# INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements as at and for the year ended

31 December 2015

(with independent auditors' report thereon)

# Contents

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# Independent Auditors' Report

To the Shareholder of
Intesa Sanpaolo Albania Sh.a

Tirana, 5 February 2016

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

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Fatos Beqja
*Statutory Auditor*

Fatos Beqja

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# Intesa Sanpaolo Bank Albania Sh.a.

## Statement of financial position
**As at 31 December 2015**
*(in thousands of Lek)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 16,341,358 | 15,890,476 |
| Loans and advances to banks | 8 | 23,902,937 | 25,343,535 |
| Financial investments available for sale | 9 | 4,457,428 | 3,969,543 |
| Financial investments held to maturity | 10 | 51,863,186 | 57,309,439 |
| Loans and advances to customers | 11 | 40,627,846 | 40,341,394 |
| Property and equipment | 12 | 1,202,269 | 1,398,437 |
| Intangible assets | 13 | 590,563 | 554,635 |
| Deferred tax assets | 17 | 82,103 | 76,962 |
| Current tax assets | | 282,007 | 507,139 |
| Inventory and other assets | 14 | 2,077,698 | 2,642,524 |
| **Total Assets** | | **141,427,395** | **148,034,084** |
| | | | |
| **Liabilities** | | | |
| Due to banks | 15 | 1,953,032 | 5,663,139 |
| Due to customers | 16 | 118,842,126 | 121,279,675 |
| Current tax liabilities | | 110,676 | 300,272 |
| Deferred tax liabilities | 17 | 46 | - |
| Provisions | 18 | 379,808 | 431,973 |
| Other liabilities | 19 | 709,127 | 1,075,398 |
| **Total Liabilities** | | **121,994,815** | **128,750,457** |
| | | | |
| **Equity** | | | |
| Share capital | 20 | 5,562,518 | 5,562,518 |
| Share premium | 20 | 1,383,880 | 1,383,880 |
| Legal and regulatory reserves | 21 | 1,825,623 | 1,744,615 |
| Other reserve | 22 | 259 | 88,492 |
| Other comprehensive items | 22 | 714,555 | 714,555 |
| Retained earnings | | 9,945,745 | 9,789,567 |
| **Total Equity** | | **19,432,580** | **19,283,627** |
| **Total Liabilities and Equity** | | **141,427,395** | **148,034,084** |

The notes on pages 6 to 54 are an integral part of these financial statements.

# Intesa Sanpaolo Bank Albania Sh.a.

## Statement of Profit or Loss and Other Comprehensive Income
## For the year ended 31 December 2015
*(in thousands of Lek)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Interest income | | 5,704,319 | 6,687,516 |
| Interest expense | | (1,158,593) | (2,233,639) |
| **Net interest income** | 23 | **4,545,726** | **4,453,877** |
| Fee and commission income | | 953,522 | 741,342 |
| Fee and commission expense | | (169,550) | (137,047) |
| **Net fee and commission income** | 24 | **783,972** | **604,295** |
| Net other income | 25 | 569,073 | 439,718 |
| Other operating expenses, net | 26 | (243,911) | (244,587) |
| **Operating income** | | **5,654,860** | **5,253,303** |
| Net impairment loss on financial assets | 11 | (637,533) | (572,419) |
| Net impairment loss on off-balance sheet | 18 | (18,369) | (7,259) |
| Write down of inventory | 13 | (167,221) | (145,376) |
| Personnel expenses | 27 | (1,069,290) | (1,033,426) |
| Operating lease expenses | 31 | (173,946) | (163,839) |
| Depreciation and amortization | 12,13 | (348,587) | (316,539) |
| Amortization of leasehold improvements | 14 | (8,406) | (11,122) |
| Other administration expenses | 28 | (584,238) | (613,541) |
| Provisions for risk and expenses | 18 | 21,701 | 94,034 |
| **Total expenses** | | **(2,985,889)** | **(2,769,487)** |
| **Net income before taxes** | | **2,668,971** | **2,483,816** |
| Income tax expense | 29 | (457,876) | (428,899) |
| **Profit for the year** | | **2,211,095** | **2,054,917** |
| **Other comprehensive income** | | | |
| Change in fair value of available-for-sale investment securities, net of income tax | | (88,233) | 14,651 |
| **Other comprehensive income for the year, net of tax** | | **(88,233)** | **14,651** |
| **Total comprehensive income for the year, net of tax** | | **2,122,862** | **2,069,568** |

The notes on pages 6 to 54 are an integral part of these financial statements.

# Intesa Sanpaolo Bank Albania Sh.a.

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

| | Share capital | Share premium | Legal and regulatory reserves | Other reserves | Other comprehensive items | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **5,562,518** | **1,383,880** | **1,695,524** | **73,841** | **714,555** | **8,569,194** | **17,999,512** |
| Profit for the year | - | - | - | - | - | 2,054,917 | 2,054,917 |
| **Other comprehensive income** | | | | | | | |
| Net change in fair value of AFS investment securities | - | - | - | 14,651 | - | - | 14,651 |
| **Total other comprehensive income** | **-** | **-** | **-** | **14,651** | **-** | **-** | **14,651** |
| **Transaction with owners, recorded directly in equity** | | | | | | | |
| Dividends to equity holders | - | - | - | - | - | (785,453) | (785,453) |
| **Total contributions by and distribution to owners** | **-** | **-** | **-** | **-** | **-** | **(785,453)** | **(785,453)** |
| **Other movements within equity** | | | | | | | |
| Appropriation of retained earnings | - | - | 49,091 | - | - | (49,091) | - |
| **Appropriation of retained earnings** | **-** | **-** | **49,091** | **-** | **-** | **(49,091)** | **-** |
| **Balance at 31 December 2014** | **5,562,518** | **1,383,880** | **1,744,615** | **88,492** | **714,555** | **9,789,567** | **19,283,627** |

# Intesa Sanpaolo Bank Albania Sh.a.

## Statement of changes in equity (continued)
**For the year ended 31 December 2015**
*(in thousands of Lek)*

| | Share capital | Share premium | Legal and regulatory reserves | Other reserves | Other comprehensive items | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **5,562,518** | **1,383,880** | **1,744,615** | **88,492** | **714,555** | **9,789,567** | **19,283,627** |
| Profit for the year | - | - | - | - | - | 2,211,095 | **2,211,095** |
| **Other comprehensive income** | | | | | | | |
| Net change in fair value of AFS investment securities, net of tax | - | - | - | (88,233) | - | - | **(88,233)** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **(88,233)** | **-** | | **(88,233)** |
| **Transaction with owners, recorded directly in equity** | | | | | | | **-** |
| Dividends to equity holders | - | - | - | - | - | (1,973,909) | **(1,973,909)** |
| **Total contributions by and distribution to owners** | **-** | **-** | **-** | **-** | **-** | **(1,973,909)** | **(1,973,909)** |
| **Other movements within equity** | | | | | | | |
| Appropriation of retained earnings | - | - | 81,008 | - | - | (81,008) | **-** |
| **Appropriation of retained earnings** | **-** | **-** | **81,008** | **-** | **-** | **(81,008)** | **-** |
| **Balance at 31 December 2015** | **5,562,518** | **1,383,880** | **1,825,623** | **259** | **714,555** | **9,945,745** | **19,432,580** |

The notes on pages 6 to 54 are an integral part of these financial statements.

# Intesa Sanpaolo Bank Albania Sh.a.

## Statement of cash flows
## For the year ended 31 December 2015

*(in thousands of Lek)*

| | 2015 | 2014 |
|---|---|---|
| **Profit** | **2,211,095** | **2,054,917** |
| Adjustments for: | | |
| Depreciation and amortization | 348,587 | 316,539 |
| Disposal of intangible assets | 140,083 | 8,525 |
| Disposal of property and equipment | 78,754 | 14,312 |
| Net impairment loss on loans and advances to customers | 637,533 | 572,419 |
| Write downs of inventory | 167,221 | 145,376 |
| Net interest income | (4,545,726) | (4,453,877) |
| Net impairment loss on off-balance sheet items | 18,369 | 7,259 |
| Tax expense | 457,876 | 428,899 |
| Changes in | | |
| Loans and advances to banks | 1,441,059 | (4,312,371) |
| Loans and advances to customers | (555,291) | 2,662,594 |
| Due to banks | (3,710,107) | 399,645 |
| Due to customers | (2,437,549) | 6,915,364 |
| Inventory and other assets | 397,605 | (1,491,436) |
| Other liabilities and provisions | (436,805) | 226,701 |
| Interest received | 5,196,104 | 6,370,499 |
| Interest paid | (1,158,593) | (2,380,447) |
| Income taxes paid | (427,481) | (126,899) |
| **Net cash from/(used) in operating activities** | **(4,388,361)** | **5,303,102** |
| **Cash flows from investing activities** | | |
| Acquisition of property and equipment | (120,646) | (150,073) |
| Acquisition of intangible assets | (286,538) | (238,691) |
| Net collections/(acquistions) from investment securities held to maturity | 5,574,955 | (1,602,323) |
| Net acquisitions of investments securities held for sale | (554,287) | (1,143,315) |
| **Net cash used in investing activities** | **4,613,484** | **(3,134,402)** |
| **Cash flows from financing activities** | | |
| Dividends paid | (1,973,909) | (785,454) |
| **Net cash from financing activities** | **(1,973,909)** | **(785,454)** |
| **Net increase in cash and cash equivalents** | **462,309** | **3,438,163** |
| Cash and cash equivalents at 1 January | 15,890,476 | 12,466,255 |
| Effect of exchange rate fluctuations on cash and cash equivalents held | (11,427) | (13,942) |
| **Cash and cash equivalents at 31 December** | **16,341,358** | **15,890,476** |

The notes on pages 6 to 54 are an integral part of these financial statements.

On behalf of the Bank, these financial statements are signed on 4 February 2016 by:

Silvio Pedrazzi
Chief Executive Officer

Julian Cela
Chief Financial Officer

# Notes to the financial statements for the period ended 31 December 2015

## 1. Reporting entity

Intesa Sanpaolo Bank Albania Sh.a, (hereinafter called the "Bank"), incorporated on May 1998, was authorized to undertake banking activities in Albania. The Bank started operations on 24 September 1998.

The Banks with its principal location in Tirana and registered office at "Ismail Qemali" street, no.27, operates through a network of 32 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Berat, Gjirokastra, Korca, Lushnja, Shkoder, Lezhe, Kavaje (2014: 32 branches and agencies). The Bank had 567 employees as at 31 December 2015 (2014: 569).

