

United Bank of Albania Sh.a.

**Auditor's report and Financial Statements
for the year ended 31 December 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of United Bank of Albania sh.a.:

We have audited the accompanying financial statements of United Bank of Albania sh.a. ("the Bank"), which comprise the statement of financial position as at December 31, 2015, and the statement of profit and loss and other comprehensive income, statement of changes in equity and the cash flow statement for the year then ended, and 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.

Auditor's 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 whether the financial statements are free from material misstatement.

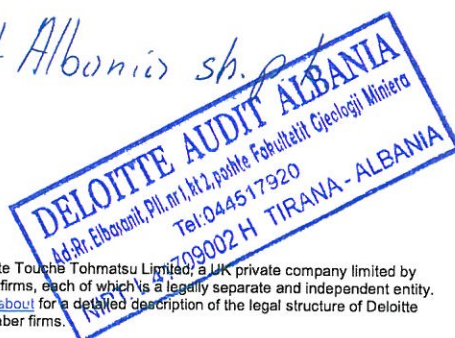
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 present fairly, in all material respects, the financial position of United Bank of Albania Sh.a as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 31, 2016
Tirana, Albania



Elvis Ziu
Engagement Partner

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United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)


	Notes	December 31, 2015	December 31, 2014
Assets			
Cash and cash equivalents	6	2,162,560	2,068,778
Restricted balances with Central Bank	7	461,330	451,237
Investments with banks and financial institutions	8	469,119	513,475
Mudaraba - investment funds	9	94,958	99,558
Treasury bills held-to-maturity	10	298,540	955,604
Murabaha - financial receivables	11	2,312,716	1,600,169
Assets acquired through legal process	12	236,483	334,097
Property, equipment and intangible assets	13	198,480	205,519
Prepaid income tax	24	17,958	26,011
Other assets	14	12,200	8,039
Total assets		6,264,344	6,262,487
Liabilities			
Due to banks and financial institutions	15	121,941	113,274
Due to customers	16	4,577,817	4,658,159
Other liabilities	17	65,862	21,834
Total liabilities		4,765,620	4,793,267
Equity			
Share capital	18	1,762,717	1,762,717
Reserves	18	88,929	64,105
Accumulated losses		(352,922)	(357,602)
Total equity		1,498,724	1,469,220
Total liabilities and equity		6,264,344	6,262,487

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 39.

The financial statements were authorized for release by the Board of Directors and signed on its behalf by:


 Muhamed Prljaj
 General Director




 Ledi Toçaj
 Head of Finance Department

United Bank of Albania Sh.a.

Statement of Profit or Loss and Other Comprehensive Income

(Amounts in Lek '000)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Income from banking operations	19	210,358	254,655
Customers' share in profit	20	(54,788)	(109,478)
Net income from banking operations		155,570	145,177
Net fee and commission income		21,297	18,336
Foreign exchange gain/(loss), net	21	164,271	224,118
Other income		2,948	9,077
Total non-interest income/(expense), net		188,516	251,531
Impairment loss on Murabaha - financial receivables, net	11	(52,559)	(131,580)
Impairment loss on Mudaraba investment funds	9	(7,021)	(1,900)
Gain/(loss) from disposal of properties		254	1,325
Other provision		(12,390)	-
Depreciation and amortization	13	(18,862)	(28,583)
Personnel expenses	22	(99,553)	(83,144)
Operating lease expenses		(19,933)	(18,722)
Other administrative expenses	23	(94,240)	(101,426)
Total operating expenses		(304,304)	(364,030)
Profit/(loss) before income tax		39,782	32,678
Current income tax	24	(10,278)	(7,854)
Net profit/(loss) for the year		29,504	24,824
Other comprehensive income		-	-
Total comprehensive income/(expense) for the year		29,504	24,824

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 39.

United Bank of Albania Sh.a.

Statement of Cash Flows

(Amounts in Lek '000)

	Note	Year ended December 31, 2015	Year ended December 31, 2014
Cash flows from operating activities			
Profit/(loss) before income tax		39,782	32,678
<i>Adjustments for non cash items:</i>			
Impairment loss on Murabaha - financial receivables, net of reversals	11	52,559	(131,580)
Impairment loss on Mudaraba funds & other	9	19,412	1,900
Depreciation and amortization	13	18,862	28,583
(Gain) / loss from monetary positions revaluations	21	(101,424)	(191,476)
Income from banking operations	19	(210,358)	(254,655)
Customers' share in profit	20	54,788	109,478
		(126,379)	(141,914)
<i>Changes in operating assets and liabilities:</i>			
(Increase)/decrease in Murabaha – financial receivables		(600,883)	(209,708)
Decrease in other assets		(6,390)	6,332
Decrease/(increase) in balances with financial institutions		(59,554)	402,845
Increase/(Decrease) in due to customers		(49,957)	64,954
Decrease in other liabilities		44,028	(9,220)
		(799,135)	113,289
Income tax paid		(2,225)	(5,698)
Cash received from banking operations		216,101	265,280
Customers' share in profit paid		(85,173)	(147,986)
Net cash generated from/(used in) operating activities		(670,432)	224,885
Cash flows from investing activities			
Proceeds from / (Purchases of) Treasury Bills		657,065	(236,410)
Change in Investment in Equity		6,785	-
Purchases of equipment and intangible assets	13	(11,824)	(5,755)
Net cash used in investing activities		652,026	(242,165)
Cash flows from financing activities			
Increase in due to banks		8,966	16,700
Net cash provided by financing activities		8,966	16,700
Net decrease in cash and cash equivalents		(9,440)	(580)
Impact of foreign exchange in cash and cash equivalents		101,483	191,475
Cash and cash equivalents at beginning of the year		2,068,517	1,877,622
Cash and cash equivalents at the end of the year	6	2,160,560	2,068,517

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 39.

United Bank of Albania Sh.a.

