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# ANNUAL REPORT
# 2014

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# 2014

DEPOSIT INSURANCE THE AGENCY

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# INTRODUCTION

Deposit Insurance the Agency (DIA) has been established in 2002 and conducts its activity based on Law no. 52/2014, date 22.05.2014 "On deposits insurance". DIA authority consists of management of deposits insurance scheme, which on its side insures individual deposits over all banks operating in the Republic of Albania (ROA) (16 banks).

Deposit Insurance the Agency (DIA) has been established in 2002 and conducts its activity based on Law no. 52/2014, date 22.05.2014 "On deposits insurance". DIA authority consists of management of deposits insurance scheme, which on its side insures individual deposits over all banks operating in the Republic of Albania (ROA) (16 banks).

The law "On deposits insurance", enables DIA to undertake the task of deposit insurance in the Saving and Credit Associations (SCA) as well.

Deposit Insurance is currently obligatory for all banks since December 2015 and will be as such to all SCA over Republic of Albania. DIA protects only the deposits of physical persons, to depositors in banks, up to the amount of ALL 2,500,000, and up to the amount of ALL 2,000,000 to depositor in SCA. Deposits in foreign currency are insured for the same amount, but the compensation will be in ALL, as per the exchange rate on the day Supervisory Authority (Bank of Albania) will be engaged herein. DIA is legally authorized to compensate depositors within 3 months from the date the Bank of Albania becomes engaged in an insured subject. Until December 2014 DIA insured circa 95% of individual depositors and 40% of bank system deposits.

DIA is financed from member subjects to the scheme on periodic quarterly premium basis consisting in 0.125% for banks and 0.075% for SCA. The premium is calculated on the arithmetical average of the insured deposit registered in bank or SCA in the last day of each month of the precedent trimester. Under special cases, to replenish its funds, DIA might ask by members member subjects of the scheme, to pay their premium in advance.

DIA management consists of Board of Directors and it is headed by the General Director. DIA is a "pay box" model and according to the Law can participate in various methods in banks dissolving by of funds transferring representing the rights of insured depositors.

Genci Mamani
Chairman of Board of Directors

Toni Gogu
General Director

## The message of Chairman of Board of Directors & General Director

Dear Readers,

The last five year period was not an easy one to international financial and banking markets. Many of Euro zone countries were forced again to have their banks supported by various financial means, a phenomenon which provoked doubt from the taxpayer's point of view. Such situations, beyond question, had an impact even in the case of Albania, even though, luckily, there were no incidents noticed on our markets. Financial intuitions in Albania in general, had a positive performance even over the last years. They keep enjoying the confidence of Albanian and international depositors. DIA plays an important role regarding strengthening of such confidence, by deposit insurance in Republic of Albania since 2002. Deposit insurance assures depositors on clearness, tranquility and safety playing such a substantial contribution on local financial system stability.

The well – known writer, Jackson Brown, has often quoted "The best preparation for your tomorrow is to try to do your best today". The last year was a challenging one to the Agency. The activity of The Agency was focused on implementation of its sole target: compensation of depositors in need. Our existence is based on an effective compensation of our clients (depositors) up to the amount identified by law in the case a bank is in position of payment inability. Year 2014 provided a success achievement of deposit insurance scheme targets. Even

during the next year 2015, we will keep operating with the same intensity to fulfill our commitments in due time.

In the course of year 2014, the Agency assumed several qualitative steps to improve the deposit insurance scheme, in compliance with best international standards and practices. Among them, was the approval by the Parliament of Republic of Albania of new law "On deposit insurance", which thoroughly enables strengthening and integrated increase of insurance scheme capacities. Necessity of legal amendments has been found in the framework of matrix (DPL Matrix) of modernization of World Bank (WB) financial sector, whilst the main innovative in this law originated from recommendation of WB mission and International Monetary Fund (IMF) missions in the framework of Assessment Program of Financial Sector in Albania over 2013 as well as changes on *acquis* regulations of European Union. Also, signing of the Loan Agreement with EBRD was an important development, with a benefit to The Agency of a line of credit of EUR 100 Mil over a 5 years period subject to fulfillment of its legal obligations. The said line makes up an additional guarantee to Albanian depositors and a higher coverage level on insurance of banking system.

On 2014 the Agency, in cooperation with its EBRD partners and Financial Services Volunteers Corps (FSVC) and groups of interests as well, developed and launched the central data collection and reporting system (DCRS) for scheme member subjects. DCRS enables concentration of the Agency reported electronic information on data of deposit and depositors scheme member subjects, allowing immediate access on these data by The Agency, at any time. This is a quite important step regarding a quick and accurate compensation of depositors in each of scheme subjects to an insurance case. In compliance with DCRS and in implementation of legal obligations, the Agency will assume the renewal and drafting of bylaws on compensation preparation, such process is expected to be completed by year 2015. This regulatory framework would serve, under a concrete compensation plan, as practical mean in insurance cases, standard working procedures and task and responsibilities explicitly as denoted to The Agency's staff.

Our existence is based on an effective compensation of our clients (depositors) up to the amount identified by law in the case a bank is in position of payment inability. Year 2014 provided a success achievement of deposit insurance scheme targets.

In the course of three - year period 2015 – 2017,

The Agency will be focused on fulfillment of its strategic commitments, which are: *(i) 14 days to compensate the depositors to the legal amount.* An indispensable element is the preparation to compensation according to legal and regulatory frame, simulation and training and inter - institutional cooperation with the members of local financial safety network; *(ii) ±10% variance on fulfillment of annual budget.* A Continuous improvement of the Agency's operational efficiency, by a challenging and realistic planning and an effective management of funds and their financial sources; *(iii) 2 - 4% annual rise of public awareness about deposit insurance scheme.* We appreciate that the best public information about the scheme and role of the Agency is crucial regarding strengthening and keeping of local financial stability.