## 2. Basis of preparation

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

## 3. Significant accounting policies

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

### (a) Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognized in profit or loss. Foreign currency differences arising from retranslation of transactions with owners are recorded directly in equity.

### (b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but no future credit Losses.

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

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

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

### (c) Fees and commissions

Fees, commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate (see (b)).

Other fee and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognized as the related services are performed. If a loan commitment is not expected to result in a draw-down of a loan, then the related loan commitment fees are recognized on a straight line basis over the commitment period.

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

## 3. Significant accounting policies (continued)

### (d) Leases

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The Bank enters into leases only as a lesser, and in this respect has entered only into operating lease agreements, payments under which are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### (g) Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Tax

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

(ii) Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made (see note (5)(c)).

## 3. Significant accounting policies (continued)

### (h) Financial assets and financial liabilities

(i) Recognition

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

(ii) Classification

**Financial Assets**

The Bank classifies its financial assets in one of the following categories:

- loans and receivables, subsequently measured at amortised cost;
- held-to-maturity, subsequently measured at amortised cost; or
- available-for-sale, subsequently measured at fair value.

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

**Financial liabilities**

The Bank classifies its financial liabilities as other financial liabilities, subsequently measured at amortised cost.

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

(iii) De-recognition

**Financial Assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

## 3. Significant accounting policies (continued)

### (h) Financial assets and financial liabilities (continued)

(iii) De-recognition

**Financial liabilities**

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

(iv) Off-setting

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

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

(v) Amortized cost measurement

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

(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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data or the transaction is closed out.

The fair value of a demand deposit is not less that the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## 3. Significant accounting policies (continued)

### (h) Financial assets and financial liabilities (continued)

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

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank because of financial difficulties experienced by the client and on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other nationally or locally observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group, or a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for individual impairment. Those financial assets found not to be individually impaired are then collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Expected cash flows from impaired loans and advances includes the estimated proceeds from the realization of collateral. Proceeds from collateral are estimated by applying discounts (haircuts) to estimated market vaue and establishing a timeframe for collection, depending on the collateral type.

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

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

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses previosulsy recognized 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 amortization, and the current fair

## 3. Significant accounting policies (continued)

### (h) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

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

### (i) Cash and cash equivalents

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

### (j) Loans and advances

Loans and advances to banks and customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value and subsequently measured at amortized cost plus incremental direct transaction costs, using the effective interest method. After initial measurement, they are subsequently measured at amortized cost using effective interest rate, less allowance for impairment. The amortization is included in the interest income in profit or loss. The losses arising from impairment are recognized in the profit or loss in net impairment loss on financial assets.

### (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 that the Bank has the positive intent and ability to hold to maturity, which are not designated at fair value through profit or loss or available-for-sale.

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

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition. Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend.

## 3. Significant accounting policies (continued)

### (k) Investment securities (continued)

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss. Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

### (l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized with other income in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

(iii)Depreciation

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

| | 2015 | 2014 |
|---|---|---|
| • Buildings | 20 years | 20 Years |
| • IT and Electrical Equipment | 4 to 8 years | 4 to 12 years |
| • Furniture | 3 to 10 years | 3 to 10 years |
| • Other non-electrical assets | 5 years | 5 years |

(iv) Change in estimate

During 2015, the Bank conducted an operational efficiency review of its ATM machines which resulted in changes in their expected usage. As a result, the expected useful life of ATM decreased to 8 years and the depreciation rate increased to 12.5%. The effect of these changes on the actual and expected depreciation expense, included in ‘depreciation and amortization’ was as follows:

| | 2015 | 2016 | 2017 | 2018 | 2019 | Later |
|---|---|---|---|---|---|---|
| Increase/(decrease) in depreciation expense | 32,111 | (5,071) | (6,427) | (4,147) | (2,188) | (14,278) |

## 3. Significant accounting policies (continued)

### (m) Intangible assets

Software, licences and trademarks compose intangible assets and are stated at cost less accumulated amortization. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is charged on a straight-line basis in profit or loss over the estimated useful lives, from the date that it is available for use. During 2015, the Bank conducted an operational efficiency review of its software useful life which resulted in an increased useful life of 5 years. The estimated useful lives for the current and comparative periods are as follows:

| | **2015** | **2014** |
|---|---|---|
| • Software | 5 years | 4 years |
| • Licences and trademarks | 10 years | 10 years |

### (n) Inventory

Inventory comprises repossessed assets acquired through enforcement of security over non-performing loans and advances to customers that do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time, without significant restructuring. Repossessed assets are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss**.**

### (o) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amount of its non-financial assets, other than inventory and deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. 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.

### (p) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank’s sources of debt funding.

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

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (“repo” or “stock lending”), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank’s financial statements.

## 3. Significant accounting policies (continued)

### (q) Repurchase agreements and reverse repurchase agreements

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

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

### (r) Provisions

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

### (s) Employee benefits

(i) Defined contribution plans

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred.

(ii) Short-term benefits

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

## 3. Significant accounting policies (continued)

### (t) New standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015. However, the Bank has not early applied the following new or amended standards in preparing these financial statements.

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

Other amended standards are not expected to have a significant impact of the Bank's financial statements.

## 4. Financial Risk Management

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

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

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

**Risk management framework**

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

Risk Management Division is responsible for developing and monitoring the Bank's risk management policies in these areas. All the Bank's committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

### (a) Credit Risk

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

**Management of credit risk**

The Board of Directors of the Bank has delegated responsibility of decision-making to the CEO. The latter has further delegated and distributed the authority of decision-making to the Local Credit Committee. The Risk Management Division, reporting to the CEO, is responsible for the oversight and management of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk*. The Bank's Credit Risk Department assesses all credit exposures, prior to commitment with customers by the Bank. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

## 4. Financial Risk Management (continued)

### (a) Credit Risk (continued)

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

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

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

**Maximum Exposure to Credit Risk**

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

| | Gross Maximum Exposure | |
|---|---|---|
| | **31 December 2015** | **31 December 2014** |
| Cash and cash equivalents (excluding cash on hand) | 15,241,271 | 14,890,459 |
| Loans and advances to banks | 23,902,937 | 25,343,535 |
| Financial assets available-for-sale | 4,457,428 | 3,969,543 |
| Financial assets held-to-maturity | 51,863,186 | 57,309,439 |
| Loans and advances to customers | 40,627,846 | 40,341,394 |
| Sundry debtors | 57,498 | 204,267 |
| **Total on-balance-sheet risk** | **136,150,166** | **142,058,637** |
| Undrawn credit commitments | 5,804,593 | 7,425,526 |
| Letters of credit | 279,391 | 829,112 |
| Guarantees in favour of customers | 5,230,505 | 5,346,600 |
| **Total credit related commitments** | **11,314,489** | **13,601,238** |
| **Total Credit Risk Exposure** | **147,464,655** | **155,659,875** |

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

## 4. Financial Risk Management (continued)

### (a) Credit Risk (continued)

**Credit Quality by class of financial assets**

The tables below show the credit quality of the financial assets exposed to credit risk, based on the Bank's internal ratings. In the Past Due classification below, loans and advances include exposures more than 90 days past due and collectively impaired (2014: 90 days). The collective impairment is allocated in accordance with default rate of the group with similar credit risk characteristics where customers belong.

The financial assets in the tables below are gross of impairment allowances for both financial years ended as at 31 December 2015 and 31 December 2014:

| 31 December 2015 | Neither past due nor individually impaired | Past due, not individually impaired | Individually Impaired | Total |
|---|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 15,241,271 | - | - | 15,241,271 |
| Loans and advances to banks | 23,902,937 | - | - | 23,902,937 |
| Loans and advances to customers: | | | | |
| Commercial lending | 29,756,498 | 420,868 | 6,901,868 | 37,079,234 |
| Mortgage lending | 4,762,792 | 666,384 | 887,888 | 6,317,064 |
| Consumer lending | 1,500,214 | 3,082 | 100,407 | 1,603,703 |
| | **36,019,504** | **1,090,334** | **7,890,163** | **45,000,001** |
| Financial Assets available for sale: | | | | |
| Listed financial institutions | 3,146,034 | - | - | 3,146,034 |
| Unlisted financial institutions | 1,311,399 | - | - | 1,311,399 |
| | **4,457,433** | **-** | **-** | **4,457,433** |
| Financial Assets held to maturity: | | | | |
| Listed companies | 3,491,625 | - | - | 3,491,625 |
| Government securities | 48,371,561 | - | - | 48,371,561 |
| | **51,863,186** | **-** | **-** | **51,863,186** |
| **Total** | **131,484,331** | **1,090,334** | **7,890,163** | **140,464,828** |

| 31 December 2014 | Neither past due nor individually impaired | Past due, not individually impaired | Individually Impaired | Total |
|---|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 14,890,459 | - | - | 14,890,459 |
| Due from Banks | 25,343,535 | - | - | 25,343,535 |
| Loans and advances to customers: | | | | |
| Commercial lending | 27,749,739 | 1,169,413 | 9,600,673 | 38,519,825 |
| Mortgage lending | 4,835,224 | 833,697 | 1,117,527 | 6,786,448 |
| Consumer lending | 1,715,477 | 21,686 | 144,801 | 1,881,964 |
| | **34,300,440** | **2,024,796** | **10,863,001** | **47,188,237** |
| Financial Assets available for sale: | | | | |
| Listed financial institutions | 2,106,528 | - | - | 2,106,528 |
| Unlisted financial institutions | 1,863,015 | - | - | 1,863,015 |
| | 3,969,543 | - | - | **3,969,543** |
| Financial Assets held to maturity: | | | | |
| Listed companies | 5,114,010 | - | - | 5,114,010 |
| Government securities | 52,195,429 | - | - | 52,195,429 |
| | **57,309,439** | **-** | **-** | **57,309,439** |
| **Total** | **135,813,416** | **2,024,796** | **10,863,001** | **148,701,213** |

# 4. Financial Risk Management (continued)

## (a) Credit Risk (continued)

### Credit Quality by class of financial assets (continued)

Loans and advances to customers are the only class of financial assets resulting in non-performing categories which are not necessarily subject to individual impairment assessment. During 2015, the Bank complied with the new “Handbook on the Rules and Criteria for Classification of Credit Exposure for Consolidation Purposes” issued by the Group classifying loans and advances to customers in four main categories being a) performing; b) past due; c) unlikely to pay; d) doubtful. Assessments for impairment are made in accordance with the ISP Individual Assessment Handbook according to which the performing category is subject to collective assessment for impairment, while the other three categories can be subject to either individual or collective assessment for impairment.