Statement of Changes in Equity

(Amounts in Lek '000)

	Share Capital	Reserves	Accumulated losses	Total
Balance at January 1, 2014	1,762,717	64,105	(382,426)	1,444,396
Transactions with owners recorded directly in equity				
Total comprehensive income for the year				
Net profit for the year	-	-	24,824	24,824
Total comprehensive loss for the year	-	-	24,824	24,824
Balance at December 31, 2014	1,762,717	64,105	(357,602)	1,469,220
Transfer to Reserves		24,824	(24,824)	-
Comprehensive income for the year				
Net profit for the year	-	-	29,504	29,504
Total comprehensive income for the year	-	-	29,504	29,504
Balance at December 31, 2015	1,762,717	88,929	(352,922)	1,498,724

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 39.

United Bank of Albania Sh.a.

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

(Amounts in Lek '000 unless otherwise stated)

1. General

(a) Reporting entity

United Bank of Albania (hereinafter “the Bank” or “UBA”) was established in Albania to carry out banking operations in accordance with Albanian laws. Based on its Articles of Association, the Bank follows the Sharia Principles. The Bank’s activities include acting as manager, on a trustee basis, of funds invested in accordance with Islamic laws and principles. The Bank is subject to Law no. 9662 “On Banks on the Republic of Albania”, dated December 18, 2006 and is under the supervision of the Bank of Albania.

On November 5, 1992, the Bank received approval from the Bank of Albania for carrying out banking operations. The registration procedures were completed on 1 July 1994, the incorporation date. On 11 January 1999, pursuant to the Decision No.165, dated December 11, 1998 of the Bank of Albania, the Bank obtained the license, “For continuing the banking activity in the Republic of Albania”, in accordance with Law No.8365, dated July 2, 1998, “On banks in the Republic of Albania”.

The registered shareholding structure was as follows:

Islamic Development Bank Jeddah	86.7%
Ithmaar Bank B.S.C.	4.63%
Dallah Albaraka Holding Co	2.32%
Other investors	6.35%

The Head Office of the Bank is located in Tirana. Currently, the Bank has an Albanian network of 4 branches located in Tirana, Shkodra, Fier and Durres and 2 agencies located in Tirana. As at December 31, 2015, the Bank employs 74 staff (2014: 72 staff).

(b) Management assessment of the ability to continue as going concern

The Bank has incurred losses in the previous financial years, and a profit in the current year. In order to meet minimum capital requirements, to limit the risks from significant exposures and to continue operations, the shareholders assess on a regular basis whether there is a need for capital injections.

Following such analysis and capital injections made, the Management believes that the Bank’s ability to continue as going concern will not be impaired. Therefore, the Bank has prepared these financial statements on a going concern basis.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

2. Basis of preparation

(a) Statement of compliance

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 have been prepared on the historical cost basis, except for Mudaraba- Investment funds and assets acquired through legal process which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Albanian Lek ('Lek'), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Lek has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

- **IFRS 13 Fair Value Measurement.**

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, as set out in Note 3(f)(vi), prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the Bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

- **Presentation of Items of Other Comprehensive Income (OCI) (Amendments to IAS 1).**

These standards have been applied consistently in the preparation of the financial statements for the year ended December 31, 2015.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(a) Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the prevailing foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Income and expenses from banking operations

Income and expenses from banking operations are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Income and expense from banking operations presented in profit or loss include income on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis.

Income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented separately.

(i) Customers' share on profit

The Bank's profit is allocated to the depositors and shareholders in accordance with the Sharia principles using the main pool method. Payments are made to the depositors and charged to the account of customers' share in profits in accordance with the contractual maturities of the investments. For the service provided from Mudarib a certain fee is gained. The Profit Share allocation from Mudarabah transactions is paid and presented net of Mudarib Charge.

(ii) Income from banking operations

Income from banking operations including income from Murabaha transactions and income from banks and other financial institutions are recognized in profit or loss using the effective interest rate method.

Income from Mudaraba contracts is recognized in profit or loss when the Bank becomes entitled to that profit. Any share of losses for the period is recognized to the extent such losses are deducted from the Mudaraba capital. See accounting policy 3(j).

(c) Fees and commission

Fees and 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.

Other fees and commission income, including account servicing fees, investment management fees, and placement fees are recognized as the related services are performed.

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

(d) Lease payments

Payments made under operating leases 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.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(e) Income tax expense

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

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

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. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income 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.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is 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 they 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.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes financial receivables, deposits and investment accounts on the date at which they are originated. Regular way 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 or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

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

(iii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank may retain the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the de-recognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it 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 under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's 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 rate 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.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

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 wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

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

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(f) 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 asset or a group of financial assets is (are) impaired when objective evidence demonstrates 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 of the asset(s) that can be estimated reliably.

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

The Bank considers evidence of impairment for financial receivables, Mudaraba investments and held-to-maturity investments at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial receivables, Mudaraba investments and held-to-maturity investments with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, and the amount of loss incurred. 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 carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against financial receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

(g) Cash and cash equivalents

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

(h) Murabaha - Financial receivables

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

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

Financial receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest rate method.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(i) Treasury bills

Treasury bills are initially measured at fair value plus, in case of treasury bills not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for as held to maturity.

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, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method. A sale or reclassification of a 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 would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

(j) Investment in Mudaraba

Investments in Mudaraba are partnerships, whereby the Bank in the role of the investor provides capital to the entrepreneur (the 'Mudarib') in order to undertake an investment activity. Investments in Mudaraba are initially recognized at fair value. Impairment losses are recognized in profit or loss (see accounting policy 3(f)(vii)).

(k) Due to customers

Due to customers principally include special investment deposits, where the depositors instruct the Bank to invest the funds in specific investments or on predetermined terms. These deposits are invested by the Bank in its own name under the terms of specific Mudarib contracts entered into with depositors. These special investment deposits, which are classified within due to customers, share the direct profit or losses of their respective investments once realised and do not, otherwise, share the Bank's profit or loss.

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"), the arrangement is accounted for as a liability, and the underlying asset continues to be recognized in the Bank's statement of financial position.

