authorities" (see also note 22 "Accruals and other liabilities").

22. Accruals and other liabilities

	31 December 2014	31 December 2013
Due to tax authorities	3,693,208	1,013,325
Reversed temporary differences payable to tax authorities	1,542,906	-
Accrued expenses	2,031,882	591,173
Creditors	1,837,884	1,814,041
Bonus payable	1,407,838	1,111,939
Deposit insurance payable	1,273,009	1,345,918
Payments in transit	1,136,111	731,545
Foreign exchange contracts revaluation loss	1,075,340	573,908
Liability for retiring employees (note 3(r).ii.)	1,052,803	1,099,870
Payables to constructors for home loans	660,026	812,172
Social insurance	181,488	170,516
Cash guarantees from suppliers	102,404	91,027
	15,994,899	**9,355,434**

Creditors represent balances of USD 1,837,884 (2013: USD 1,814,041) that relate to old transactions of the Albanian Government and are pending on the future determination of the rightful owner of these amounts.

Bonus payable represents the accrued yearly performance bonus for the bank's staff and management, which is expected to be paid within the first quarter of 2015.

22. Accruals and other liabilities (continued)

Deposit insurance payable relates to the last quarter of 2014 and is payable based on the Law no. 8873 "On the Insurance of Deposits" dated 29 March 2002, which provides insurance coverage to individual depositors against bank failures.

23. Subordinated debt

Subordinated debt of USD 18,287,260 (2013: 13,796,864) represents the equivalent amount of a facility of EUR 10 million that was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 19 November 2012 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments. The second tranche of this debt of EUR 5 million was disbursed in July 1st, 2014.

Pursuant to the approvals granted by Bank of Albania, the subordinated debt was classified as second-tier capital and included in the regulatory capital of the Bank.

24. Shareholder's equity and reserves

Share Capital

At 31 December 2014 the authorised share capital comprised 13,474,000 ordinary shares (2013: 11,252,300). The shares have a par value of USD 12.35. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

Legal reserve

As described in Note 1, based on the Shareholder's Decision dated 25 March 2014, the Bank created legal reserves of Lek 747,430 thousand (equivalent of USD 7,355,870).

The total legal reserve was used to increase the share capital on 17 October 2014. No legal reserves were held as at 31 December 2014 and 2013.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of consolidated financial statements from functional currency to presentation currency.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

Retained earnings

Retained earnings as at 31 December 2014, includes the cumulative non distributed earnings. As described in Note 1, the Bank has used part of its retained earnings amounting to Lek 2,238,647 thousand (equivalent of USD 20,570,127.89) to increase its share capital on 17 October 2014.

25. Interest income

Interest income is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Placements with banks and balances with Central Bank	6,256,799	6,632,818
Treasury bills and investment securities	64,129,494	63,898,103
Loans to customers	73,376,371	81,408,161
	143,762,664	**151,939,082**

Interest income can be further detailed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Held-to-maturity investments	15,686,161	20,422,374
Available-for-sale financial assets	54,700,132	50,108,547
Loans and receivables	73,376,371	81,408,161
	143,762,664	**151,939,082**

Interest income on individually impaired loans for the year ended 31 December 2014 was USD 15,409 (2013: USD 309,722).

26. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Due to banks and financial institutions	9,228,971	10,648,766
Customer deposits	44,704,336	64,375,312
	53,933,307	**75,024,078**

27. Fees and commissions, net

Fee and commission revenue and expense are comprised of the following items:

	Year ended 31 December 2014	Year ended 31 December 2013
Fee and commission income		
Payment services to clients	4,384,846	3,991,684
Electronic banking transactions	2,237,209	1,834,994
Inter-bank transactions	2,208,399	1,809,562
Customer accounts' maintenance	1,589,909	1,421,280
Lending activity	1,407,989	1,112,353
Cash transactions with clients	350,523	327,186
Other fees and commissions	169,602	251,112
	12,348,477	*10,748,171*
Fee and commission expense		
Inter-bank transactions	(505,148)	(1,062,395)
Customer accounts' maintenance	(103,893)	(98,014)
Transactions with clients	(71,645)	(947)
Payment services to clients	(34,148)	(29,367)
Other fees and commissions	(1,755)	(40)
	(716,589)	*(1,190,763)*
Fees and commissions, net	**11,631,888**	**9,557,408**

28. Foreign exchange revaluation gain/(loss), net

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation loss on the share capital revaluation for the year ended 31 December 2014 is USD 17,282,439 (2013 gain: USD 6,516,342).

29. Other income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Other income		
Income from financial instruments measured at FV	1,856,434	8,490,428
Dividend income from equity investments	1,479,184	2,179,905
Reversal of provision of other debtors	309,752	-
Income from operating lease	294,937	212,328
Gain on sale of property and equipment	98,341	25,936
Gain on sale of assets acquired through legal process	31,336	95,933
Gain on recovery of written off loans to customers	15,633	40,425
Reversal of staff pension fund	14,322	70,234
Sundry	18,992	53,558
	4,118,931	*11,168,747*
Other expense		
Write off of loans to customers	(157,905)	(24,068)
Loss on sale or write off of fixed assets	(40,738)	(2,594)
Provision of other debtors	-	(332,379)
Sundry	(67,263)	(65,963)
	(265,906)	*(425,004)*
Other income/(expense), net	**3,853,025**	**10,743,743**

30. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Salaries	14,312,836	13,526,579
Performance bonus	1,718,487	1,366,251
Social insurance	1,379,415	1,250,158
Training	504,049	518,890
Life insurance	175,964	137,748
Other	522,130	305,512
	18,612,881	**17,105,138**

31. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Deposit insurance expense	5,784,808	5,370,057
Credit/debit cards expenses	2,863,859	2,454,490
Lease payments	2,854,735	2,580,707
Telephone, electricity and IT expenses	2,539,995	2,534,039
Repairs and maintenance	2,100,792	1,940,421
Marketing expenses	1,983,596	2,213,344
Security and insurance expenses	1,073,439	1,098,598
Transportation and business related travel	962,171	906,759
Other external services (including external audit fees)	845,890	383,437
Office stationery and supplies	479,310	488,529
Representation expenses	250,325	257,991
Taxes other than tax on profits	201,093	153,412
Sundry	850,065	592,820
	22,790,078	**20,974,604**

32. Income tax

Income tax is comprised of:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax	8,394,748	3,365,501
Deferred tax expense/(income) (note 21)	550,014	1,523,522
Deferred tax recognized into current tax (note 21)	-	(358,293)
	8,944,762	**4,530,730**

The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before taxes	**52,875,658**	**43,833,483**
Computed tax using applicable tax rate of 15 % (2013: 10%)	7,931,349	4,383,348
Non tax deductible expenses	333,002	536,762
Cumulative deferred tax liability at 15%	733,644	-
Deferred tax recognized into current tax	-	(358,293)
Foreign exchange difference	(53,233)	(31,087)
Income tax	**8,944,762**	**4,530,730**
Effective tax rate	**16.92%**	**10.34%**

33. Related party transactions

Identity of related parties

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 December 2014. The ultimate controlling party is Mr. Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Gap İnşaat Yatırım ve Dış Ticaret A.Ş., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S and Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding. Asyatek San.Tic.Ltd.Sti and Anateks Anadolu Tekstil Fab. Tic. are entities controlled by individuals that are close members of the family of the owner of Calik Holding.

Balances and transactions with related parties

	31 December 2014	**31 December 2013**
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	124,482	88,290
Placements with Aktifbank	-	12,054,618
Investment securities available-for-sale:		
Aktifbank	-	40,852,295
Loans to customers:		
KEDS	1,651,098	1,854,163
ALBtelecom	3,710,250	-
GAP Pazarlama FZE	8,246,932	-
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	3,046,522	-
Asyatek San.Tic.Ltd.Sti	495,011	-
Other assets:		
Receivables from ALBtelecom Sh.a	-	11,035
Total assets	**17,274,295**	**54,860,401**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	3,357,255	11,199,412
Customer deposits:		
ALBtelecom Sh.a.	764,618	4,112,346
Eagle Mobile Sh.a.	-	24
Other liabilities:		
Payables to ALBtelecom Sh.a	153,106	67,793
Payables to Calik Holding	186,657	-
Total liabilities	**4,461,636**	**15,379,575**

	31 December 2014	**31 December 2013**
Commitments and contingencies		
Guarantees in favour of customers:		
KEDS	2,420,001	7,163,046

33. Related party transactions (continued)

	2014	2013
Statement of comprehensive income		
Interest income from:		
Aktifbank	1,127,067	1,578,254
GAP Pazarlama FZE	221,547	-
Anateks Anadolu Tekstil Fab. Tic.	-	401,476
KEDS	167,063	5,031
ALBtelecom Sh.a.	160,442	-
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	73,634	-
Asyatek San.Tic.Ltd.Sti	9,312	-
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(30,311)	(80,781)
Aktifbank	(96,986)	(70,700)
Fees and commissions:		
Letters of guarantee:		
ALBtelecom Sh.a.	244	290
Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S	-	11,203
KEDS	23,138	50,520
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	2,012	814
Other income:		
Operating lease income from ALBtelecom Sh.a.	80,272	20,501
Operating expenses		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(1,071,354)	(1,141,607)
Net	**666,080**	**775,001**

Balances and transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Directors	129,158	118,650
Executive officers	3,116,606	2,699,641
	3,245,764	**2,818,291**

As at 31 December 2014, the total deposits of directors held with the Bank were USD 822,071 (31 December 2013: USD 1,015,441), while there are no outstanding loans granted to directors.

34. Contingencies and commitments

Guarantees and letters of credit

	31 December 2014	31 December 2013
Guarantees in favour of customers	63,203,153	115,317,133
Guarantees received from credit institutions	20,961,945	37,502,568
Letters of credit issued to customers	12,090,058	6,303,982

Guarantees and letters of credit issued in favour of customers mostly are counter guaranteed by other financial institutions or fully cash collateralised.

34. Contingencies and commitments (continued)

At present the Bank is operating as an agent of the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the Government of Albania to cover the reimbursement of their lines of credit.

Other

	31 December 2014	31 December 2013
Undrawn credit commitments	124,572,829	69,075,578
Outstanding cheques of non-resident banks	283,546	238,407
Foreign currency contracts	265,549,672	282,725,222
Collaterals for loan portfolio	2,250,055,341	2,379,195,755
Securities pledged as collateral (notes 19)	257,707,689	205,487,925

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2014.

Lease commitments

Such commitments for the years ended 31 December 2014 and 2013 are composed as follows:

	31 December 2014	31 December 2013
Not later than 1 year	2,417,153	2,461,708
Later than 1 year and not later than 5 years	6,042,645	7,371,947
Later than 5 years	1,335,122	1,724,639
Total	**9,794,920**	**11,558,294**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2014 with a maximum duration of ten years.

The Bank had 81 rented buildings as at 31 December 2014, in which are included the rented space dedicated to offsite disaster recovery and the 25 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months' notice. Therefore, at 31 December 2014, the maximum non-cancellable commitment payable not later than one year is USD 604,288 (2013: USD 615,427).

The Bank leases a number of properties under operating leases. The leases typically run for a period of up to 1 year, with an option to renew the lease after that period.

35. Subsequent events

There are no subsequent events that would require either adjustments or additional disclosures in the financial statements.