We are aware that, as per nature of banks and human instinct to safeguard their own savings, banks are facing continuous risks. To this end, we are focusing to determinately keep going with our commitments to build up the necessary capacities and be aware at any time. As members of financial safety network in the country, we are working to make depositors feel safe. To this ground, The Agency's intention is to be as closer to depositors paying attention to public awareness to our role. Our strategy is a simple communication, with limit to technical and complicated vocabulary, hoping it is the language found throughout this Annual Report. Given that, during 2014, we have reprocessed the image of our institution, including The Agency's official emblem, internet and social web page and promotional and informative materials.

In this context, we are delighted to present the 2014 Annual Report with The Agency's achievements.

Genci Mamani
Chairman of
Board of Directors

Toni Gogu
General Director

## Executive Summary

Financial performance of DIA over 2014 was characterized by a stabile rise of deposits insurance fund in banks. In comparison with last year, the deposits insurance fund in banks had a rise of 17% reaching a value of ALL 24.05 Billion (Bln) in Dec 31, 2014. The investment portfolio in Dec 31, 2014 recorded a net value of ALL 23.06 Bln, showing an annual rise of 19%. The rise of above indexes comes as a result of the profit from 2014 The Agency's activity to the amount of ALL 3.57 Bln. During this year there are recorded incomes out of insurance premium to an amount of All 2.84 Bln and income from investment portfolio management to the amount of ALL 804 Bln.

Insured deposits in banking system by the end of 2014 reached a value of ALL 570.60 Bln, which means a rise of 2.4% compared to the end of 2013. The growth of deposits insurance fund and the performance of insured deposits in banking system over 2014 brought an increase of coverage ratio. The coverage ratio, calculated as percentage of deposit insurance fund compared with the insured deposits, varied from 3.68 % by the end of 2013 to 4.21 % by end of 2014.

With purpose of improving of further ongoing of deposits insurance scheme, Deposit Insurance the Agency signed in 2014, the Loan Agreement with the EBRD aiming benefiting of a line of credit of a value up to 100 Mil Euros. This agreement is entirely guaranteed by the Government of Republic of Albania. This instrument enables diversification of financial sources and cash enhancement. In case of an insurance procedure, EBRD provides the Agency, within 7 days, with the available funds from the line of credit. These funds assure an increment of coverage ratio of 2.5 %, enhancing the deposits insurance scheme efficiency in depositors' safeguard.

INSURED DEPOSITS IN BANKING SYSTEM BY THE END OF 2014 REACHED A VALUE OF ALL 570.60 BLN, WHICH MEANS A RISE OF 2.4% COMPARED TO THE END OF 2013

Also, during 2014, the Agency made available a central Data Collection and Reporting System (DCRS), which facilitates centralization of electronic information reported by member subjects in relation with deposits. By this mean, The Agency can have all the time access on depositors' identification personal data to define and assess the accuracy of deposited amount to each depositor. In completion of the Agency's mission, this system is overly important to a rapid and effective compensation in an insurance case.

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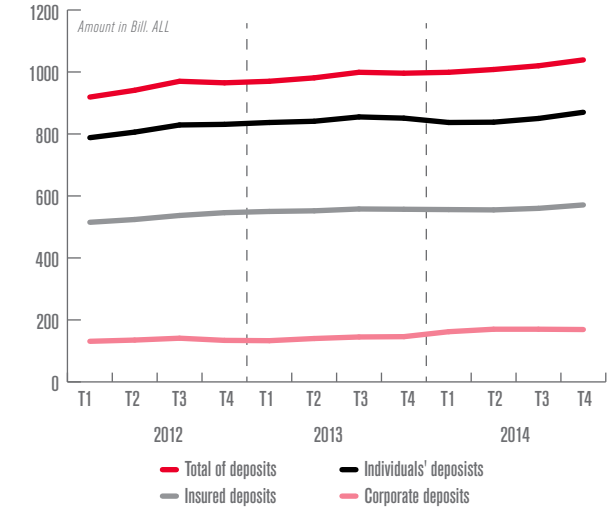
# DEPOSIT INSURANCE

## 2.1. Deposits in banking system

**Total of system deposits** and those of individuals, endured increasing and decreasing fluctuations by relatively low rates of monthly changes. Total of bank deposits as per December 31, 2014, had a rise of 4.3 % compared with those of by end of 2013.

*Graph 1. Banking system deposits performance 2012-2014*




Total of bank deposits as per December 31, 2014, had a rise of 4.3 % compared with those of by end of 2013.

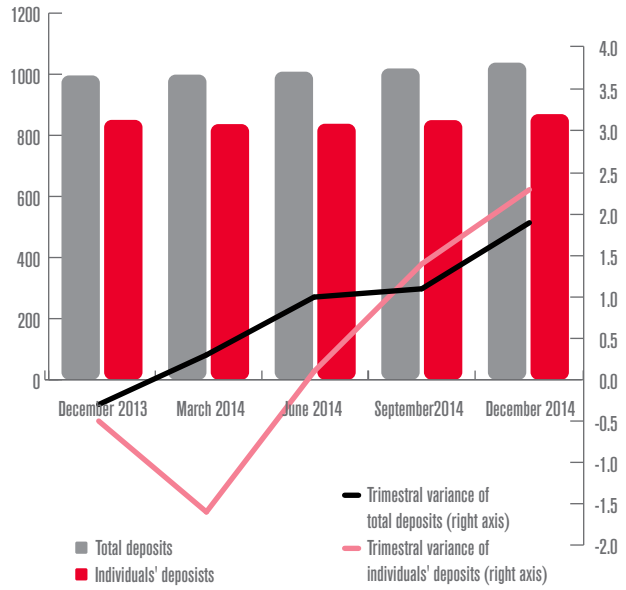
The deposits of individuals benefiting from deposit insurance scheme, by end of 2014, attained an increase of 2.2 % compared with those of the last year.