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

(l) Assets acquired through legal process

Assets acquired through legal process represent properties acquired through the enforcement of security over financial receivables. At December 31, 2014 the Bank classified these assets as held for sale, because the carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are initially recognized with the lower of their carrying amount and the fair value less cost to sell, if they were not classified previously as held for sale. Non-current assets held for sale are subsequently measured at the lower of their carrying amount and fair value less costs to sell. Any impairment on these assets is recognised in the statement of profit and loss and other comprehensive income in the period when the impairment is identified.

At December 31, 2015, pursuant to the real estate market conditions during 2016, the Bank expects to sell this assets in the foreseeable future, which may extend to over one year period from the reporting date. Accordingly, at the end of year 2015, these assets do not meet the criteria for classification of held for sale and are classified as inventory in accordance with IAS 2 "Inventories". As the Bank has not recognised any revaluation increase since these assets were acquired, such reclassification did not affect the profit and loss of the Bank for the year 2015.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(m) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. 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.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a 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. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

• Buildings	20 years
• Motor vehicles	5 years
• Office equipment	5 years
• Computers and electronic equipment	4 years
• Furniture and fixtures	5 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(n) Intangible assets

Software

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment. Subsequent expenditure on software 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 recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is four years. Assets in process are not amortized until software is implemented. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(o) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) 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.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(q) Employee benefits

(i) Short-term employee benefits

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

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The Government of Albania is 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. The Bank recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

(r) Standards and Interpretations effective in the current period

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

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

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

(s) Standards and Interpretations in issue not yet adopted

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

3. Significant accounting policies (continued)

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

- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established internal units and committees, which are responsible for developing and monitoring risk management policies in their specified areas.

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's financial receivables and investments. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, location and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit risk unit. This unit is responsible for management of the credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries.
- Developing and maintaining the risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.

The Credit Committee of the Bank approves credit requests of Lek 40,000 thousand or less, while credit requests of more than Lek 40,000 thousand are approved by the Board of Directors of the Bank.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk

Maximum exposures to credit risk before collateral and other credit enhancements as at December 31, 2015 and 2014 are as follows:

	Notes	December 31, 2015	December 31, 2014
Carrying amount			
Balances with Banks	6	1,895,558	1,793,077
Restricted balances with Central Bank	7	461,330	451,237
Investments with banks and financial institutions	8	469,119	513,475
Mudaraba - investment funds	9	94,958	99,558
Treasury bills held-to-maturity	10	298,540	955,604
Murabaha - financial receivables	11	2,312,716	1,600,169
Unused part of the credit commitments		14,239	5,520
Guarantees issued to customers	25	23,355	37,627
Total		5,569,720	5,456,267

Impaired financial receivables and investments

Individually impaired financial receivables and investments are financial receivables and investments for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms. These financial receivables are graded 2 to 5 in the Bank's internal credit risk grading system.

Past due but not impaired financial receivables and investments

Past due but not impaired financial receivables and investments, other than those carried at fair value through profit or loss, are those for which contractual income or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on financial receivables that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Financial receivables with renegotiated terms

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

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy

The Bank writes off an asset balance, and any related allowances for impairment losses, when the Credit unit determines that the asset is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financial receivables, write-off decisions generally are based on a product-specific past due status.

During year 2015 Bank has written off some financial receivables which were in execution for several years and was not possible any recovery. The amount of write off is 146,401 thousand lek (In 2014: 42,892 thousand lek).

The table below shows an analysis of the impairment for the financial receivables as of December 31, 2015 and 2014

		December 31, 2015	December 31, 2014
Murabaha – financial receivables			
At amortized cost			
<i>Individually impaired: Grade 2-5</i>		704,077	1,205,349
<i>Collectively impaired: Grade 1 (low risk)</i>		1,941,606	821,629
Gross amount	11	2,645,683	2,026,978
Allowance for impairment	11	(332,967)	(426,809)
Carrying amount		2,312,716	1,600,169

At December 31, 2015 and 2014, the Bank had the following undrawn credit commitments:

	December 31, 2015	December 31, 2014
Unused part of the credit commitments	14,239	5,520

The Bank holds collateral against financial receivables in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when an asset is individually assessed as impaired. An estimate of the fair value of collateral held against financial receivables at December 31, 2015 and 2014 is shown below:

	December 31, 2015	December 31, 2014
Real Estate	5,805,820	4,905,612
Machinery, Equipment and Inventories	335,962	230,019
Cash collateral	31,514	28,155
Other	301,047	123,300
Total	6,474,343	5,287,086

Collateral generally is not required for balances with banks and financial institutions, and no such collateral was held at December 31, 2015 or 2014.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Details of assets obtained by the Bank through taking possession of collateral held as security against financial receivables are shown in Note 12. The Bank's policy is to pursue realisation of the collateral. The Bank generally does not use the non-cash collateral for its own operations.

Details of Mudaraba-investment funds held by the Bank at December 31, 2015 and 2014, are shown in Note 9.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank (together as 'Cash and balances with banks'), Murabaha – financial receivables and Treasury bills held-to-maturity ('Treasury bills') at the reporting date is shown below:

	Cash and balances with banks		Murabaha – financial receivables		Treasury bills		Total			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Carrying amount	3,093,009	3,033,490	2,312,716	1,600,169	298,540	955,604	5,704,264	5,589,263		
Concentration by sector										
Corporate	-	-	1,793,098	1,451,743	-	-	1,793,098	1,451,743	31%	26%
Government	557,420	729,504	-	-	298,540	955,604	855,960	1,685,108	15%	30%
Financial institutions	2,535,589	2,303,986	68,083	-	-	-	2,603,672	2,303,986	46%	41%
Retail	-	-	451,535	148,426	-	-	451,535	148,426	8%	3%
Total	3,093,009	3,033,490	2,312,716	1,600,169	298,540	955,604	5,704,264	5,589,263	100%	100%
% of concentration for each instrument	54%	54%	41%	29%	5%	17%				