An ageing analysis of loans past due but not individually impaired as at 31 December 2015 and 2014 is shown in the tables below:

| 31 December 2015 | 91 to 180 days | more than 180 days | Total |
|---|---|---|---|
| Loans and advances to customers: | | | |
| Commercial lending | 152,604 | 268,264 | 420,868 |
| Mortgage lending | 258,754 | 407,630 | 666,384 |
| Consumer lending | 2,331 | 751 | 3,082 |
| **Total** | **413,689** | **676,645** | **1,090,334** |

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

### Impaired loans and securities

Impaired loans and securities are the ones for which the Bank determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the agreement(s). The Bank classifies loans and advances to customers in performing and non-performing categories as described above and performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective carrying amount of the loans. Loans that do not show objective evidence for individual impairment are assessed collectively for impairment using indicative information on annual default dates, loss rates and loss confirmation period compiled by the Bank for the groups of loans with similar risk characteristics. Collective impairment is also assessed for customers tested individually, but with no resulting need for individual impairment.

### Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

## 4. Financial Risk Management (continued)

### (a) Credit Risk (continued)

**Allowances for impairment**

The main components of this allowance are a specific loss component that relates to individually significant exposures, as well as collectively assessed and less significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred, but have not been identified on loans subject to individual assessment for impairment.

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

| | Net Exposure to Loans and advances to customers | |
|---|---|---|
| **Individually impaired** | **31 December 2015** | **31 December 2014** |
| Gross amount | 7,890,163 | 10,863,001 |
| Allowance for impairment | (3,966,066) | (6,313,594) |
| **Carrying amount** | **3,924,097** | **4,549,407** |
| **Collectively impaired** | | |
| Gross amount | 37,109,837 | 36,325,236 |
| Allowance for impairment | (406,088) | (533,249) |
| **Carrying amount** | **36,703,749** | **35,791,987** |
| **Total carrying amount on Loans and advances to customers** | **40,627,846** | **40,341,394** |

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

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

| | Individually Impaired Loans and advances to customers | |
|---|---|---|
| | **Gross** | **Net** |
| **31 December 2015** | | |
| Performing | 151,705 | 150,398 |
| Past Due | 249,255 | 146,996 |
| Unlikely to Pay | 2,617,781 | 1,174,930 |
| Doubtful | 4,871,423 | 2,451,773 |
| **Total** | **7,890,164** | **3,924,097** |
| **31 December 2014** | | |
| Performing | 38,905 | 37,913 |
| Past Due | 190,857 | 131,923 |
| Unlikely to Pay | 1,781,327 | 1,329,044 |
| Doubtful | 8,851,912 | 3,050,527 |
| **Total** | **10,863,001** | **4,549,407** |

The unlikely-to-pay category includes restructured and substandard loans. The carrying amount of restructured loans, net of impairment allowances, as at 31 December 2015 is Lek 534,881 (2014:Lek 129,851).

The increase of coverage ratio in the unlikely-to-pay category is due to the reclassification of two exposures totaling to Lek 1,200 million, previously part of the doubtful category. Set out below is the carrying amount of restructured loans and advances to customers, net of impairment allowances, by product:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Commercial lending | 465,986 | 87,762 |
| Mortgage lending | 68,895 | 42,089 |
| **Total** | **534,881** | **129,851** |

# 4. Financial Risk Management (continued)

## (a) Credit Risk (continued)

### Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Board of Directors determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position, such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and the loan is classified as lost for regulatory reporting purpose for a period of at least 3 years. The Bank's policy is also in compliance with the amended Regulation no.62 dated 14.09.2011 "On Administration of Credit Risk for Banks and Foreign Banks Subsidiaries".

The estimated cash flows derived from the collateral, including guarantees securing the exposures, are usually the main source of future cash flows from non-performing loans. Some of the valuation parameters used for the calculation are:

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

The recovery costs are deducted from estimated future cash flows. Collateral, generally, is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2015 or 2014. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated every three years. An estimate of the undiscounted and discounted fair value of collaterals and other security enhancements held against financial assets is shown below:

| | **Collateral of Loans and advances to customers 31 December 2015** | | **Collateral of Loans and advances to customers 31 December 2014** | |
|---|---|---|---|---|
| | **Undiscounted** | **Discounted** | **Undiscounted** | **Discounted** |
| **Against individually impaired** | | | | |
| Property | 16,379,285 | 7,065,201 | 20,882,198 | 9,328,777 |
| Debt securities | 818,012 | 254,166 | 1,067,334 | 351,071 |
| Pledges and guarantees | 7,729,568 | 149,938 | 8,284,333 | 130,040 |
| Other | 54,912 | - | 56,056 | - |
| **Total** | **24,981,777** | **7,469,305** | **30,289,921** | **9,809,888** |
| **Net carrying amount** | | **3,924,097** | | **4,549,407** |

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net amount shows the present value of the same collaterals under this test.

### Allowances for impairment (continued)

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

## 4. Financial Risk Management (continued)

### (a) Credit Risk (continued)

| | Collateral of Loans and advances to customers 31 December 2015 | | Collateral of Loans and advances to customers 31 December 2014 | |
|---|---|---|---|---|
| **Against Collectively Impaired** | **Undiscounted** | **Discounted** | **Undiscounted** | **Discounted** |
| Property | 73,595,312 | 26,427,885 | 69,706,670 | 27,933,127 |
| Pledges and guarantees | 18,031,206 | 4,352,121 | 22,059,328 | 4,338,578 |
| Cash | 2,411,938 | 2,340,468 | 3,642,598 | 3,465,644 |
| Debt securities | 3,873,025 | 1,425,575 | 1,392,875 | 452,189 |
| Other | 2,622,097 | - | 2,524,448 | - |
| **Total** | **100,533,578** | **34,546,049** | **99,325,919** | **36,189,538** |
| **Net carrying amount** | | **36,703,749** | | **35,791,987** |

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

When the Bank holds repossessed assets in its ownership, their conversion into cash is the first aim of the Bank, through marketing the properties for sale. If there is no satisfactory offer collected, the Bank's practice is to keep the asset for sale until receiving the best offer. Depending on operational needs and the suitability of the asset to fulfill those needs, management may decide to make use of the property; in such cases a reclassification into property and euqipment of the Bank is performed. The nature and the respective amounts of repossessed properties are disclosed in note 14.

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

| | Net Loans and advances to customers | |
|---|---|---|
| **Concentration by sector** | **31 December 2015** | **31 December 2014** |
| Services | 16,328,756 | 15,440,707 |
| Wholesale | 8,422,368 | 7,288,615 |
| Construction | 3,487,760 | 4,599,689 |
| Manufacturing | 3,959,989 | 3,898,728 |
| Real Estate | 150,256 | 193,604 |
| Other | 937,710 | 1,045,669 |
| **Corporate** | **33,286,839** | **32,467,012** |
| Mortgage | 5,851,935 | 6,152,666 |
| Consumer | 1,489,072 | 1,721,716 |
| **Retail** | **7,341,007** | **7,874,382** |
| **Carrying amount** | **40,627,846** | **40,341,394** |

| | Loans and advances to banks | |
|---|---|---|
| **Concentration by sector** | **31 December 2015** | **31 December 2014** |
| Bank | 23,902,937 | 25,343,535 |
| **Carrying amount** | **23,902,937** | **25,343,535** |

| | Financial Investments | |
|---|---|---|
| **Concentration by sector** | **31 December 2015** | **31 December 2014** |
| Sovereign | 53,263,462 | 57,713,956 |
| Bank | 3,057,152 | 3,565,026 |
| **Carrying amount** | **56,320,614** | **61,278,982** |

## 4. Financial Risk Management (continued)

### (a) Credit Risk (continued)

The credit quality of the maximum credit exposure of debt securities based on Moody's ratings, where applicable, is as follows:

| | Financial Investments (debt securities) | |
|---|---|---|
| **Sovereign** | **31 December 2015** | **31 December 2014** |
| Rated Aaa | 961,469 | 419,472 |
| Rated Baa2 | 4,238,737 | 3,671,550 |
| Rated B1 | 48,613,729 | 52,239,960 |
| Rates non available | - | 1,382,974 |
| | **53,813,935** | **57,713,956** |
| **Bank** | | |
| Rated Aaa | 1,671,467 | 1,131,368 |
| Rate Baa1 | - | 786,914 |
| Rate Baa2 | 835,212 | 1,220,355 |
| Rate Baa3 | - | 247,168 |
| Rate Ba3 | - | - |
| Rate Ba1 | - | 179,221 |
| | **2,506,679** | **3,565,026** |
| **Total carrying amount** | **56,320,614** | **61,278,982** |

**Concentration of Credit Risk**

The following concentractions of credit risk arise in the Bank's credit-risk portfolio.

| | 31 December 2015 | Exposure In % | 31 December 2014 | Exposure In % |
|---|---|---|---|---|
| Republic of Albania securities | 48,613,730 | 36% | 52,239,961 | 37% |
| Balances with Central Bank of Albania | 11,121,210 | 8% | 11,181,739 | 8% |
| **Total direct Albanian Sovereign risk** | **59,734,940** | **44%** | **63,421,700** | **45%** |
| Largest bank | 10,079,644 | 7% | 10,111,842 | 7% |
| Largest customer | 5,989,326 | 4% | 6,562,604 | 5% |
| **Total largest bank and customer** | **16,068,970** | **11%** | **16,674,446** | **12%** |
| **Total on-balance-sheet risk** | **75,803,910** | **55%** | **80,096,146** | **57%** |

The largest bank exposure is with a foreign bank and the largest customer is a state-owned local company.

# 4. Financial Risk Management (continued)

## (a) Credit Risk (continued)

### Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets, as contractually agreed. The settlement risk with financial institutions and government counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring, defined and regulated in the internal regulation "ISBA Counterparty limits for Financial Institutions" and Central Bank of Albania regulation "On risk management arising from the large exposures of the Bank".

The Bank of Albania regulation "On risk management arising from the large exposures of Bank" was revised during 2014 and entered in force in March 2015. Following these amendments, the Bank was in breach of the regulation with the exposure towards its parent and to the Republic of Italy. After implementation of a detailed action plan, presented to the Bank of Albania, the Bank entered within the limit in August 2015 with these two counterparties.

### Liquidity Risk

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

### Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan, which are subject to review by Group structures and approval by the Bank's Financial Risk Committee and Board of Directors. The Finance and Capital Market Division is responsible for liquidity management and the Risk Management Division is responsible for monitoring indicators and verifying the adherence to the limits.

During 2015, The Bank's Regulation on Liquidity Risk Management was updated in order to fully comply with the new Group Liquidity Risk Guideline and was approved by the Board of Directors in December 2015. The new policy implements the latest regulatory provisions issued through the so-called «Delegated Regulation» and by the Basel Committee (BCBS October 2014).