## 2.2. Individual deposits

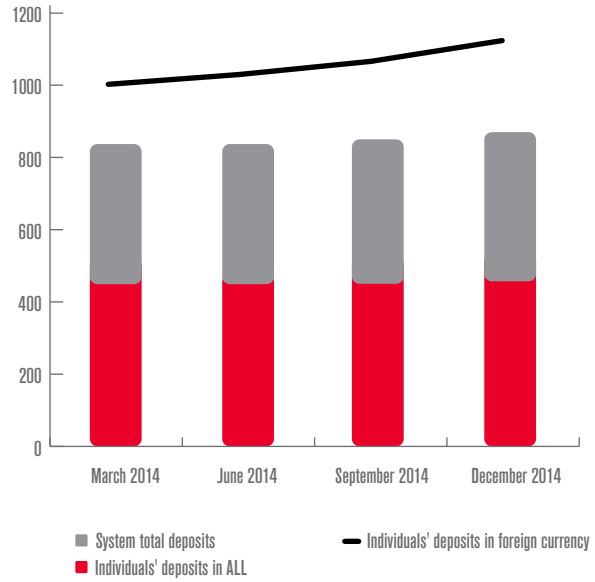
The deposits of individuals benefiting from deposit insurance scheme, by end of 2014, attained an increase of 2.2 % compared with those of the last year and represent 84 % of the total of bank system deposits, to the relevant amount of ALL 870 Bln . Individuals' deposits in foreign currency had been affected to a higher extent.

By the end of period, the individual deposits, according to the currency, are dominated by ALL deposits, to the amount of 53 % of the total, followed by those in EUR as 41%, 5% in USD and 1% in other currencies

Graph 2. Banking system deposits performance




Graph 3. Performance of system deposits over the year




## 2.3. Insured Deposits

Insured system deposits, by end of 2014, increased by 2.4 %, equal to ALL 13.6 Bln. These deposits represent 66% of individuals' deposits total.

By end of 2014, depositors benefiting from deposits insurance scheme, numbered 2,051,890[11], 96% of whose benefited a full coverage from this scheme. Individuals' deposits below the coverage limit represent 40% of individuals' deposits.

In comparison with the previous year, the number of individual depositors benefiting from the scheme increased by 11%. In the course of three - years period 2012 - 2014, system deposits structure, classified according to the insurance scheme, was almost on the same specific weight against total.

## 2.4. Verification and compensation

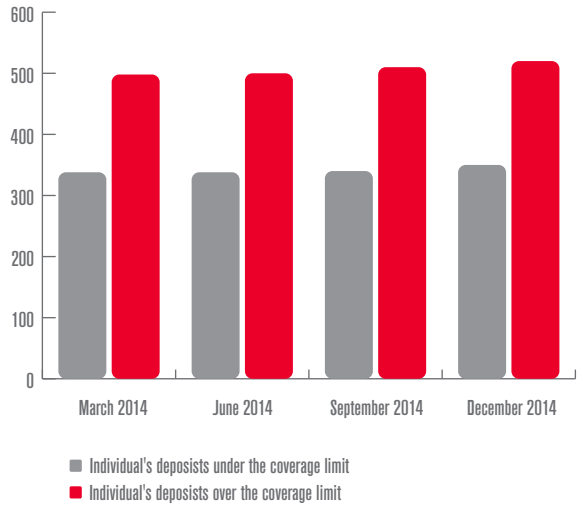
During 2014, the Agency conveyed verifications on 16 system banks in relation with (i) assessment methodology accuracy of the insurance amount aiming premium calculation; (ii) readiness of information systems, according to compensation process; (iii) deposits and depositors' data - storing quality, based on the Agency's obligation list, in case of an insurance practice, i.e. Single Customer View (SCV)[2]; and public notification by scheme member subjects.

During 2014 as well, the verifications main focus was SCV lists preparation and public information and awareness in relation with deposit insurance

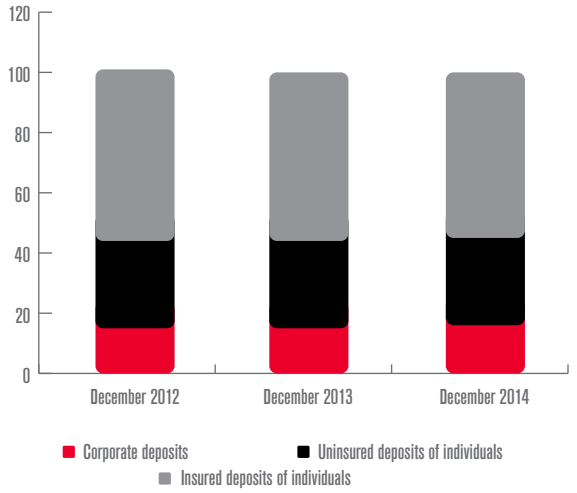
*1. The total number of depositors was obtained from the aggregate deposits' data in each ensured bank; consequently those having a deposit in different banks are represented accordingly in this total figure.*

*2. Single Customer View – are the consolidate data for the identification of the depositor in a single manner in the subject computer system through personal data related to a concrete person where the amount benefited by such depositor is exactly determined.*

Graph 4. Individuals' deposits performance classified according to coverage level




Graph 5. Performance of structured deposits benefiting from deposit insurance scheme




scheme benefits and limitations, taking in account the substantial role of these matters on deposits compensation process.

Likewise, based on a rapid and accurate compensation process, in the course of year 2014, the Agency completed an information technology - automated infrastructure.

In relation to deposits compensation, the Agency carried out trainings with all banks' depositors' service employees to become them familiar with the law "On deposits insurance" to have a better informed public and a stronger financial stability in the country.

Agency's eventual maximal commitment, by end of 2014, grew to 2.4 % compared to the end of 2013, equal to ALL 13.6 Bln.