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

	Cash and balances with banks		Murabaha – financial receivables		Treasury bills		Total			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Carrying amount	3,093,009	3,033,491	2,312,716	1,600,169	298,540	955,604	5,704,264	5,589,264		
Concentration by location										
Albania	840,646	1,391,741	2,312,716	1,550,183	298,540	955,604	3,451,901	3,897,528	61%	70%
Europe	82,270	846,932	-	49,986	-	-	82,270	896,918	1%	16%
Asia	1,943,670	585,079	-	-	-	-	1,943,670	585,079	34%	10%
Middle East and Africa	226,422	209,739	-	-	-	-	226,422	209,739	4%	4%
Total	3,093,009	3,033,491	2,312,716	1,600,169	298,540	955,604	5,704,264	5,589,264	100%	100%
% of concentration for each instrument	54%	55%	41%	27%	5%	17%				

Concentration by location for balances with banks and financial institutions is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

The cash and balances with banks are held with the Central Bank of Albania which is rated B and banks and financial institutions that based on Standard & Poor's ratings were rated as follows:

	2015	2014
Rated A to BBB+	1,095,446	630,773
Rated BBB to B-	1,725,494	1,736,572
Not rated	5,068	390,444
	2,826,008	2,757,789
Cash on hand (Note 6)	267,001	275,701
Total	3,093,009	3,033,490

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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.

Treasury receives information from other units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid treasury bills and balances with banks and other financial institutions, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Treasury monitors compliance with local regulatory limits on a daily basis. All liquidity policies and procedures are subject to review and approval by Bank Asset and Liability Committee ('ALCO').

The Bank relies on deposits from customers and banks, and contributions from its shareholders as its primary sources of funding. While contributions from shareholders do not have specified maturities, deposits from customers and banks generally have short maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

As at December 31, 2015 the twenty largest balances due to customers represent 18% of the total deposits (in 2014: 15%).

The following table shows the Bank's financial assets and liabilities by remaining maturity at December 31 2015 and 2014:

2015	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year	Total
Assets						
Cash and balances with banks*	1,398,667	1,225,222	242,669	-	226,450	3,093,009
Murabaha – financial receivables	157,047	98,154	157,047	490,771	1,409,697	2,312,716
Treasury bills held-to-maturity	99,812	99,468	99,260	-	-	298,540
Mudaraba - investment funds	-	-	-	-	94,958	94,958
Total	1,655,526	1,422,844	498,975	490,771	1,731,106	5,799,222
Liabilities						
Due to banks & financial institutions	69,738	52,203	-	-	-	121,941
Due to customers	2,316,983	477,191	423,479	1,116,739	243,425	4,577,817
Total	2,386,721	529,394	423,479	1,116,739	243,425	4,699,758
Liquidity gap	(731,195)	893,450	75,497	(625,968)	1,487,681	1,099,465
Cumulative gap	(731,195)	162,255	237,751	(388,216)	1,099,465	

*Cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank are presented together as 'Cash and balances with banks'.

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(c) Liquidity risk (continued)

2014	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year	Total
Assets						
Cash and balances with banks*	2,119,708	233,408	348,942	316,084	15348	3,033,490
Murabaha – financial receivables	208,337	182,698	110,961	396,634	701,539	1,600,169
Treasury bills held-to-maturity	149,648	283,175	386,068	136,714	-	955,604
Mudaraba - investment funds	-	-	-	-	99,558	99,558
Total	2,477,693	699,281	845,970	849,432	816,446	5,688,822
Liabilities						
Due to banks & financial institutions	90,868	-	-	-	22,406	113,274
Due to customers	2,350,076	560,315	449,355	1,137,682	160,731	4,658,159
Total	2,440,944	560,315	449,355	1,137,682	183,136	4,771,433
Liquidity gap	36,749	138,966	396,616	(288,250)	633,309	917,389
Cumulative gap	36,749	175,714	572,330	284,080	917,389	

*Cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank are presented together as 'Cash and balances with banks'.

The previous table shows the discounted cash flows on the Bank's financial instruments, on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

The table below set out the remaining contractual maturities, undiscounted, for non-derivative financial liabilities including commitments and financial guarantees:

31 December 2015		Gross nominal outflow				
	Carrying amount	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year
Due to banks & financial institutions	121,941	69,763	52,238	-	-	-
Due to customers	4,577,817	2,317,753	478,266	425,567	1,127,359	248,835
Commitments/ Financial guarantees	37,594	14,239	3,432	3,432	16,491	
Total	4,737,352	2,401,755	533,937	428,999	1,143,850	248,835

31 December 2014		Gross nominal outflow				
	Carrying amount	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year
Due to banks & financial institutions	113,274	90,873				22,406
Due to customers	4,658,159	2,375,966	552,707	453,274	1,154,886	166,740
Commitments/ Financial guarantees	50,523			5,520	45,003	
Total	4,821,956	2,466,839	552,707	458,794	1,199,889	189,146

United Bank of Albania Sh.a.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(c) Liquidity risk (continued)

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investments for which there is an active and liquid market. These assets can be readily used to meet liquidity requirements.

(d) Market risks

Market risk is the risk that changes in market prices, such as rates and foreign exchange rates 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 optimising the return on risk.

Exposure to market rates risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market rates. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in sensitivity within repricing periods and among currencies.

Interest rate re-pricing analysis

The following table presents re-pricing dates for the Bank's assets and liabilities. Variable-rate assets and liabilities have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non- interest bearing	Total
2015							
Assets							
Cash and balances with banks	547,068	1,225,222	242,669	-	226,450	851,599	3,093,009
Murabaha – financial receivables	300,480	263,501	160,037	572,056	1,011,814	4,828	2,312,716
Treasury bills held-to-maturity	99,812	99,468	99,260	-	-	-	298,540
Mudaraba - investment funds	-	-	-	-	-	94,958	94,958
Total	947,360	1,588,191	501,965	572,056	1,238,265	951,385	5,799,222
Liabilities							
Due to banks & financial institutions	62,498	17,262	-	-	-	42,182	121,941
Due to customers	1,127,305	477,191	423,479	1,116,479	243,177	1,190,186	4,577,817
Total	1,189,803	494,453	423,479	1,116,479	243,177	1,232,367	4,699,758
Gap	(242,443)	1,093,738	78,487	(544,423)	995,088	(280,983)	1,099,465
Cumulative gap	(242,443)	851,295	929,782	385,359	1,380,447	1,099,465	