The Bank monitors liquidity, in accordance with this regulation, in order to manage its obligations when they fall due and activate emergency procedures in case of escalation. A balanced ratio should be maintained between incoming sources and outflows, in both the short and medium-long term. This target is organized through the use of the following specific metrics "Liquidity Coverage Ratio up to 30 days" and "Net Stable Funding Ratio".

## 4. Financial Risk Management (continued)

### (b) Liquidity Risk (continued)

- **Liquidity Coverage Ratio (LCR)** up to 30 days**:** aims to ensure that the bank maintains an adequate level of unencumbered high-quality liquid assets (HQLA) to meet its short term liquidity needs under liquidity stress scenario (LCR≥80%).
- **Net Stable Funding Ratio (NSFR):** has the purpose of guaranteeing an adequate liquidity position over a medium/long-term time horizon. It establishes a minimum "acceptable" amount of funding over one year horizon in relation to the needs arising from the liquidity characteristics and the residual maturities of assets and off-balances exposures (NSFR≥90%).

Holding reserves of liquid assets (so-called Liquidity Buffer) is one of the main tools for mitigating liquidity risk. For the purpose of identifying and measuring this risk, both short and medium-long term, the classification of highly-liquid assets takes on crucial importance.

In its Liquidity Policy, the Bank projects a LCR indicator of up to 3 months by including the estimated market effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis, based on assumptions provided by the Group guidelines.

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

All the above liquidity ratios are periodically monitored by the Bank with reference to Group internal limits and guidelines and to Central Bank of Albania requirements.

## 4. Financial Risk Management (continued)

### (b) Liquidity Risk (continued)

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, based on internal local regulations and Group Liquidity Guidelines, as at 31 December 2015 and 2014. The information is not reconcilable as it is provided by management and adjusted as explained below. It considers the undiscounted cash flows in/out of the Bank for on and off-balance-sheet financial assets and liabilities, according to contractual maturity and not reflecting any retention history assumptions or earlier repayment. It reflects assumptions of one scenario as: liquidity reserves - 1st line, 2nd line and 3rd line reserve, behavioural coefficients applied for current accounts and overdrafts to customers, and drawdown percentages for off-balance-sheet categories such as committed credit lines and guarantees.

| **31 December 2015** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets (Cash Flow IN)** | **69,684,144** | **19,430,671** | **14,006,235** | **32,523,841** | **6,730,943** | **142,375,834** |
| Net Cash | 1,100,646 | - | - | - | - | **1,100,646** |
| Minimum reserve requirements | 713,181 | - | - | 10,883,187 | - | **11,596,368** |
| Advances to banks | 8,650,220 | - | - | - | - | **8,650,220** |
| Held-to-maturity and Available-for-sale Investment Securities – 1st line reserves | 46,221,948 | - | - | - | - | **46,221,948** |
| Other Held-to-maturity and Available-for-sale Investment Securities – 2nd line reserves | - | - | - | - | - | **-** |
| Other Held-to-maturity and Available-for-sale Investment Securities – 3rd line reserves | 191,467 | 9,291,373 | 2,410,032 | 3,190,938 | 455,679 | **15,539,489** |
| Loans to banks | 5,506,941 | 8,223,681 | 5,687,110 | - | - | **19,417,732** |
| Loans and advances to customers (gross performing loans) | 7,299,741 | 1,915,617 | 5,909,093 | 18,449,716 | 6,275,264 | **39,849,431** |
| **31 December 2015** | | | | | | |
| **Liabilities (Cash flow OUT)** | **(16,584,292)** | **(15,143,442)** | **(46,635,526)** | **(43,208,117)** | **(19,052)** | **(121,590,429)** |
| Deposits from banks and customers- Current accounts | (8,215,239) | (4,188,979) | (8,967,493) | (36,261,877) | - | **(57,633,588)** |
| Current accounts with banks | (82,569) | - | - | - | - | **(82,569)** |
| Current accounts with customers | (8,132,670) | (4,188,979) | (8,967,493) | (36,261,877) | - | **(57,551,019)** |
| Deposits from banks | (1,870,520) | - | - | - | - | **(1,870,520)** |
| of which: cash on repo and on securities lent | - | - | - | - | - | **-** |
| Deposits from customers - Time deposits | (6,498,533) | (10,954,463) | (37,668,033) | (6,946,240) | (19,052) | **(62,086,321)** |
| **Total gap on-balance sheet** | **53,099,852** | **4,287,229** | **(32,629,291)** | **(10,684,276)** | **6,711,891** | **20,785,405** |
| Off- Balance sheet (Cash flow in) | - | - | - | - | - | |
| Off- Balance sheet (Cash flow out) | (264,965) | - | - | - | - | **(264,965)** |
| **Total gap off-balance sheet** | **(264,965)** | **-** | **-** | **-** | **-** | **(264,965)** |
| **Total gap 31 December 2015** | **52,834,887** | **4,287,229** | **(32,629,291)** | **(10,684,276)** | **6,711,891** | **20,520,440** |
| **Cumulated gap 31 December 2015** | **52,834,887** | **57,122,116** | **24,492,825** | **13,808,549** | **20,520,440** | |

## 4. Financial Risk Management (continued)

### (b) Liquidity Risk (continued)

| 31 December 2014 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets (Cash Flow IN)** | **69,413,547** | **10,685,874** | **17,908,314** | **38,827,757** | **11,353,156** | **148,188,648** |
| Net Cash | 999,313 | - | - | - | - | **999,313** |
| Minimum reserve requirements | 208,984 | - | - | 11,086,393 | - | **11,295,377** |
| Advances to banks | 8,913,033 | - | - | - | - | **8,913,033** |
| Held-to-maturity and Available-for-sale Investment Securities – 1st line reserves | 560,849 | - | - | - | - | **560,849** |
| Other Held-to-maturity and Available-for-sale Investment Securities – 2nd line reserves | 49,077,073 | - | - | - | - | **49,077,073** |
| Other Held-to-maturity and Available-for-sale Investment Securities – 3rd line reserves | 1,235,689 | 4,979,919 | 4,140,285 | 7,550,718 | 843,866 | **18,750,477** |
| Loans to banks | 5,968,183 | 3,696,655 | 7,811,639 | 2,856,634 | - | **20,333,111** |
| Loans and advances to customers (gross performing loans) | 2,450,423 | 2,009,300 | 5,956,390 | 17,334,012 | 10,509,290 | **38,259,415** |
| **31 December 2014** | | | | | | |
| **Liabilities (Cash flow OUT)** | **(18,751,363)** | **(14,506,632)** | **(43,963,666)** | **(18,979,670)** | **(31,858,892)** | **(128,060,223)** |
| Deposits from banks and customers- Current accounts | (4,492,938) | (1,930,842) | (3,861,684) | (7,723,368) | (31,858,892) | **(49,867,724)** |
| Current accounts with banks | (102,745) | - | - | - | - | **(102,745)** |
| Current accounts with customers | (4,390,193) | (1,930,842) | (3,861,684) | (7,723,368) | (31,858,892) | **(49,764,979)** |
| Deposits from banks | (4,512,558) | (1,047,758) | - | - | - | **(5,560,316)** |
| of which: cash on repo and on securities lent | (708,500) | (1,047,758) | - | - | - | **(1,756,258)** |
| Deposits from customers- Time deposits | (9,745,867) | (11,528,032) | (40,101,982) | (11,256,302) | - | **(72,632,183)** |
| **Total gap on-balance sheet** | **50,662,184** | **(3,820,758)** | **(26,055,352)** | **19,848,087** | **(20,505,736)** | **20,128,425** |
| Off- Balance sheet (Cash flow in) | (4,492,938) | (1,930,842) | (3,861,684) | (7,723,368) | (31,858,892) | **(49,867,724)** |
| Off- Balance sheet (Cash flow out) | (102,745) | - | - | - | - | **(102,745)** |
| **Total gap off-balance sheet** | **(4,595,683)** | **(1,930,842)** | **(3,861,684)** | **(7,723,368)** | **(31,858,892)** | **(49,970,469)** |
| **Total gap 31 December 2014** | **46,066,501** | **(5,751,600)** | **(29,917,036)** | **12,124,719** | **(52,364,628)** | **(29,842,044)** |
| **Cumulated gap 31 December 2014** | **46,066,501** | **40,314,901** | **10,397,865** | **22,522,584** | **(29,842,044)** | |

# 4. Financial Risk Management (continued)

## (b) Liquidity Risk (continued)

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

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

| 31 December 2015 | 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|
| Commitments | 6,268,006 | - | - | - | - | **6,268,006** |
| Guarantees | 5,509,896 | - | - | - | - | **5,509,896** |
| **31 December 2014** | | | | | | |
| Commitments | 7,425,526 | - | - | - | - | **7,425,526** |
| Guarantees | 6,175,712 | - | - | - | - | **6,175,712** |

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

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Commitments** | **6,268,006** | **7,425,526** |
| Un-drawn credit facilities | 6,268,006 | 7,425,526 |
| **Guarantees** | **5,509,896** | **6,175,712** |
| Letters of credit | 279,391 | 829,112 |
| Guarantees in favor of customers | 5,230,505 | 5,346,600 |

## c) Market Risk

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

### Management of market risks

The Bank holds its securities portfolio in accordance with IAS 39 as either Held-to-maturity or Available-for-sale portfolio.

## 4. Financial Risk Management (continued)

### c) Market Risk (continued)

**Exposure to Foreign Exchange rate risk**

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

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

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

The VaR methodology introduced in the internal procedure is based on the weighted historical simulation technique. The weights used in the model are assigned employing an exponentially declining function with a decay factor of 0.992 and the time window covers a period of 250 days, which is in line with the Group Guidelines. The 1-day, 99% VaR was Lek 1.2 million as of 31 December 2015, with an average of Lek 0.6 million during the year (December 2014: Lek 0.6 million and average Lek 0.5 million).

The effectiveness of the VaR calculations was monitored daily via backtesting by comparing the estimates of value at risk with the end of the day unrealized losses. The backtesting indicates that the VaR accurately predicts the amount of unrealized daily losses. The VaR level was within the limit during 2015 and 2014, and the Stop Loss limit was within the limit during 2015 and 2014.

The Bank has been within the limits of the Central Bank of Albania regulation during the year 2015.