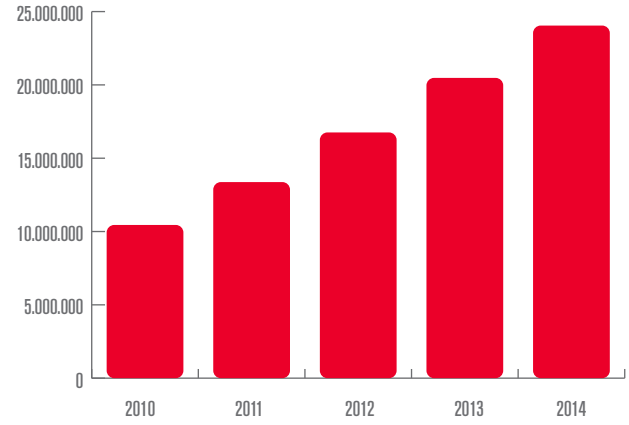
THE AGENCY COMPENSATES THE INSURED DEPOSIT AT ANY TIME TO THE EXTENT OF 100 %, NOT EXCEEDING THE AMOUNT OF ALL 2,500,000 TO EACH DEPOSITOR WITH A DEPOSIT IN ANY BANK OPERATING IN THE REPUBLIC OF ALBANIA AND TO THE AMOUNT OF ALL 2,000,000 TO EACH DEPOSITOR IN SCA, NO MATTER OF THE NUMBERS OF DEPOSITS AND THE DEPOSITED AMOUNT. TO CALCULATE THE COMPENSATION AMOUNT, SOLELY THE PAYABLE OVERDUE AMOUNT IS TO BE DEDUCTIBLE FROM THE DEPOSITOR'S AGGREGATED DEPOSIT TOTAL AT THE INSURED SUBJECT.

# DEPOSITS INSURANCE FUND

## 3.1. Deposits insurance fund performance

On December 31, 2014, deposits insurance fund in banks, composed of fundamental fund of ALL 400 Mln and accrued profit over years of ALL 24.05 Bln. Compared with the last year this fund was grown by ALL 3.57 Bln or 17.4%. The graphic below shows deposits insurance fund performance from 2010 to 2014. During this period the fund grew by 130.2%, from ALL 10.45 Bln by the end of 2010 to ALL 24.05 Bln to the end of 2014

*Graph 6. in - banks deposit insurance fund (in thousands of ALL)*




On December 31, 2014, deposits insurance fund in banks, composed of fundamental fund of ALL 400 Mln and accrued profit over years of ALL 24.05 Bln. Compared with the last year this fund was grown by ALL 3.57 Bln.

## 3.2. Main financial indexes

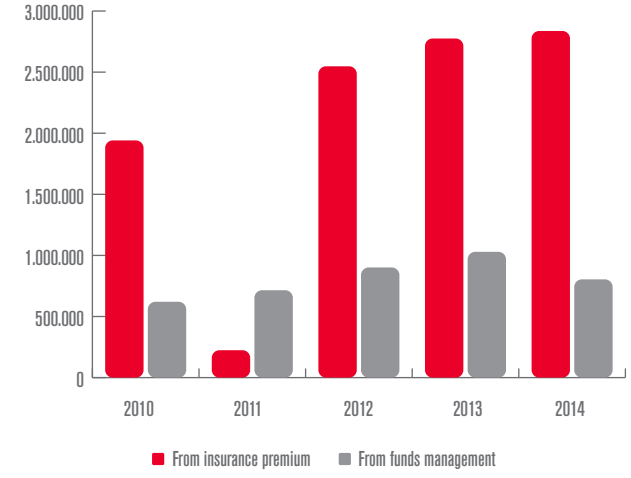
Deposits insurance fund is grown or declined upon the proceeds by the Agency's activities over years. The main income contributing on insurance fund growth generated out of its insurance activity, annual insurance premium and financial assets management. The below graphic represents a

summary of main income over 2010 – 2014.

Insurance premium income for 2014 was ALL 2.84 Bln or 2.2 % higher compared with 2013. Insurance premium income over all period 2010 – 2014 has been growing which is in direct relation with the increase of insured deposits in the banking system over these years. During these years, insured deposits growth rate showed a decrease trend, reflected in the insurance premium rate of growth.

Revenues from financial assets management over 2014 were ALL 804 Bln or 21.9% less than 2013. This account showed a rise over the period 2010 – 2013, which is directly related with the growth of financial assets subject of management and interest rate of financial instruments. Revenues from financial assets management for 2014 has been directly affected by a sensitive decline of interest rate of Albanian Government financial instruments (securities), which started in 2013 and kept going over 2014 as well.

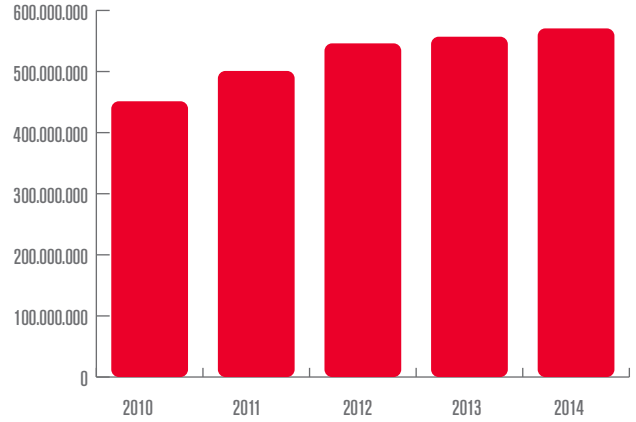
*Graph 7. Main financial indexes (in thousands of ALL)*




## 3.3. Insured deposits coverage ratio

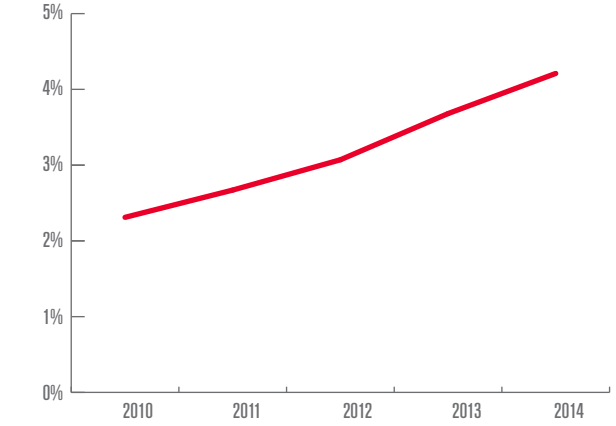
By the end of 2014, insured deposits into banking system were ALL 570.6 Bln or 2.4% higher compared to the last year. The graph below shows a summary of insured deposits in the banking system for 2010 - 2014

*Graph 8. In – Banks insured deposits (in thousands ALL)*




The sensitive growth of deposits insurance fund and performance insured deposits into banking system over 2010 – 2014 had an effect on a continuous

*Graph 9. Insured deposits coverage ratio*



rise of coverage ratio during this period. By the end of 2014, the coverage ratio, calculated as percentage of deposits insurance fund compared with the insured deposits, was 4.21 %. Following graphic shows a summary of coverage ratio for the period 2010 – 2014.