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(d) Market risk (continued)

2014	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
Assets							
Cash and balances with banks	530,791	179,902	306,032	207,443	-	1,809,322	3,033,490
Murabaha – financial receivables	207,708	182,147	110,626	395,437	699,423	4,828	1,600,169
Treasury bills held-to-maturity	149,648	283,175	386,068	136,714	-	-	955,604
Mudaraba - investment funds	-	-	-	-	-	99,558	99,558
Total	888,148	645,224	802,725	739,595	699,423	1,913,708	5,688,822
Liabilities							
Due to banks & financial institution	76,487	-	-	-	-	36,787	113,274
Due to customers	1,333,416	553,308	449,257	1,137,682	160,731	1,023,764	4,658,159
Total	1,409,905	553,308	449,257	1,137,682	160,731	1,060,550	4,771,433
Gap	(521,757)	91,915	353,468	(398,088)	538,692	853,158	917,389
Cumulative gap	(521,757)	(429,841)	(76,373)	(474,461)	64,232	917,389	

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

2015	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp	100 bp	100 bp	100 bp
	Increase	Decrease	Increase	Decrease
Estimated Profit (loss) effect	7,899	(7,899)	7,762	(7,762)
2014	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp	100 bp	100 bp	100 bp
	Increase	Decrease	Increase	Decrease
Estimated Profit (loss) effect	5,681	(5,681)	5,667	(5,667)

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(d) Market risk (continued)

Interest rate movements affect retained earnings arising from increases or decreases in net income from banking operations and the fair value changes reported in profit or loss

The equivalent weighted average interest rates for the main financial assets and liabilities are as follows:

	Equivalent weighted average interest rate					
	(Lek)		(USD)		(EUR)	
<i>December 31</i>	2015	2014	2015	2014	2015	2014
Assets						
Due from banks and financial institutions	2.04%	3.11%	1.96%	2.72%	1.54%	2.11%
Financial receivables	9.56%	11.52%	6.3%	6.69%	6.19%	8.21%
Treasury Bills	3.03%	5.75%	-	-	2.5%	-
Liabilities						
Due to banks and financial institutions	1.95%	3.8%	0.53%	0.9%	0.98%	1.42%
Due to customers	3.66%	3.66%	1.28%	1.28%	1.96%	1.96%

Foreign currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions.

The following table summarizes the Bank's net foreign currency position of financial assets and liabilities at December 31, 2015 and 2014, presented in Lek thousand, and a sensitivity analysis of the profits of banks due to changes in the exchange rate of LEK versus other major currencies to which the Bank has exposures.

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(d) Market risk (continued)

December 31, 2015	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with banks	381,385	1,561,371	1,119,965	30,287	3,093,009
Murabaha – financial receivables	1,039,971	448,081	824,664	-	2,312,716
Treasury bills held-to-maturity	298,540	-	-	-	298,540
Mudaraba - investment funds	-	94,958	-	-	94,958
Total	1,719,896	2,104,410	1,944,629	30,287	5,799,222
Liabilities					
Due to banks & financial institutions	15,146	81,868	24,907	20	121,941
Due to customers	2,243,666	516,574	1,804,349	13,227	4,577,817
Total	2,258,812	598,442	1,829,256	13,247	4,699,758
Net position	(538,916)	1,505,968	115,373	17,041	1,099,465
Cumulative Gap	(538,916)	967,052	1,082,424	1,099,465	
Sensitivity analysis					
Lek depreciates by 10%		150,597	11,537	1,704	
Lek depreciates by 5%		75,298	5,769	852	
Lek appreciates by 10%		(150,597)	(11,537)	(1,704)	
Lek appreciates by 5%		(75,298)	(5,769)	(852)	
December 31, 2014	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with banks	628,275	1,256,453	1,112,873	35,890	3,033,490
Murabaha – financial receivables	318,428	592,937	688,804	-	1,600,169
Treasury bills held-to-maturity	818,890	-	136,714	-	955,604
Mudaraba - investment funds	-	99,558	-	-	99,558
Total	1,765,593	1,948,948	1,938,391	35,890	5,688,822
Liabilities					
Due to banks & financial institutions	14,220	72,422	26,620	12	113,274
Due to customers	2,615,623	500,291	1,529,494	12,751	4,658,159
Total	2,629,843	572,713	1,556,114	12,763	4,771,433
Net position	(864,250)	1,376,235	245,563	23,126	917,389
Cumulative Gap	(864,250)	511,985	894,262	917,389	
Sensitivity analysis					
Lek depreciates by 10%		140,280	35,240	1,549	
Lek depreciates by 5%		70,140	17,620	775	
Lek appreciates by 10%		(140,280)	(35,240)	(1,549)	
Lek appreciates by 5%		(70,140)	(17,620)	(775)	

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(e) Operational risks

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

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

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

(d) Capital management

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to the Banking Law. The regulatory capital at December 31 2015 and 2014 was as follows:

	December 31, 2015	December 31, 2014
Total shareholders' fund*	1,397,566	1,240,157
Deductible intangible assets*	(4,865)	(4,396)
Deductible portion of fixed assets*	-	-
Regulatory capital (see note 1 (b))*	1,392,701	1,235,761

*The amounts in the table represent amounts based on Bank of Albania requirements, which differ from those amounts reported in accordance with IFRS. The financial statements prepared in accordance with Bank of Albania requirements are not finalised at the time of completion of these financial statements. However, the Management believes that the Bank's ability to continue as going concern will not be impaired.

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 16%.

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

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

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management (continued)

The Bank has complied with imposed Capital Adequacy Ratios during the period. As at 31 December 2015, the capital adequacy ratio was 37.3% (in 2014: 40.9%)

Risk-Weighted Assets (RWAs)

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

Credit related commitments are taken into account and are weighted for risk using the same percentages as for assets.

5. Use of estimates and judgments

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

These disclosures supplement the commentary on financial risk management (see note 4).

Allowances for credit losses

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

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

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(f)(vi).