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

## 4. Financial Risk Management (continued)

### c) Market Risk (continued)

| Assets | LEK | USD | EUR | OTHER | TOTAL |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,939,037 | 1,078,549 | 12,850,343 | 473,429 | **16,341,358** |
| Loans and advances to banks | 4,361,122 | 4,784,242 | 14,514,824 | 242,749 | **23,902,937** |
| Financial Investments Available-for-sale | 161,938 | 1,882,338 | 1,788,811 | 624,341 | **4,457,428** |
| Financial Investments Held-to-maturity | 46,060,011 | 2,530,156 | 3,273,019 | - | **51,863,186** |
| Loans and advances to customers | 12,792,540 | 2,557,280 | 25,277,980 | 46 | **40,627,846** |
| Property and equipment | 1,202,269 | - | - | - | **1,202,269** |
| Intangible assets | 590,563 | - | - | - | **590,563** |
| Deferred tax assets | 82,103 | - | - | - | **82,103** |
| Current tax assets | 282,007 | - | - | - | **282,007** |
| Inventory and other assets | 210,459 | 17,552 | 1,848,594 | 1,093 | **2,077,698** |
| **Total Assets** | **67,682,049** | **12,850,117** | **59,553,571** | **1,341,658** | **141,427,395** |
| **Liabilities** | | | | | |
| Due to Banks | 1,927,512 | 4,258 | 21,260 | 2 | **1,953,032** |
| Due to customers | 47,282,144 | 12,660,296 | 57,566,049 | 1,333,637 | **118,842,126** |
| Provisions | 253,418 | 323 | 126,067 | - | **379,808** |
| Other liabilities | 568,933 | 27,291 | 112,237 | 666 | **709,127** |
| Current tax liabilities | 110,676 | - | - | - | **110,676** |
| Deferred tax liabilities | 46 | - | - | - | **46** |
| **Net Equity** | 19,409,815 | 6,675 | 9,255 | 6,835 | **19,432,580** |
| **Total Liabilities and equity** | **69,552,544** | **12,698,843** | **57,834,868** | **1,341,140** | **141,427,395** |
| **Net Open Position at 31 December 2015** | (1,870,495) | 151,274 | 1,718,703 | 518 | **-** |
| Off balance sheet Assets | 10,840,649 | 5,927,895 | 108,033,459 | 223,906 | **125,025,909** |
| Off balance sheet Liabilities | 10,921,783 | 6,037,087 | 107,844,009 | 223,030 | **125,025,909** |
| **Net Off balance sheet FX Position at 31 December 2015** | **(81,134)** | **(109,192)** | **189,450** | **876** | **-** |
| **Total Net FX Position at 31 December 2015** | **(1,951,629)** | **42,082** | **1,908,153** | **1,394** | **-** |
| Balance sheet Assets as at 31 December 2014 | 72,418,687 | 15,856,671 | 58,427,755 | 1,330,971 | **148,034,084** |
| Balance sheet Liabilities and equity as at 31 December 2014 | 76,017,944 | 15,214,421 | 55,483,123 | 1,318,596 | **148,034,084** |
| **Net Off balance sheet FX Position at 31 December 2014** | **82,885** | **53,248** | **(135,981)** | **14,026** | **14,178** |
| **Total Net FX Position at 31 December 2014** | **(3,516,372)** | **695,498** | **2,808,651** | **26,401** | **14,178** |

## 4. Financial Risk Management (continued)

### c) Market Risk (continued)

**Exposure to Interest Rate risk**

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

The method used to measure Interest Rate risk of the Bank's assets and liabilities is based on the sensitivity analysis. Shift sensitivity of fair value quantifies the change in economic value of a financial portfolio resulting from adverse movements in the interest rates. The adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. This measure highlights the effect of the variation in market interest rates on the portfolio being measured, with the assumption of no future changes in the mix of assets and liabilities. The sensitivity of equity is calculated by revaluing the Available-for-sale securities portfolio. The Bank's financial assets and liabilities have mainly variable interest rate or have a re-pricing date of less than one year, except for Albania Securities and for certain non-Albania securities investment, which have coupon rate between 1.2 – 6.9% for USD denominated securities (2014: 2.2 - 6.9%), between 1.4 – 5.8% for EUR denominated securities (2014: 1.6 - 4.5%) and between 1 - 5.6% for GBP denominated securities (2014: 1 - 5.6%).
Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity analysis of ± 100 basis points, registered at the end of December 2015 a value of (Lek 761 million) (for +100 basis points) compared to the end of year 2014 (Lek 742 million). The table below shows the currency breakdown of the shift sensitivity for the year end 2015 and 2014.

The Bank's Regulation on Interest rate Risk Management is under revision in order to fully comply with the new Group Interest Rate Risk Guideline issued on July 2015.

| Shift sensitivity 31 December 2015 | Increase in basis points | Total | Sensitivity of Profit & Loss | Sensitivity of Equity |
|---|---|---|---|---|
| EUR | +100 b.p. / -100 b.p. | (291,356)/81,254 | (281,490)/84,199 | (9,867)/(2,945) |
| USD | +100 b.p. / -100 b.p. | (229,040)/255,359 | (206,062)/233,459 | (22,978)/21,900 |
| LEK | +100 b.p. / -100 b.p. | (234,626)/24,6587 | (234,626)/246,587 | |
| Other (GBP & CHF) | +100 b.p. / -100 b.p. | (6,395)/7,119 | 1,855/(1,259) | (8,251)/8,378 |

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

A different method used to measure Interest Rate risk is required by the Central Bank of Albania, which consist of quarterly monitoring of the interest rate risk exposure towards a parallel shock of ±200 basis points of the interest rate curve. For all the financial categories of assets & liabilities divided into either fixed or floating rate, their present value is calculated and is distributed in 14 time buckets. The total present value is then multiplied accordingly with the estimated modified duration of each time bucket. The limit for this exposure is 20% of the Bank's regulatory capital. For the year 2015 the Bank has been within the limit with the interest rate risk exposures at 31 December 2015 being 0.8% of the Bank's regulatory capital compared to the interest rate risk exposures at 31 December 2014 being 1.73% of the Bank's regulatory capital.

# 4. Financial Risk Management (continued)

## c) Market Risk (continued)

### Exposure to Interest Rate risk

The tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities with both fixed and non-fixed interest rates

| 31 December 2015 | Up to 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 year | > 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 16,341,358 | - | - | - | - | - | **16,341,358** |
| Loans and advances to banks | 12,056,374 | 7,003,365 | 4,843,198 | - | - | - | **23,902,937** |
| Loans and advances to customers | 7,442,333 | 1,953,036 | 3,012,260 | 3,012,260 | 18,810,111 | 6,397,846 | **40,627,846** |
| Financial investments available for sale | - | - | - | 142,205 | 3,399,744 | 915,479 | **4,457,428** |
| Financial investments held to maturity | 4,468 | 5,955,845 | - | - | 34,371,059 | 11,531,814 | **51,863,186** |
| Other financial assets | - | 57,598 | 57,498 | 96,919 | - | - | **212,015** |
| **Total financial assets** | **35,844,533** | **14,969,844** | **7,912,956** | **3,251,384** | **56,580,914** | **18,845,139** | **137,404,770** |
| **Liabilities** | | | | | | | |
| Deposits to banks | (1,953,032) | - | - | - | - | - | **(1,953,032)** |
| Due to customers | (56,072,826) | (6,705,518) | (9,031,820) | (37,697,034) | (9,334,928) | - | **(118,842,126)** |
| Other liabilities | (217,235) | (491,892) | - | - | - | - | **(709,127)** |
| **Total financial liabilities** | **(58,243,093)** | **(7,197,410)** | **(9,031,820)** | **(37,697,034)** | **(9,334,928)** | **-** | **(121,504,285)** |
| **Interest sensitivity gap** | **(22,398,560)** | **7,772,434** | **(1,118,864)** | **(34,445,650)** | **47,245,986** | **18,845,139** | **15,900,485** |

| 31 December 2014 | Up to 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 15,890,476 | - | - | - | - | - | **15,890,476** |
| Loans and advances to banks | 12,895,465 | 3,203,373 | 3,384,626 | 3,384,626 | 2,475,445 | - | **25,343,535** |
| Financial investments available for sale | - | - | - | - | 1,152,313 | 2,817,230 | **3,969,543** |
| Financial investments held to maturity | 1,019,626 | 3,497,901 | 7,465,486 | 7,465,486 | 36,684,298 | 1,176,642 | **57,309,439** |
| Loans and advances to customers | 2,583,769 | 2,118,641 | 3,140,261 | 3,140,260 | 18,277,284 | 11,081,179 | **40,341,394** |
| Other financial assets | - | 61,336 | 204,267 | 236,563 | - | - | **502,166** |
| **Total financial assets** | **32,389,336** | **8,881,251** | **14,194,640** | **14,226,935** | **58,589,340** | **15,075,051** | **143,356,553** |
| **Liabilities** | | | | | | | |
| Due to banks | (4,041,178) | (1,621,961) | - | - | - | - | **(5,663,139)** |
| Due to customers | (49,813,746) | (10,033,797) | (9,935,284) | (39,124,227) | (12,372,621) | - | **(121,279,675)** |
| Other liabilities | (515,165) | (560,233) | - | - | - | - | **(1,075,398)** |
| **Total financial liabilities** | **(54,370,089)** | **(12,215,991)** | **(9,935,284)** | **(39,124,227)** | **(12,372,621)** | **-** | **(128,018,212)** |
| **Interest sensitivity gap** | **(21,980,753)** | **(3,334,740)** | **4,259,356** | **(24,897,292)** | **46,216,719** | **15,075,051** | **15,338,341** |

# 4. Financial Risk Management (continued)

### d) Capital Management

The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing the impact of the level of capital on shareholders' return. The Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Implementing the current capital requirements, the Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off balance sheet items, at a minimum level of 12%. During financial year 2015 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2015 is calculated at 16.6% (2014: 18.2%).

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off balance sheet items, is another limit set by Bank of Albania at a percentage of 6%.

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

The March 2015 new regulation on Capital Adequacy Ratio (CAR) calculates CAR based on Basel II criteria and is in line with the European Directives for Financial Institutions resulting in a reducing CAR, however due to the capital the Bank possesses, the Bank CAR's remained well above the minimum level required during 2015, although there is a slight decline in a year to year comparison.