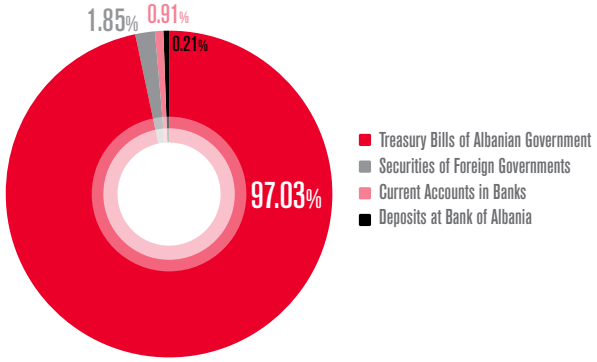
## 3.4. Finacial assets mangement

As per December 31, 2014, the Agency's financial assets evaluated under the net - booked value of ALL 23.3 Bln, are invested mostly in Albanian Government securities. The Agency has invested certain amount of its assets in USA securities. Following graphic indicates a summary of Agency's financial assets investment portfolio, on December 31, 2014.

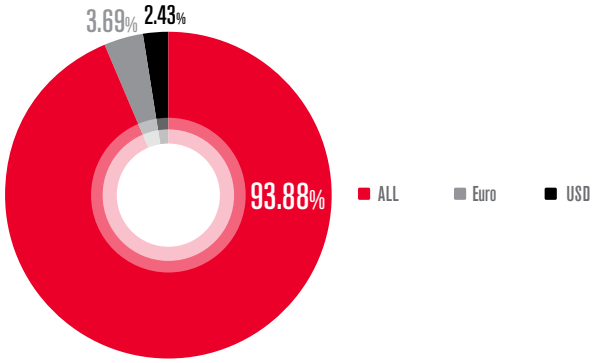
Agency's financial assets are mostly in ALL. The Agency holds certain amount of its assets in foreign currency. The below graph shows a summary of currency – based financial assets investment of the Agency on December 31, 2014

Based on the above information of Agency's financial assets, the graph below presents financial assets allocation by duration to maturity until Dec. 31, 2014. Based on an effective financial assets managing and on all - the - time fulfillment of cash – need, financial assets have maturity duration – based graded allocation. On September 2014, Agency changed its Investment Policy enabling investing of its financial assets (20 %) in 12 – 24 months duration - to - maturity instruments. Such change happened in compliance with new law: "On deposits insurances", once it became effective. Until December 31 2014, the Agency invested 6.42% of its financial assets in 2 – years Albanian Government bonds.

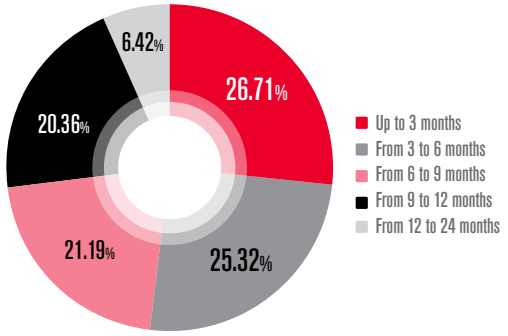
*Graph 10. Financing according to financial instruments (securities)*




*Graph 11. Financing according the currencies*




*Graph 12. Securities according to duration to maturity*



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# EDUCATION OF PUBLIC

The Agency's strategy on education of the public by 2014 focused on continuation of defined initiatives, in conformity with Law no. 53/2014 "On deposits insurance", as follows.

## 4.1. Promotion and development of Agency's image

To provide an effective deposits insurance system, it is substantial to have an all – the – time informed public in relation with deposits insurance scheme, its benefits and limitations. Based on this principle, development and promotion of Agency's image and deposits insurance scheme have been found as important projects during 2014 with orientations on the following actions:

i. Achievement, for the first time, of a around - the - country polling, in cooperation with a specialized company, to enable an assessment of public information level regarding deposits insurance scheme and orientation of Agency to build an effective communication strategy. Such initiative was one of recommendations of FSAP missions of IMF and WB, which took place on 2013. Polling was focusing on assessment not only on bank - products depositors, but also on a mass public above 18 years old. The Agency's intention was to collect as much as possible information from current depositors on their knowledge as scheme beneficent and on mass public as potential depositors. As result,

To provide an effective deposits insurance system, it is substantial to have an all – the – time informed public in relation with deposits insurance scheme, its benefits and limitations.

46% of the population was informed on the deposits insurance scheme.

ii. A new visual and in content configuration of Agency's official web site. As an important mean to expose the Agency role and function and as an important source of information for the users, the new web page offers complete and comprehensible information to all levels of interested people. The Agency's web page could be visited at www.asd.gov.al. One innovation of this website is the deposit insurance calculator. Each user can, at any time, calculate by a simple application, the total amount of deposits insured by the Agency. Another innovation is the dedicated page, activated only on an insurance case. Such page will offer in real time, necessary information to the benefit of depositors, aiming a transparent, direct and well – timed communication.

iii. Modification of the official Agency's emblem, bearing a new identification image, with simple, attractive and noticeable elements. Main Agency's emblem is one of the most important public - interactive elements and all other groups of interest, identifying the Agency as insurance scheme manger. This new emblem jointly with its symbolic element illustrates intends to provide a clear and straight perception of Agency's authority.