Financial receivables

Financial receivables are net of allowances for impairment. The Bank's portfolio has an estimated fair value approximately equal to its book value due to their underlying equivalent interest rates, which approximate market rates. A significant portion of the portfolio is subject to re-pricing within a year.

Treasury bills held-to-maturity

Due to the short-term up to one year, the fair value of the Treasury Bills held-to-maturity at December 31, 2015 approximates their carrying amount.

Investment in Mudaraba

At December 31, 2015, the Bank measured the value of this investment with reference to the market prices as per appraisal reports and recognized an allowance for impairment of Lek 153,176 thousand (2014: Lek 133,960 thousand) (see Note 9).

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

(Amounts in Lek'000 unless otherwise stated)

5. Use of estimates and judgments (continued)

Deposits and borrowings

The time deposits have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying interest rates, which approximate market rates. The majority of the deposits mature within one year.

6. Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	267,001	275,701
Current accounts with Central Bank	96,090	278,267
Current accounts with other banks	574,229	1,054,892
Term investments with maturities of three months or less	1,225,222	459,658
	2,162,560	2,068,518

7. Restricted balances with Central Bank

Restricted balances with Central Bank are detailed as follows:

	December 31, 2015	December 31, 2014
Statutory reserves with Central Bank	461,330	451,237
	461,330	451,237

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

8. Investments with banks and financial institutions

Investments with banks and financial institutions are detailed as follows:

	December 31, 2015	December 31, 2014
Term investments	469,119	513,475
	469,119	513,475

Term investments represent funds with initial maturities of more than three months, invested by the Bank through banks and financial institutions, mainly acting as agents of the Bank. The agents invest the Bank's funds in instruments selected by them, including commodities and pay the profit generated there-from as per the return estimated by them in accordance with the offer made to the Bank for every investment. Term investments are held on non-resident participation banks in with contractual maturities up to 1 year and are based on Wakala or Investment agreement contracts.

9. Mudaraba - investment funds

	December 31, 2015	December 31, 2014
Mudaraba - investment funds	248,134	233,518
Less allowances for impairment	(153,176)	(133,960)
	94,958	99,558

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

(Amounts in Lek'000 unless otherwise stated)

9. Mudaraba - investment funds (continued)

The Bank invested in an Islamic investment fund that operates on the basis of a joint Mudaraba between investors and the Islamic Investment Company of the Gulf (the 'Mudarib'). The investors share the profits from the operations that have not yet reached the stage of final settlement until the liquidation of this special fund. Under this agreement, the Bank has restricted the use of funds only for the purpose of investing in the European Real Estate Portfolio (EREP). This portfolio comprises four properties located in the center of Brussels, Belgium and in Germany.

Based on appraisal reports sent to investors by the Mudarib, the European economic crisis severely impacted the value of the EREP assets and the ability to refinance, rent or sell them. Based on Mudarib report, two of properties are sold and one is under finalization of selling process. The Bank received the proceeds from selling for one property and 1-st instalment of proceeds for the other property. Therefore, based on the current value of the proceeds received, reference to possible selling price of the property which is under negotiation for selling and the valuation report of an external appraiser for the property remaining unsold, the Bank estimated its share of the losses, as a proportion of its investment in the total initial investment fund.

Based on such estimation, the Bank recognized an allowance for impairment of Lek 153,176 thousand (2014: 133,960). Movements in the allowances for impairment are as follows:

	2015	2014
Balance at January 1	(133,960)	(116,736)
Net charge for the year	(7,021)	(1,900)
Foreign exchange effect	(12,194)	(15,324)
Balance at December 31	(153,176)	(133,960)

10. Treasury bills held-to-maturity

	December 31, 2015	December 31, 2014
Nominal value of treasury bills	300,000	965,140
Unamortized discount	(1,460)	(9,536)
	298,540	955,604

11. Murabaha – financial receivables

The Murabaha balances as at December 31, 2015 and 2014 are detailed as follows:

	December 31, 2015	December 31, 2014
Financial receivables at amortised cost	2,645,682	2,026,978
Less allowances for impairment	(332,967)	(426,809)
	2,312,716	1,600,169

Accrued income from non-performing financial receivables at December 31, 2015 is Lek 42,955 thousand (2014: Lek 53,785 thousand).

Movements in the allowances for impairment are as follows:

	2015	2014
Balance at January 1	426,809	338,126
Impairment loss net of reversals / (Reversal of impairment losses)	52,559	131,580
Write off	(146,401)	(42,897)
Balance at December 31	332,967	426,809

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

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12. Assets acquired through legal process

The Bank assets acquired through legal process are a consequence of the acquisitions through enforcement of security over financial receivables. Up to December 2014, these assets were classified as assets available for sale. At December 31, 2015, pursuant to the real estate market conditions during 2016, the Bank expects to sell this assets in the foreseeable future, which may extend to over one year period from the reporting date. Accordingly, at the end of year 2015, these assets do not meet the criteria for classification of held for sale and are classified as inventory in accordance with IAS 2 "Inventories". Accordingly the assets were re-measured at their net realisable value (historical costs less any accumulated write down). As the Bank has not recognised any revaluation increase since these assets were acquired, such reclassification did not affect the profit and loss of the Bank for the year 2015.

Measurement of fair value - Fair value hierarchy

Property appraisers, having professional qualifications and recent experience in the location and category of the property being valued, determine the fair value of these assets. The appraisers provide the fair value of the assets portfolio every year, following the year of acquisition.

Although the ownership has been transferred to the Bank, certain properties are still used by the borrowers, until identification of a potential buyer. The Bank does not aim to make profit from leases of these properties, however agreed to rent them with the purpose of allowing for their maintenance and preservation of the current physical conditions. The total rent income earned in 2015, was Lek 1,025 thousand (2014: lek 3,342 thousand). In April 2015 Bank transfer to financial lease the property which was rented before.

The fair values of the Bank's assets acquired through legal processes are categorized into Level 3 of the fair value hierarchy.

Level 3 fair value

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements of the Bank's assets acquired through legal process.