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## 5. Use of estimates and judgments

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

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

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

### (a) Impairment losses on loans and advances

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

### (b) Net realizable value of inventory

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value. The fair value measurement include the use of external, independent property values, having appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

## 5. Use of estimates and judgments (continued)

### (c) Fair value of financial instruments

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

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

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

| 31 December 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial investments Available-for-sale** | | | | |
| Quoted investments | | | | |
| Government debt securities | 1,708,643 | - | - | **1,708,643** |
| Other debt securities | 1,437,390 | 1,069,226 | - | **2,506,616** |
| Unquoted investments | - | 242,169 | | **242,169** |
| **Total** | **3,146,033** | **1,311,395** | **-** | **4,457,428** |

| 31 December 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial investments Available-for-sale** | | | | |
| Quoted investments | | | | |
| Government debt securities | 937,225 | - | - | **937,225** |
| Other debt securities | 1,169,304 | 1,818,483 | - | **2,987,787** |
| Unquoted investments | - | 44,531 | - | **44,531** |
| **Total** | **2,106,529** | **1,863,014** | **-** | **3,969,543** |

### (d) Deferred tax assets

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

### (e) Litigation risk

The Bank Management has established an internal process with respect to recognition and measurement of provisions and contingencies due to actual or threaten litigations. Key assumptions about the likelihood and magnitude of an outflow of resources are based on the internal and external legal advice following the respective successful defense strategies against resulting actions. Each action and corresponding risk is assessed on its merits and the underlying constructive or legal obligation and the estimate of cash outflows considered payable are independently approved from the Bank CEO. Management believes, that existing or potential future litigation are remote, however due to causes beyond legal background and framework further risks might be triggered.

## 6. Financial Assets and Liabilities

Accounting classification and fair values:

| | | Carrying Amount | | | | | Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Held-to-Maturity | Loans and receivables | Available-for-Sales | Other financial liabilities | Total carrying amount | Level 1 | Level 2 | Level 3 | Total |
| **31 December 2015** | | | | | | | | | | |
| Cash and cash equivalents | 7 | - | 16,341,358 | - | **-** | **16,341,358** | - | - | 16,341,358 | **16,341,358** |
| Investment securities | 10 | 51,863,186 | **-** | **4,457,428** | **-** | **56,320,614** | 48,371,561 | 8,092,779 | - | **56,464,340** |
| **Total** | | **51,863,186** | **16,341,358** | **4,457,428** | **-** | **72,661,972** | **48,371,561** | **8,092,779** | **16,341,358** | **72,805,698** |
| Deposits from customers | 16 | **-** | **-** | **-** | **118,842,126** | **118,842,126** | **-** | - | | **119,100,186** |
| **Total** | | **-** | **-** | **-** | **118,842,126** | **118,842,126** | **-** | **-** | **-** | **119,100,186** |

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

The major part of portfolio of loans and advances to customers is based on floating interest rates and they are re-priced on a quarterly, semiannually or yearly basis.

Management considers it impracticable to perform a calculation of the fair value of loans and advances to banks, loans and advances to customers and deposits from banks and believes that the fair values approximate the carrying amount. Expected future losses are not taken into account.

## 6. Financial Assets and Liabilities (continued)

| | | Carrying Amount | | | | | Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Held-to-Maturity** | **Loans and receivables** | **Available-for-Sales** | **Other financial liabilities** | **Total carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **31 December 2014** | | | | | | | | | | |
| Cash and cash equivalents | 7 | - | 15,890,476 | - | - | **15,890,476** | - | 15,890,476 | - | **15,890,476** |
| Investment securities | 10 | 57,309,439 | | **3,969,543** | **-** | **61,278,982** | 8,353,874 | 1,863,014 | 52,195,429 | **62,412,317** |
| **Total** | | **57,309,439** | **15,890,476** | **3,969,543** | **-** | **77,169,458** | **8,353,874** | **17,753,490** | **52,195,429** | **78,302,793** |
| Deposits from customers | 16 | **-** | **-** | **-** | **121,279,675** | **121,279,675** | - | - | **121,666,275** | **121,666,275** |
| **Total** | | **-** | **-** | **-** | **121,279,675** | **121,279,675** | **-** | **-** | **121,666,275** | **121,666,275** |

## 7. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2015 and 31 December 2014 can be detailed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash on hand | 1,100,087 | 1,000,016 |
| Current accounts with banks | 8,640,132 | 8,843,780 |
| Unrestricted balances with central bank | 244,147 | 82,484 |
| Money market placements | 6,356,992 | 5,964,196 |
| **Total** | **16,341,358** | **15,890,476** |

## 8. Loans and advances to banks

Loans and advances to banks as at 31 December 2015 and 31 December 2014 are composed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Compulsory reserve with central bank | 10,877,063 | 11,097,753 |
| Deposits with correspondent banks | 13,025,874 | 14,245,782 |
| **Total** | **23,902,937** | **25,343,535** |

In accordance with Bank of Albania requirements, the Bank should maintain a minimum of 10% of amounts due to customers with original maturities up to two years, as a compulsory reserve with the Central Bank. Such reserves are maintained in currencies that match the related due to customers balances. The amount required to be deposited is calculated monthly in arrears. According to the regulation of the Bank of Albania, 40% of this reserve in Lek is available for daily use by the Bank.

The obligatory reserve rate denominated in Lek is 70% of repurchase agreements rate. Meanwhile, this Lek balance had an interest rate as at 31 December 2015 of 1.23% a year (31 December 2014, 1.575% a year).

Deposits with banks comprise money market placements with an original maturity of over three months.

## 9. Financial investments available for sale

Financial investments available for sale as at 31 December 2015 and 31 December 2014 can be detailed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Corporate issuers** | | |
| **Debt securities** | **2,506,679** | **2,755,737** |
| Unlisted | 1,069,226 | 1,818,482 |
| Listed | 1,437,453 | 937,255 |
| **Sovereign issuers** | | |
| **Republic of Albania** | **242,169** | **44,532** |
| Unlisted | 242,169 | 44,532 |
| **EU member states** | **1,708,580** | **1,169,274** |
| Listed | 1,708,580 | 1,169,274 |
| **Total** | **4,457,428** | **3,969,543** |

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

## 10. Financial investments held to maturity

Financial investments held to maturity as at 31 December 2015 and 31 December 2014 can be detailed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Corporate issuers** | | |
| **Debt securities** | **550,477** | **809,288** |
| Listed | 550,477 | 809,288 |
| **Sovereign issuers** | | |
| **Republic of Albania** | **48,371,561** | **52,195,429** |
| Unlisted | 48,371,561 | 52,195,429 |
| **US and EU member states** | **2,941,148** | **4,304,722** |
| Listed | 2,941,148 | 4,304,722 |
| **Total** | **51,863,186** | **57,309,439** |

As at 31 December 2015, there were no reverse repurchase agreements, and therefore no securities pledged as collateral. (2014: Albanian government bonds of Lek 2,000,000 thousand were pledged as collateral).

## 11. Loans and advances to customers

Loans and advances to customers are composed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Loans | 29,515,687 | 28,858,135 |
| Overdrafts | 15,589,425 | 18,409,840 |
| Deferred disbursement fees | (105,111) | (79,738) |
| **Gross amount** | **45,000,001** | **47,188,237** |
| Allowance for impairment | (4,372,155) | (6,846,843) |
| **Total net amount** | **40,627,846** | **40,341,394** |

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

| | 2015 | 2014 |
|---|---|---|
| **Specific Allowance for impairment** | | |
| **Balance at 1 January** | **6,381,418** | **6,973,681** |
| Charge for the year | 4,283,376 | 1,782,851 |
| Recoveries | (3,553,505) | (1,165,336) |
| | **729,871** | **617,515** |
| Effect of movements in foreign exchange | 28,581 | 131,436 |
| Write-offs | (3,139,140) | (1,341,214) |
| **Balance at 31 December** | **4,000,730** | **6,381,418** |
| | | |
| **Collective Allowance for impairment** | | |
| **Balance at 1 January** | **465,425** | **507,006** |
| Charge for the year | - | 78,557 |
| Recoveries | (92,338) | (123,653) |
| | **(92,338)** | **(45,096)** |
| Effect of movements in foreign exchange | (1,662) | 3,515 |
| **Balance at 31 December** | **371,425** | **465,425** |
| **Total Allowance for Impairment** | **4,372,155** | **6,846,843** |
| **Total charge for the year** | **637,533** | **572,419** |

## 12. Property and Equipment

Property and Equipment as at 31 December 2015 and 31 December 2014 is as follows:

| | Land and Building | IT and Electrical Equipment | Furniture and Fine Art Works | Other non-Electrical Assets | Advances for equipment | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance as at 1 January 2014** | **1,616,616** | **1,164,988** | **183,875** | **257,189** | **164,875** | **3,387,543** |
| Additions | 15,154 | 122,434 | 7,517 | 4,970 | - | **150,075** |
| Disposals | - | (70,003) | (6,848) | (2,993) | (6,617) | **(86,461)** |
| **Balance as at 31 December 2014** | **1,631,770** | **1,217,419** | **184,544** | **259,166** | **158,258** | **3,451,157** |
| Additions | 11,752 | 92,715 | 3,761 | 12,418 | - | **120,646** |
| Disposals | - | (37,302) | (6,331) | (25,449) | (78,674) | **(147,756)** |
| **Balance as at 31 December 2015** | **1,643,522** | **1,272,832** | **181,974** | **246,135** | **79,584** | **3,424,047** |
| | | | | | | |
| **Accumulated Depreciation** | | | | | | |
| **Balance as at 1 January 2014** | **653,042** | **890,838** | **162,664** | **226,533** | **-** | **1,933,077** |
| Depreciation for the year | 81,110 | 94,425 | 6,060 | 10,197 | - | **191,792** |
| Disposals | - | (62,568) | (6,681) | (2,900) | - | **(72,149)** |
| **Balance as at 31 December 2014** | **734,152** | **922,695** | **162,043** | **233,830** | **-** | **2,052,720** |
| Depreciation for the year | 80,226 | 140,824 | 6,648 | 10,362 | - | **238,060** |
| Disposals | - | (37,230) | (6,331) | (25,441) | - | **(69,002)** |
| **Balance as at 31 December 2015** | **814,378** | **1,026,289** | **162,360** | **218,751** | **-** | **2,221,778** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 1 January 2014** | **963,574** | **274,150** | **21,211** | **30,656** | **164,875** | **1,454,466** |
| **At 31 December 2014** | **897,618** | **294,724** | **22,501** | **25,336** | **158,258** | **1,398,437** |
| **At 31 December 2015** | **829,144** | **246,543** | **19,614** | **27,384** | **79,584** | **1,202,269** |

## 13. Intangible Assets

Intangible assets as at 31 December 2015 and 31 December 2014 are as follows:

| | Software and Licenses | Advances for Software | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance as at 1 January 2014** | **949,463** | **247,352** | **1,196,815** |
| Additions during period | 88,080 | 142,086 | **230,166** |
| Transfers | 150,610 | (150,610) | **-** |
| **Balance as at 31 December 2014** | **1,188,153** | **238,828** | **1,426,981** |
| Additions during period | - | 146,455 | **146,455** |
| Transfers | 286,538 | (286,538) | **-** |
| **Balance as at 31 December 2015** | **1,474,691** | **98,745** | **1,573,436** |
| | | | |
| **Amortisation and Impairment Losses** | | | |
| **Balance as at 1 January 2014** | **747,599** | **-** | **747,599** |
| Amortisation charge for the year | 124,747 | - | **124,747** |
| Disposals | - | - | **-** |
| **Balance as at 31 December 2014** | **872,346** | **-** | **872,346** |
| Amortisation charge for the year | 110,527 | - | **110,527** |
| **Balance as at 31 December 2015** | **982,873** | **-** | **982,873** |
| | | | |
| **Carrying amount** | | | |
| **At 1 January 2014** | **201,864** | **247,352** | **449,216** |
| **At 31 December 2014** | **315,807** | **238,828** | **554,635** |
| **At 31 December 2015** | **491,818** | **98,745** | **590,563** |

## 14. Inventory and other assets

Other assets as at 31 December 2015 and 31 December 2014 are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Inventory | 1,837,084 | 2,111,434 |
| Sundry debtors | 57,498 | 204,267 |
| ATM & POS transactions | 48,264 | 135,002 |
| Leasehold improvements | 28,598 | 28,924 |
| Prepayments | 57,598 | 61,336 |
| Cheques for collection | 11,458 | 2,037 |
| Others | 37,198 | 99,524 |
| **Total** | **2,077,698** | **2,642,524** |

Inventory represents repossessed assets acquired in the process of collection of defaulted loans.