iv. Creation of Agency's profile in the social network as Facebook, Linkedin, Twitter. In relation with public objectives of the insurance scheme and with the intention to divulge important information, the Agency pays a particular attention in innovations to public communication field. In this context, the Agency is always present through its profile, in the main social networks. The Agency profile is updated by materials and information related to Agency's activities, aiming transparency to depositors and connections with mass public.

v. In the framework to the cooperation with the Supervision Authority regarding actions and activities on financial education,

the Agency is fully committed to involve in preparation of public education jointed programs

## 4.2. Bilateral relationship development

i. The relations with scheme member subjects, banks and Saving and Credit Associations (SCA). Throughout 2014, the Agency kept organizing seminar and training workshops with representatives of bank system and SCA in several cities like Shkodër, Durrës, Kukës, Vlorë and Gjirokastër. Banks and SCA as subjects accepting deposits and are in direct contact with depositors play a substantial role regarding promotion not solely to bank products but to deposit insurance scheme. To this end, training topics were focused in: (i) further enhance of scheme awareness; (ii) importance of contribution of all factors included in successful completion of compensation process; (iii) importance of accurate and constant depositors' data - storing and updating in compliance with legal criteria and Agency's definition on its quality and (iv) operational risk and money laundering prevention schemes, etc. These activities have been organizes in cooperation and with contribution of Bank of Albania experts.

ii. The Agency considers Media as an undisputable partner. Taking in account its role regarding public information, in direct and swift news spreading in peaceful time and during crisis as well, the powerful influence on the public opinion, during 2014, meetings with representatives of visual and written media have been organized with purpose to establish relations and build up traditions to raise awareness on Agency's operations and activities to this important group of interest. Pursuant to these commitments, during 2014, the Agency was present in media by interviews, chronicles and writings in newspapers, magazines and TV channels.

05

# THE MAIN PROJECTS

Aiming fulfillment of the main objectives of deposits insurance scheme, depositors' compensation, playing a contribution to preserve financial stability in the country, the Agency assumed the initiative to complete reporting and compensation information process

## 5.1. New legal framework

One of the main developments of deposits insurance scheme during 2014 is the approval by the Parliament of Republic of Albania of Law no. 53/2014, date 22.05.2014 "On deposits insurance". The legal initiative on approval of new law on deposits insurance was launched by the recommendations of WB and IMF missions in the framework of the Financial Sector Assessment Program (FSAP) conducted in Albania, which took place by October – November 2013.

Law no. 53/2014, date 22.05.2014 "On deposits insurance" creates the legal framework to improvement of deposits insurance scheme functioning regulations. It is to say that this law retained unchanged the scheme public functioning, as it was since the beginning in 2002. Such function consists in compensation of depositors' deposits, safeguarding of their interests playing an essential role on stability of banking and financial system. To this end, the law defines competencies and functions of public instructions and member subjects in the scheme. Scheme regulatory mechanism is based in definition of its objectives (the reason of its establishment), participants functions (what do their operations consist in) and in – the – scheme participant rights and legal instruments aiming objectives fulfillment.

One of the main changes this law provides is the insurance of individuals' deposits placed in Saving and Credit Associations (SCA). The Law defines that SCA depositors' coverage level will be to the amount of ALL 2,000,000. Such insurance becomes effective immediately for SCA depositors in scheme. A transitory provision completing by De-

cember 31, 2015, has been defined to SCA membership in scheme and their preparation to fulfill the obligations deriving by the law.
Regarding deposits insurance of depositors in second level banks, the law left unchanged the maximal insurance level to the amount of ALL 2,500,000.
Likewise, the law improves important processes directly affecting on effectiveness of deposits insurance scheme function, such as:

- Insurance activity process in banks and SCA in particular by reviewing of calculation method of deposits insurance premium payable by subjects

- Depositors' information process, by defining obligations of Agency and scheme member subjects according to awareness on benefits and limitations of the scheme regarding safeguarding of deposits in banks and SCA.

- Compensation process by defining the obligations of scheme - participating subjects, by an accurate and swift identification of each depositor in banking financial system.

- Agency funds management by means of defining the regulations providing the compatibility between financial assets management, accounting principles, legal framework and risk management in the Agency's activity

As per above, Law no. 53/2014 "On deposits insurance" allows a continuous development of deposits insurance scheme in our country, in compliance with International Standards for Deposits Insurance Effective Schemes and Regulation 2014/49/BE of European Parliament and Council "On deposits guarantee schemes"

## 5.2. Completion of Data Collection and Reporting System (DCRS)

Creation and implementation of RCIS is one of most important initiatives the Agency has achieved during 2014. Lacking of information systems on deposits insurances was an experience learnt from global financial crises of 2008. Information systems facilitate an efficient functioning of a compensation process, which allows a immediate and accurate refunding to insured depositor. In this context, aiming fulfillment of the main objectives of deposits insurance scheme, depositors' compensation, playing a contribution to preserve financial stability in the country, the Agency assumed the initiative to complete reporting and compensation information process. In compliance with the project plan, the system set out on July 2013 and was completed by August 2014 and was used, for the first time, by Banks on October 2014, on premium calculation. The main DCRS's objective is the centralization of electronic information reported by Banks in Agency, premium calculation in each bank and an immediate and effective compensation in an insurance case. This project was accomplished with financial support of an EBRD grant and assistance of FDIC (Federal

Deposit Insurance Corporation), consisting in high - level experts technical consulting in relation with terms of reference preparation and performance assessment.
Main functions of DCRS are configured to assure:

a) Readiness at any time of a unique – way depositor data identification

b) Identification and accuracy evaluation on insured amount the Agency have to compensate the depositor

c) Information centralization available to Agency in relation with deposits and depositors whether individual and/or aggregated

d) Accuracy evaluation of depositor personal data in subjects' electronic records

e) Accuracy evaluation of periodic premium calculation, reported by scheme member subjects

f) Immediate access on deposits and depositors data to accurately evaluate the compensation value in an insurance case or stimulation process

g) Information use and/or publicity by Agency with purpose of studies and deposit insurance risk assessment and management

### 5.2.1 Electronic Reporting Rules

DCRS functions based on data reporting by actors involved in this process. To this end, a clear identification and accurate reporting of rules was found as a necessity by Agency structures. Agency's Board of Directors, with the purpose of technical and legal level interaction with second – level banks, as main users of DCRS, approved "Instruction on the Banks" on November 2014. Such instruction, subject to preliminary consulting and discussions jointly with all second – level banks, defines reporting rules, consisting in two levels: (i) accuracy verification of premium the banks report to the Agency and (ii) depositor data availability in an insurance case or stimulation process

**(i)** In order to guarantee a continuous system files upgrading to insurance amount and premium payable by banks, the reporting system anticipates a monthly frequency on:

a) Deposits – accounts data related to individual bank deposits, and

b) Depositor – depositor detailed data, identifying him/her thoroughly

As well as a three - month frequency reporting on calculated premium to each insured depositor in any system bank.