	2015	2014
Balance at 1 January	334,097	320,921
Acquired during the year	42,307	4,933
Sold during the year	(4,918)	(8,924)
Transfer to Financial Lease	(142,275)	-
Net changes in fair value from de-evaluation	(5,972)	-
Net changes in fair value arising from exchange rates	13,244	17,167
Balance at 31 December	236,483	334,097

Valuation techniques and significant unobservable inputs

When measuring the fair value of an investment property at initial recognition, the Bank generally refers to the final auction for the execution that has resulted in the transfer of ownership of that property to the Bank.

Based on the local legislation, the fair value of such properties is measured by independent appraisers that provide such value to the execution offices upon initiation of the auction procedures. The fair value that is measured with reference to the market prices is used as an initial offer in the first auction, and such offer may be reduced to a limit of 64% of the initial valuation, in cases when the initial auction did not result in a sale to a third party. In cases when no buyer is identified for the final reduced offer, the ownership is transferred to the Bank.

Based on the most recent valuations performed in 2015, the market value of some properties exceeded the auction value, meanwhile some other properties are de-evaluated. Given the recent market conditions and the lack of offers in the auction and afterwards, the Management decided to use the discounted value of 64%, based on the final auction valuation and did not increase the fair value above the existing carrying amount and has impaired those which are de-evaluated.

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

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13. Property, equipment and intangible assets

	Buildings	Office equipment	Computers & electronic equipment	Motor Vehicles	Furniture and fixtures	Intangible assets	Fixed Assets in Process	Total
Cost								
At January 1, 2014	282,846	65,830	48,911	16,502	21,449	46,681	-	482,219
Additions	-	2,785	1,673	-	15	1,282	-	5,755
Disposals	-	(10,537)	(10,819)	-	(87)	-	-	(21,443)
At December 31, 2014	282,846	58,078	39,765	16,502	21,377	47,963	-	466,531
Additions	-	594	9,403	-	62	1,004	760	11,824
Disposals	-	-	-	-	-	-	-	-
At December 31, 2015	282,846	58,672	49,168	16,502	21,439	48,967	760	478,354
Accumulated Depreciation								
At January 1, 2014	(70,710)	(64,218)	(47,458)	(16,502)	(21,010)	(33,974)	-	(253,872)
Charge for the year	(14,144)	(312)	(996)	-	(283)	(12,848)	-	(28,583)
Disposals	-	10,537	10,819	-	87	-	-	21,443
At December 31, 2014	(84,854)	(53,993)	(37,635)	(16,502)	(21,206)	(46,822)	-	(261,012)
Charge for the year	(14,142)	(1,458)	(2,526)	-	(161)	(575)	-	(18,862)
Disposals	-	-	-	-	-	-	-	-
At December 31, 2015	(98,996)	(55,450)	(40,161)	(16,502)	(21,367)	(47,397)	-	(279,873)
Carrying amount								
At January 1, 2014	212,136	1,612	1,453	-	439	12,707	-	228,347
At December 31, 2014	197,994	4,086	2,130	-	169	1,141	-	205,519
At December 31, 2015	183,850	3,221	9,007	-	72	1,570	760	198,480

As at December 31, 2015 the historical cost of the assets which were fully depreciated was Lek 4,067 thousand (2014: Lek 43,642 thousand).

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14. Other assets

	December 31, 2015	December 31, 2014
Prepaid expenses	2,705	2,779
Sundry assets	9,495	5,260
	12,200	8,039

15. Due to banks and financial institutions

	December 31, 2015	December 31, 2014
Current accounts	7,240	14,381
Term deposits	79,178	75,607
Accrued share on profit	581	879
Borrowings from IDB	34,941	22,406
	121,941	113,274

At December 31, 2015 and 2014, current and term deposits represent deposits from local Banks and Financial Institution, with a remaining maturity of less than one month.

Borrowings from IDB at December 31, 2015 represent financing received from IDB with the purpose of paying consultancy fees to Bosna Bank International (BBI), a related party. This borrowing is repayable within the year 2016 (see note 17).

16. Due to customers

	December 31, 2015	December 31, 2014
Current accounts	1,189,678	1,030,449
Investment deposits	3,357,831	3,560,148
Accrued Customers' Share on Profit	29,800	60,185
Other customer accounts	508	7,376
Total	4,577,817	4,658,159

Current accounts at December 31, 2015 include a balance of Lek 25 million (2014: Lek 147 million), which represents amounts blocked by regulatory authorities or by the Bank. Certain balances are not available for use, without prior consent of the authorities.

Current accounts and investment deposits by currencies are as follows:

	December 31, 2015	December 31, 2014
Current accounts:		
In USD	338,037	294,635
In ALL	259,289	316,719
In EUR	579,125	398,697
In GBP	13,227	20,398
	1,189,673	1,030,449
Investment deposits:		
In USD	177,367	203,727
In EUR	1,220,111	1,169,411
In ALL	1,960,354	2,253,322
	3,357,831	3,626,460

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

(Amounts in Lek'000 unless otherwise stated)

17. Other liabilities

Other liabilities are detailed as follows:

	December 31, 2015	December 31, 2014
Due to consultants	-	9,602
Accrued expenses	3,893	6,746
Remittances in transit	52,351	1,047
Due to third parties	3,036	4,086
Other payables	164	353
Other liabilities	6,418	-
	65,862	21,834

Remittances as at December 31, 2015 represent outgoing transfers in transit for which the Bank acted as intermediary.

18. Equity

Share capital

The registered share capital is Lek 1,762,717 thousand (equivalent of USD 13,144 thousand), divided into 547,421 shares with a nominal value of Lek 3,220.04 (USD 24.01). There were no movements in the share capital in 2014 and 2015.

Reserves

Reserves of Lek 88,929 thousand (2014: Lek 64,105 thousand) were created pursuant to Article 8 of the Decision No. 51, dated April 22, 1999 of the Bank of Albania, which required the appropriation of 20% of the net profit for the year, Article 213 of the Law No. 7638, dated November 19, 1992 "On commercial companies" which required the appropriation of 5% of the net profit, and the Bank's Statute, which required the appropriation of 10% of net profit for the year.