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

| | 2015 | 2014 |
|---|---|---|
| **At beginning of the period** | **2,111,434** | **895,358** |
| Additions during period | 517,947 | 1,874,261 |
| Disposals of the period | (584,459) | (512,606) |
| Write down to net realizable value | (167,221) | (148,680) |
| Effect of movements in foreign exchange | (40,617) | 3,101 |
| **At end of the period** | **1,837,084** | **2,111,434** |

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **At beginning of the period** | **28,924** | **28,423** |
| Additions during period | 8,080 | 11,623 |
| Amortization of the period | (8,406) | (11,122) |
| **At end of the period** | **28,598** | **28,924** |

## 15. Due to banks

Due to banks as at 31 December 2015 and 31 December 2014 are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Due to Central Bank** | **-** | **1,504** |
| **Correspondent banks** | | |
| **Current accounts** | **82,958** | **106,909** |
| Resident | 1,197 | 999 |
| Non-resident | 81,761 | 105,910 |
| | | |
| **Deposits** | **1,870,074** | **3,803,097** |
| Resident | 1,870,074 | 3,803,097 |
| Non-resident | - | - |
| | - | |
| **Repurchase Agreements** | **-** | **1,751,629** |
| **Total** | **1,953,032** | **5,663,139** |

The details of repurchase agreement as at 31 December 2014 (2015: nil) have been as follows:

**31 December 2014**

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

## 16. Due to customers

Due to customers as at 31 December 2015 and 31 December 2014 are composed as follows:

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| **Current accounts** | **Local Currency** | **Foreign Currency** | **Total** | **Local Currency** | **Foreign Currency** | **Total** |
| *Retail* | 4,797,296 | 10,519,154 | 15,316,450 | 4,202,177 | 8,269,853 | 12,472,030 |
| *Corporate* | 9,417,355 | 19,131,669 | 28,549,024 | 11,834,533 | 16,330,127 | 28,164,660 |
| | **14,214,651** | **29,650,823** | **43,865,474** | **16,036,710** | **24,599,980** | **40,636,690** |
| **Deposits** | | | | | | |
| *Retail* | 32,170,499 | 37,965,346 | 70,135,845 | 32,729,196 | 41,219,520 | 73,948,716 |
| *Corporate* | 896,993 | 3,943,814 | 4,840,807 | 1,081,199 | 5,613,070 | 6,694,269 |
| | **33,067,492** | **41,909,160** | **74,976,652** | **33,810,395** | **46,832,590** | **80,642,985** |
| **Total** | **47,282,143** | **71,559,983** | **118,842,126** | **49,847,105** | **71,432,570** | **121,279,675** |

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

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Local Currency** | **Foreign Currency** | **Total** | **Local Currency** | **Foreign Currency** | **Total** |
| **Current Accounts** | **14,214,651** | **29,650,823** | **43,865,474** | **16,036,710** | **24,599,980** | **40,636,690** |
| **Deposits** | | | | | | |
| *On demand* | 2,786,679 | 9,421,436 | 12,208,115 | 2,336,603 | 6,840,453 | 9,177,056 |
| *One month* | 1,953,263 | 816,407 | 2,769,670 | 2,710,004 | 1,826,716 | 4,536,720 |
| *Three months* | 1,128,779 | 2,806,483 | 3,935,262 | 1,287,484 | 4,209,593 | 5,497,077 |
| *Six months* | 3,183,337 | 5,849,099 | 9,032,436 | 3,726,110 | 6,209,174 | 9,935,284 |
| *Nine months* | 39,655 | 5,079 | 44,734 | 36,088 | 4,234 | 40,322 |
| *Twelve months* | 17,850,819 | 19,803,251 | 37,654,070 | 16,975,418 | 22,108,487 | 39,083,905 |
| *Twenty four months* | 4,092,080 | 1,794,639 | 5,886,719 | 4,842,730 | 2,531,588 | 7,374,318 |
| *Other* | 2,032,880 | 1,412,766 | 3,445,646 | 1,895,958 | 3,102,345 | 4,998,303 |
| | **33,067,492** | **41,909,160** | **74,976,652** | **33,810,395** | **46,832,590** | **80,642,985** |
| **Total** | **47,282,143** | **71,559,983** | **118,842,126** | **49,847,105** | **71,432,570** | **121,279,675** |

## 16. Due to customers (continued)

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

| 2015 | LEK (%) | USD (%) | EUR (%) |
|---|---|---|---|
| Current accounts and demand deposits | 0.09 – 2.72 | 0.01 – 0.50 | 0.001 – 1.00 |
| Time deposits – 1 month | 0.60 – 0.90 | 0.05 – 0.05 | 0.03 – 0.05 |
| Time deposits – 3 months | 0.50 – 1.55 | 0.10 – 0.20 | 0.05 – 0.20 |
| Time deposits – 6 months | 0.50 – 2.10 | 0.10 – 0.25 | 0.05 – 0.35 |
| Time deposits – 9 months | 1.10 – 1.55 | - | 0.07 – 0.15 |
| Time deposits – 12 months | 0.50 – 2.30 | 0.10 -0.30 | 0.06 – 0.40 |
| Time deposits – 24 months | 1.80 – 2.75 | 0.20 – 0.30 | 0.07 – 0.30 |
| Time deposits – 36 months | 2.20 – 3.05 | - | 007 – 0.40 |

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

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

## 17. Deferred Tax

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

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| Financial assets available for sale | - | 46 | **(46)** | - | - | **-** |
| Equipment and intangible assets | 82,103 | - | **82,103** | 76,962 | - | **76,962** |
| **Net deferred tax assets** | **82,103** | **46** | **82,057** | **76,962** | **-** | **76,962** |

Movements in temporary differences during the year are as follows:

| **31 December 2015** | **Opening balance** | **Recognized in profit or loss** | **Recognized in other comprehensive income** | **Closing balance** |
|---|---|---|---|---|
| Financial assets available for sale | - | - | (46) | (46) |
| Equipment and intangible assets | 76,962 | 5,141 | - | 82,103 |
| **Total** | **76,962** | **5,141** | **(46)** | **82,057** |
| **31 December 2014** | | | | |
| Financial assets available for sale | | | | |
| Property and equipment and intangible assets | 75,174 | 1,788 | - | 76,962 |
| **Total** | **75,174** | **1,788** | **-** | **76,962** |

## 18. Provisions

Movements in provisions during the year are as follows:

| | **Tax Litigation** | **Other Litigations** | **Off-Bsh Provision** | **Other** | **Total** |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | **213,441** | **150,134** | **23,128** | **45,270** | **431,973** |
| Provisions made during the year | - | (21,701) | 18,369 | - | **(3,332)** |
| Reclassification | - | - | - | (45,270) | **(45,270)** |
| Effect of movements in foreign exchange | - | (3,563) | - | - | **(3,563)** |
| **Balance at 31 December 2015** | **213,441** | **124,870** | **41,497** | **-** | **379,808** |

During the year, the other provision amount of Lek 45,270 has been reclassified as an accrued expense and presented under other liabilities (note 19).

## 19. Other liabilities

Other liabilities as at 31 December 2015 and 31 December 2014 are composed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Accrued expenses | 491,891 | 560,235 |
| Sundry creditors | 33,676 | 61,523 |
| Suspense accounts | 71,472 | 6,908 |
| Bank cheques issued and payments in transit | 44,288 | 360,639 |
| Other tax liabilities | 37,541 | 39,284 |
| Due to third parties | 16,653 | 16,955 |
| Other accrued expenses/deferred income | 13,606 | 29,854 |
| **Total** | **709,127** | **1,075,398** |

## 20. Share capital and premium

The issued share capital comprises one class of shares as follows:

| | Number of Shares (In number) | Nominal Value (In Lek) | Total Shares Value (In Lek) |
|---|---|---|---|
| **Share Capital at 31 December 2015** | **15,581,282** | **357** | **5,562,517,674** |

Intesa Sanpaolo S.p.A is the sole shareholder at 31 December 2015 and 31 December 2014.

## 21. Legal and regulatory reserves

As at 31 December 2015 and 31 December 2014, the reserves were:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Regulatory reserve | 1,130,983 | 1,130,983 |
| Legal reserve | 694,640 | 613,632 |
| **Total** | **1,825,623** | **1,744,615** |

The regulatory reserve was established according to the Bank of Albania regulation “On the minimum initial capital for allowed activities of banks and branches of foreign licensed banks”, no.51, dated 22 April 1999. Banks and branches of foreign banks are required to create reserves of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the profit after taxes and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets. At 31 December 2015, the regulatory reserve represented 1.5% of total risk-weighted assets (2014: 1.7%).

The provisions of the Commercial Law require the creation of reserves of 5% of the Bank’s net income after deduction of accumulated losses from previous years, until the balance of this reserve reaches 10% of the Bank’s share capital. At 31 December 2015, the balance represented 10% of the Bank’s share capital (2014: 10%). This threshold is not mandatory, when the existing reserves are not less than one tenth of the Bank’s share capital.