**(ii)** In case of insurance case or stimulation process, taking in account that rapidity and accuracy in identification of insured

depositor and relevant amounts is of priority importance, reporting frequency will be on daily bases, as following:

a) Deposits – accounts data related to individual bank deposits

b) Depositor – depositor detailed data, identifying him/her thoroughly

c) Loans – detailed loans related to deposits as guarantee to these loans

d) Depositors netted positions – depositor to netting position

The Agency bears the right to ask, at any time, reporting from banks, for particular unpredictable purposes in order to fulfill public objectives of its activity.

### 5.2.2 Interacting with insurance scheme members

Creation and effective functioning of system to entirely complete the defined objectives, requires the cooperation and interacting with all process – involved parties. Coordination, with the purpose of acceptance of all features and composing elements, is a prerequisite for a successful process. In this point of view, the Agency had a concrete and continuous cooperation with all banks during over entire phases of system launching. Upon starting of on – line reporting by banks, the Agency organized a seminar on: "Activation of Data Collection and Reporting Automated System". The seminar target was to demonstrate system main functions, its influence with respect to improvement of processes of Agency and banks, changes of rules in implementation of new law "on deposit insurance" and to emphasize the banks' obligations to immediately fulfill the Agency's requirements on data reporting. Considering the fact that some of in – system banks had played a contribution over system – testing phases, from banks point of view, the seminar was a opportunity to present these experiences and challenges to further development and improvement of RCIS. The seminar was attended by General Directors, head of Infrastructure Technology departments and second – level banks operational departments. Also, given the fact that Deposit Insurance Agency is one of the first deposit insurance institutions in the area applying a reporting and compensation informative system, in this seminar were invited and participated high – level delegations of Deposit Insurance Funds of Kosovo and Monte

Negro.

## 5.3. Infrastructure preparation on creation of deposit insurance scheme to depositors in Saving and Credit Associations (SCA)

One of main innovations of law "On deposit insurance" no.53/2014, date 22.05.2014, was

creation of deposit insurance scheme in SCA. Based on international practices in deposits insurance field and in cooperation with law – maker and financial regulatory institutions, scheme elements were adopted to this particular – functioning financial institution. Some of these elements are: an over - limited but realistic coverage; a lower premium to a lighter financial burden; extra premium to risk monitoring and initial fund rise, contributed by state – budget. Moreover, Law "On deposit insurance" states end of 2015 as a deadline to deposit insurance scheme on SCA function.

Aiming respecting of the deadline, as per law, the Agency commenced preparation on all necessary infrastructures to set out and make functional an effective deposit insurance scheme in SCA. To this initiative, the Agency made use of expertise and foreign consultants with considerable knowledge on deposit insurance field. Such assistance was enabled from FSVC. In order to build up a realistic infrastructure, relevant structures within Agency and international consultants organized field meetings with SCA and their unions. In completion of this process and upon result - analyses, were drafted the conditions, which SCA should meet to be admitted into scheme and the need was identified to in – field verification to their fulfillment.

Pursuant to this development, the Agency Board of Directors approved the instruction (regulation) "On deposit insurance in SCA". This Regulation (instruction) reflects changes in respect with law on SCA and the conclusions of foreign assistance. In cooperation with Unions, a operational plan was prepared and task forces were set to carry out verifications in SCA. Coordination with the Bank of Albania, to the quality of Supervision Authority, was organized to carry out on – the - spot verifications in SCA and common verifications were followed by exchange of verification report. In conclusion, the Bank of Albania and the Deposit Insurance Agency will respectively do licensing and include under the insurance scheme only the existing SCA, which will be able to provide a sound continuity on their financial activity.

## 5.4. Line of Credit

On July 2014, the Agency completed negotiations and signed the Loan Agreement with EBRD to benefit a EUR 100 Mil line of credit, fully guaranteed by Government of Albania. The goal of this line of credit is to provide additional insurance funding, beside those of Agency, to fulfill its legal obligations, if necessary. Line of Credit Guaranty Agreement was signed on the same day between Ministry of Finance, as Government representative and EBRD. The line of credit, in the form of a ready loan, will serve to increase the Agency efficiency to fulfill its legal obligation, safeguarding and individuals' deposit warranty. This line makes available funds to deposits insurance instructions, upon their request and if necessary, assuring a success and efficient fulfillment of the goal and mission these institutions have been established.

The agreement with EBRD offer s to Agency a EUR 100 Mil ready - line of credit, to five - years availability, with the purpose to assure cash and additional financial sources, in insurance case. This kind of credit enables the Agency to obtain cash

opportunity in a short time (7 days) to respond to depositors, in a insurance case. The line of credit guarantees Agency with necessary funding to reach a 6% from 3.7% coverage ratio of insured deposits in banking system, while full coverage of two banks, in addition to allowed current Agency's portfolio.

Also, the agreement was signed for EUR funding, covering as such the exchange rate risk, with a negative impact on coverage level in an insurance case. Besides banks, line of credit funds might be useful to a SCA insurance case, expected to enter insurance scheme on 2015.