19. Income from banking operations

	2015	2014
Income from Murabaha operation	152,516	175,728
Income from banks and other financial institutions	37,066	51,001
Income from treasury bills held-to-maturity	20,777	27,926
	210,359	254,655

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(Amounts in Lek'000 unless otherwise stated)

20. Customers' share on profits

Customers' share on profit of Lek 54,788 thousand (2014: Lek 109,475 thousand) represents the profit share allocation from Mudarabah Transactions, net of Mudarib Charge.

21. Foreign exchange (losses)/gain, net

Foreign exchange gains/loss arise from the re-translation at year-end of the Bank's foreign currency position and gains and losses from transactions in foreign currencies. Bank realized a gain of Lek 31,011 thousand from foreign currency transaction (in 2014: Lek 32,642 thousand) and a gain from revaluation of monetary position of Lek 133,260 thousand (in 2014: loss Lek 191,476 thousand)

	2015	2014
Gain on revaluation of monetary positions	133,260	191,476
Gain on foreign currency transactions	31,011	32,642
	164,271	224,118

22. Personnel expenses

	2015	2014
Expatriate staff	17,010	11,022
Local employees	63,930	55,733
Social insurance	10,016	8,751
Bonuses & rewards	8,597	7,638
	99,553	83,144

23. Other administrative expenses

Other administrative expenses include the following:

	2015	2013
Legal, consultancy and audit fees	10,555	30,054
Office expenses	16,918	15,630
Deposit insurance	13,838	14,376
Security expenses	11,063	9,410
Swift, Reuters and on-line connections	12,104	10,185
Software maintenance	11,711	8,136
Board of Directors and Audit Committee	7,767	5,198
Fees, taxes and duties	2,830	2,547
Telephone and mail	1,925	1,941
Travel and transportation	806	1,051
Advertising and representation expenses	4,381	2,284
Other expenses	342	614
	94,240	101,426

Legal, consultancy and audit fees in 2015 is decreased mainly from reduction of consultancy fees for services received from BBI (see notes 15 and 17), in 2015: N/a in (2014: Lek 12,635 thousand) and from bailiff fees.

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

(Amounts in Lek'000 unless otherwise stated)

24. Income tax

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. Income tax in Albania is assessed at the rate of 15% (2014: 15%) of taxable income.

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

	Tax rate	2015	Tax rate	2014
Profit /(Loss) before income tax		39,782		32,678
(Income Tax expense)/ Loss carried forward calculated at tax rate 15% (A)	15%	(5,967)	15%	(4,902)
Non-deductible expenses		28,741		19,684
Tax impact of non-deductible expenses (B)	11%	(4,311)	9%	(2,952)
Current tax expense / Effective tax rate (A+B)	26%	(10,278)	24%	(7,854)

In 2015, the Bank made tax prepayments of Lek 2,225 thousands (2014: Lek 5,698 thousands). Prepaid income tax at December 31, 2015 was Lek 17,958 thousand (2014: Lek 26,011 thousand).

Based on the local accounting law, starting from January 1, 2008 the Bank must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors and are not in excess of the limits determined by the Central Bank. Effective from 1 January 2014, the limits determined by the Central Bank are not applicable and the impairment charges recognized in accordance with IFRS are considered as tax deductible expenses. Due to this change in the legislation, there were no temporary differences between the book value and the tax value of financial receivables as of December 31, 2015.

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

(Amounts in Lek'000 unless otherwise stated)

25. Commitments and contingencies

Guarantees

	December 31, 2015	December 31, 2014
Guarantees	23,355	44,731

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of credits granted. Based on management's estimate, no material losses related to guarantees outstanding at December 31, 2015 will be incurred and thus no provision have been included in these financial statements.

Legal

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at December 31, 2015.

Lease commitments

The Bank has entered into non-cancellable lease commitments for all branches. Such commitments for the years ended December 31, 2015 and 2014 are detailed as follows:

	December 31, 2015	December 31, 2014
Less than one year	17,687	16,837
Between one and five years	27,002	10,502
	44,690	27,339

The Bank has rental agreements for all its branches.

26. Funds under management

Funds under management by type are as follows:

	December 31, 2015	December 31, 2014
Managed funds	3,357,831	3,626,461

Managed funds relate to investment deposits belonging to customers (refer to note 16), for which the Bank has assumed management responsibility. The customers assume the ultimate investment risk arising from investment of these funds.

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

(Amounts in Lek'000 unless otherwise stated)

27. Related party transactions

The Bank enters into transactions with its shareholders in the ordinary course of business. The balances with minority shareholders and entities owned by them, are as follows:

	December 31, 2015	December 31, 2014
Assets		
Accounts and investments with banks and financial institutions	751,038	231,427
Mudaraba - investment funds (note 9)	248,134	233,518
Provision for Mudaraba - investment funds (note 9)	(153,176)	(133,960)
Financing activities	-	-
Provision for financing activities	-	-
Liabilities		
Due to customers	(10,880)	(9,899)
Payables to Bosna Bank International d.d	-	(9,602)
Borrowings from IDB (due to shareholders) (note 15)	(34,941)	(22,406)

The balances presented above are with shareholders that own less than 5% of the share capital of the Bank and are not considered as related for purposes of compliance with Article 64 of the Banking Law of the maximum exposures with related parties.

Related parties are defined in accordance with the Article 4 'Definitions', paragraphs 9 and 10, of the Law No. 9662, dated December 18, 2006 "On Banks in the Republic of Albania", and the maximum exposures with related parties are monitored for compliance with Article 64 of this Law.

Transactions with directors

The remuneration of directors is included in personnel expenses. It is detailed as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries	17,010	12,857
Bonuses and other benefits	3,290	-
Remuneration of the Board of Directors	4,232	1,051
	24,532	13,908

The income and expenses arising from transactions with related parties are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Income from Dallah Holding subsidiaries	5,262	6,987
Consultancy fees (BBI)	-	(12,635)
Customers' share on profit	(74)	(119)

28. Subsequent events

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