## 22. Other reserves

**Other comprehensive items**

Other comprehensive items represent the differences arising from the conversion of the Bank's share capital from USD to LEK. Out of this balance, the amount of Lek 297,666 thousand was received as at 1 January 2008 from the merge with former BIA, as raised by the same denomination currency change of the share capital.

**Other reserve**

Other reserves represent the fair value reserve which comprises the cumulative net change in the fair value of availableforsale financial assets, until the assets are derecognised or impaired. The changes during the financial year ended 31 December 2015 amounted to a decrease of Lek 88,233 thousand (2014: increase of Lek 14,651 thousand).

## 23. Net Interest income

| **Interest income** | **2015** | **2014** |
|---|---|---|
| Loans and advances to customers | 2,436,734 | 2,719,726 |
| Financial investments held to maturity | 2,968,744 | 3,594,265 |
| Loans and advances to banks | 183,999 | 267,372 |
| Financial investments available for sale | 114,842 | 106,153 |
| **Total interest income** | **5,704,319** | **6,687,516** |
| **Interest expenses** | | |
| Demand and time deposits | 958,554 | 1,863,588 |
| Deposits from banks | 79,348 | 180,395 |
| Current accounts of customers | 120,691 | 189,656 |
| **Total interest expenses** | **1,158,593** | **2,233,639** |
| **Net interest income** | **4,545,726** | **4,453,877** |

## 24. Net fee and commission income

| | **2015** | **2014** |
|---|---|---|
| Collection and payment services | 486,308 | 292,251 |
| Active current accounts | 198,089 | 208,744 |
| ATMs and POSs | 208,409 | 191,116 |
| Guarantees given | 16,816 | 16,464 |
| Unused/advanced liquidated credit lines | 30,341 | 22,088 |
| Arrangement fees and others | 13,559 | 10,679 |
| **Fee and commission income** | **953,522** | **741,342** |
| | | |
| ATMs and POSs | 157,745 | 124,663 |
| Banking services-foreign branches | 10,513 | 10,691 |
| Collection and payment services | 574 | 552 |
| Guarantees received | 718 | 1,141 |
| **Fee and commission expenses** | **169,550** | **137,047** |
| **Net fee and commission income** | **783,972** | **604,295** |

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

## 25. Net other income

| | 2015 | 2014 |
|---|---|---|
| Foreign exchange gains | 443,889 | 439,159 |
| Other | 125,184 | 559 |
| **Total** | **569,073** | **439,718** |

## 26. Other operating expenses, net

| | 2015 | 2014 |
|---|---|---|
| Premium on deposits insurance | 235,431 | 219,399 |
| Loss on sale of fixed assets | (3,573) | (16,008) |
| Sundry net operational gains | 12,053 | 41,196 |
| **Total** | **243,911** | **244,587** |

## 27. Personnel expenses

| | 2015 | 2014 |
|---|---|---|
| Salaries | 875,128 | 833,855 |
| Personnel on secondment | 94,175 | 81,913 |
| Social Insurance | 80,888 | 91,670 |
| Training & similar | - | 12,000 |
| Termination indemnities and others | 19,099 | 13,988 |
| **Total** | **1,069,290** | **1,033,426** |

## 28. Other expenses

| | 2015 | 2014 |
|---|---|---|
| Software maintenance | 187,173 | 152,113 |
| Telephone and electricity | 89,724 | 88,403 |
| Advertising & publications | 47,201 | 81,775 |
| Maintenance & repair | 56,561 | 62,709 |
| Stationery | 39,279 | 67,491 |
| Consulting, legal and professional fees | 49,985 | 47,552 |
| Security | 32,825 | 29,608 |
| Transport and security services | 27,628 | 31,883 |
| Travel & business trips | 8,209 | 10,450 |
| Insurance | 20,992 | 28,487 |
| Other | 24,661 | 13,070 |
| **Total** | **584,238** | **613,541** |

## 29. Income tax expenses

The components of income tax expense for the year ended 31 December 2015 and 2014 are:

| | 2015 | 2014 |
|---|---|---|
| Current year | 463,017 | 430,666 |
| Adjustment for prior years | - | 21 |
| Over provided in prior years | | |
| **Current tax expense** | **463,017** | **430,687** |
| Origination and reversal of temporary differences | (5,141) | (1,788) |
| **Deferred tax expenses/(income)** | **(5,141)** | **(1,788)** |
| **Income tax expense** | **457,876** | **428,899** |

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2015 and 2014 is presented as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Accounting Profit before tax** | | **2,668,971** | | **2,483,816** |
| Income tax at domestic corporate tax rate | 15.00% | 400,346 | 15.00% | 372,572 |
| Non-deductible expenses | 2.35% | 62,671 | 2.34% | 58,093 |
| Tax effect of prior years' taxes recognition | 0.00% | - | 0.00% | 22 |
| Origination and reversal of temporary differences | (0.19%) | (5,141) | (0.07%) | (1,788) |
| **Income tax Expense** | **17.16%** | **457,876** | **17.27%** | **428,899** |

Non-deductible expenses are detailed as follows:

| | 2015 | 2014 |
|---|---|---|
| Prior year income tax charge | - | 21 |
| Depreciation and Amortization | 44,919 | 37,807 |
| Sundry operational losses | 3,343 | 22,082 |
| Rent apartments | 5,057 | 8,820 |
| Office expenses | 6,101 | 6,403 |
| Personnel costs | 6,928 | 6,312 |
| Representation | 3,938 | 5,257 |
| Losses on unrecoverable loans and overdrafts | 151,712 | 132,956 |
| Others | 16,294 | 22,259 |
| Impairment of assets acquired through legal process | 167,221 | 145,375 |
| Litigation | 12,296 | - |
| **Total** | **417,809** | **387,292** |
| **At 15%** | **62,671** | **58,094** |

During 2015, the Bank prepaid income tax in the amount of Lek 352,341 thousand (2014: Lek 131,407 thousand).

## 30. Commitments and contingencies

Commitments and contingencies as at 31 December 2015 and 31 December 2014 are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Contingent Assets** | **119,795,402** | **125,539,705** |
| Guarantees received from credit customers | 107,337,280 | 106,184,219 |
| Guarantees received from Government | 5,200,000 | 8,245,000 |
| Un-drawn credit facilities | 5,804,593 | 6,050,526 |
| Letters of credit | 279,391 | 829,112 |
| Money market future dated deals | 568,612 | 1,375,000 |
| Forward foreign exchange contracts | 601,278 | 1,846,048 |
| Other | 4,248 | 1,009,800 |
| **Contingent Liabilities** | **5,230,505** | **5,346,600** |
| Guarantees in favor of customers | 5,230,505 | 5,346,600 |

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

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

**Litigation**

The Bank is defending an action related to a partial payment of a bank guarantee amounting EUR 4,830 thousand. The guarantee was issued in favour of an Albanian entity upon the request of its parent company Intesa SanPaolo S.P.A. The Bank has successfully defended itself in a legal process, in which both the First Instance Court and Court of Appeal judged in favour of the Bank. The plaintiff has appealed to the Supreme Court during the year. The Supreme Court has not yet issued its decision. Management does not consider that there are any legal grounds for the existing judgements in its favour to be overturned. Nevertheless, given the complexity of the case, involving also the Italian Jurisdiction, and taking into consideration no other cases of that kind have been ever judged in the Albanian courts, some operational risks may occur.

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

## 31. Lease commitments and operating lease expenses

The Bank’s operating lease commitments as lessee as at 31 December 2015 and 31 December 2014 are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Less than one year | 152,482 | 152,147 |
| Between one and five years | 321,072 | 347,504 |
| More than five years | 25,482 | 23,466 |
| **Total** | **499,036** | **523,117** |

The Bank has rental agreements with renewal options for its offices in Albania. During 2015, the amount of Lek 168,490 thousand was recognized as expense in respect of lease rentals (2014: Lek 163,839 thousand). Operating lease contracts are cancellable, if notified for a period of 180 days in advance.

## 32. Related parties

The Company's immediate parent is Intesa Sanpaolo S.p.A, which ultimately holds a 100% interest. The Company, therefore, considers that it has a related-party relationship, in accordance with International Accounting Standard 24 Related Party Disclosures ("IAS 24") with the following: Shareholders and parties related to shareholders:

- Intesa Sanpaolo S.p.A and its subsidiaries and associates

Key management personnel and parties related to key management personnel:

- Supervisory Board members, Management Board members and other key management personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company, collectively "key management personnel", close family members of key management personnel, and companies and un-incorporated businesses controlled, or jointly controlled by key management personnel and/or their close family members.

The following transactions have taken place during the year ended 31 December 2015 and 31 December 2014:

| | ISP Group companies | | Key management personnel and Other related parties | |
|---|---|---|---|---|
| | **31 December 2015** | **31 December 2014** | **31 December 2015** | **31 December 2014** |
| **Assets at end of year** | **10,108,151** | **11,325,897** | **177,589** | **162,327** |
| Loans and advances to credit institutions | 10,080,859 | 11,315,982 | | |
| Loans and advances to customers | - | - | 177,589 | 162,327 |
| Other assets | 27,292 | 9,915 | - | - |
| **Liabilities at end of year** | **16,391** | **76,042** | **300,249** | **406,498** |
| Loans and advances from credit institutions | 3,263 | 60,438 | - | - |
| Customer deposits | 4,766 | 4,842 | 300,249 | 406,498 |
| Invoices to be received | 8,362 | 10,762 | | |
| **Off balance sheet** | **2,689,533** | **2,052,245** | **-** | **-** |
| Letter of credit/Letter of Guarantees given | 889,669 | 403,787 | - | - |
| Letter of credit/Letter of Guarantees received | 1,073,625 | 791,569 | - | - |
| Foreign currency contracts | 726,239 | 856,889 | - | - |
| Collaterals | - | - | - | - |
| **Income for year ending** | **228,585** | **165,474** | **6,870** | **5,058** |
| Interest income | 85,130 | 144,281 | 6,549 | 4,488 |
| Commission Income | 143,455 | 21,193 | 321 | 570 |
| **Expenses for the year ending** | **101,441** | **89,618** | **2,020** | **2,633** |
| Interest expense | - | - | 2,020 | 2,633 |
| Commission expense and others | 51,407 | 43,046 | - | - |
| Other Administrative Costs | 50,034 | 46,572 | - | - |
| **Compensation of Key Managers** | | | **154,944** | **118,199** |
| *Net Salary* | | | 82,144 | 97,633 |
| *Net Bonus paid* | | | 21,021 | - |
| *Social & Health Insurance* | | | 4,431 | 4,566 |
| *Other expenses (Lecoip)* | | | 27,284 | - |
| *Other expenses* | | | 20,064 | 16,000 |

## 33. Subsequent events

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