As an additional mechanism on the top of insurance elements to deposit insurance scheme in Albania, the line of credit raises the depositors' safeguard level with a significant improvement of coverage level to insured deposits and financial institutions participating the insurance scheme. The agreement is a support and confidence indicator that the important strategic partners are showing toward financial system in the country and DIA. This financing instrument will play a positive contribution on further rise of depositors' confidence toward financial system in the country, therefore more opportunities to financial institutions. This line of credit provides an additional strength on deposit insurance scheme in the Republic of Albania, completing the international standards in deposit insurance field.

## 5.5. Cooperation Agreements

The Agency appreciates and strongly endorses the establishment and preserving of cooperation agreements with the purpose of experience exchange, strengthen of human's capacities and improvement of deposits insurance schemes in compliance with international standards. These agreements offer the opportunity of a long - term and constant cooperation between homolog institutions, avoiding cooperation sporadic cases in particular cases. This was one of the main recommendations of WB and IMF jointed mission, in the framework of Financial Sector Assessment Program (FSAP). To this end, during the last year, highlight has been stressed on further development of cooperation policies with homolog institutions in the area and wider.

On 2014, the Deposit Insurance Agency signed cooperation agreements with homolog of Deposit Insurance Fund of Kosovo (DIFK) and Korea Deposit Insurance Corporation (KDIC). The Agency appreciated cooperation agreement signing with these institutions considering performance of the same function, respectively, deposit insurance and compensation and the contribution on banking system preservation. The partnership with DIFK makes up a substantial interest to Agency regarding the cooperation with institutional in Balkan area, whilst with KDIC presents a modern model of deposit insurance in international level. On 2012 KDIC was qualified as Deposit Insurance of the year by International Association of Deposit Insurers (IADI), and as such it is an emulation reference.

The Agency is inclined toward dialog expansion and information exchange through bilateral meetings and mutual communication intensification in relation with regulatory spectrum matters and their practical implementation. Such agreements offer an effective cooperation opportunity between Agency, DIFK and KDIC to a mutual support on regulatory initiatives

in deposit insurance field. The cooperation with these institutions encourages and endorses mutual understanding between deposit insurance schemes with the purpose cooperation promotion to an effective development and improvement of insurance schemes in relevant jurisdictions. In addition, this cooperation targets to information exchange and consulting development on deposits insurance issues and promotion of efficient policies. In relation with information exchange concerning relevant deposit insurance schemes, this will be focused, but not limited, on legal and regulatory adjustment, data on maximal coverage levels, insurance premium, public awareness and education campaigns, data on regulation of banking and non – banking sector, reports and data on deposit bringing and leaks in international markets, balance – sheet data and financial obligations of deposits insurance funds.

These agreements will be primarily implemented by exchange of views and firm bilateral dialogs; exchange training of employees upon parties' requests; information and experience exchange; drafting of notification and consultation procedures regarding membership requirements to deposits insurance scheme; outlining of between – parties notification procedures on insurance and compensation matters.

## 5.6. International coopeeraton and Agency's contribution

Since 2003, Deposits Insurance Agency is a full - rights member of Deposits Insurance International Association (IADI). IADI is the international organization defining standards in deposit insurance field. To enhance the deposit insurance scheme efficiency, IADI's members carry out, in cooperation between them, researches and exchange their experience and knowledge by participation in international conferences, seminars and various forums. One of most important questions the international deposit insurance instructions over the world are facing is the fund financing and its availability to respond to insured depositors on insurance cases. Investment and asset allocation, choice and application of benchmark indexes, risk management, etc. are some of the variables available to deposit insurances.

In appreciation of the importance of the above, on December 2014, IADI in cooperation with FDIC and the DIA organized in Tirana the seminar on "Deposit Insurance Funding: Key Questions, Diverse Approaches) "

In the course of three days, the seminar handled the issue of funds available to deposit insurance schemes over various jurisdictions and their completion ways aiming deposit insurance and depositors' compensation, if necessary. The seminar addressed this topic by experience exchange and discussions of methods the deposit insurers apply in their countries. The key questions the seminar was focused were: (i) the optimal fund available to deposit insurers; (ii) funds raising ways; (iii) funds management; (iv) stand – by funds raising. In the course of seminar, there were presentations by insurers that have founded deposit insurance as financial insurance discipline, as Federal Deposit Insurance Corporation of USA (FDIC) and Canada Deposit Insurance Corporation (CDIC) as well as experienced European insurers like United King-

dom, Poland and Switzerland.
Participants in seminar were high - rank representatives of 20 international deposit insurance institutions including USA, Canada, Germany, United Kingdom, Kosovo, Greece  Rumania, South Korea, Malaysia, Philippines, Zimbabwe, etc. Likewise, invited as guests were: high – ranks officers from Ministry of Finance, Bank of Albania and representatives from second – level banks operating in the Republic of Albania.

Since 2003, Deposits Insurance Agency is a full - rights member of Deposits Insurance International Association (IADI). IADI is the international organization defining standards in deposit insurance field

# ORGANIZATION'S WELL - GOVERNANCE

## 6.1. Organizational structure

The Agency functions based on a consolidated organizational structure, thanks to its restructuring, which is inclined toward an efficient approach to challenges it can face in fulfillment of the mission and legal obligations. Based on this organizational structure, the Agency has established a managerial culture, increasing the flexibility and productivity of working processes and a better coordination between Agency's sectors. This structure is composed of 26 employees over seven sectors, in charge of smooth - running and well – functioning of the activity aiming a successful fulfillment of legal objectives.

## 6.2 Board of Directors

The Board of Directors is the supreme decision – making body of the Deposit Insurance Agency. As per law 53/14, date 22.05.2014 "On Deposit Insurance", Board of Directors' members are nominated by the Supervisory Authority (Bank of Albania), proposed as below:

- Two members from Supervisory Authority
- Two members from the Minister of Finance
- One member from Institute of Authorized Chartered Auditors (IEKA)

Agency's Board of Directors' member are nominated for a five – years time in – the - office with the right for re – nomination, function to their activity performance. In – the - office dates are spread over all five – years period.

During 2014, the Agency's Board of Directors was committed on establishment and maintenance of well – governance relation standards

*Fig. 1. Agency's Organizational Structure*

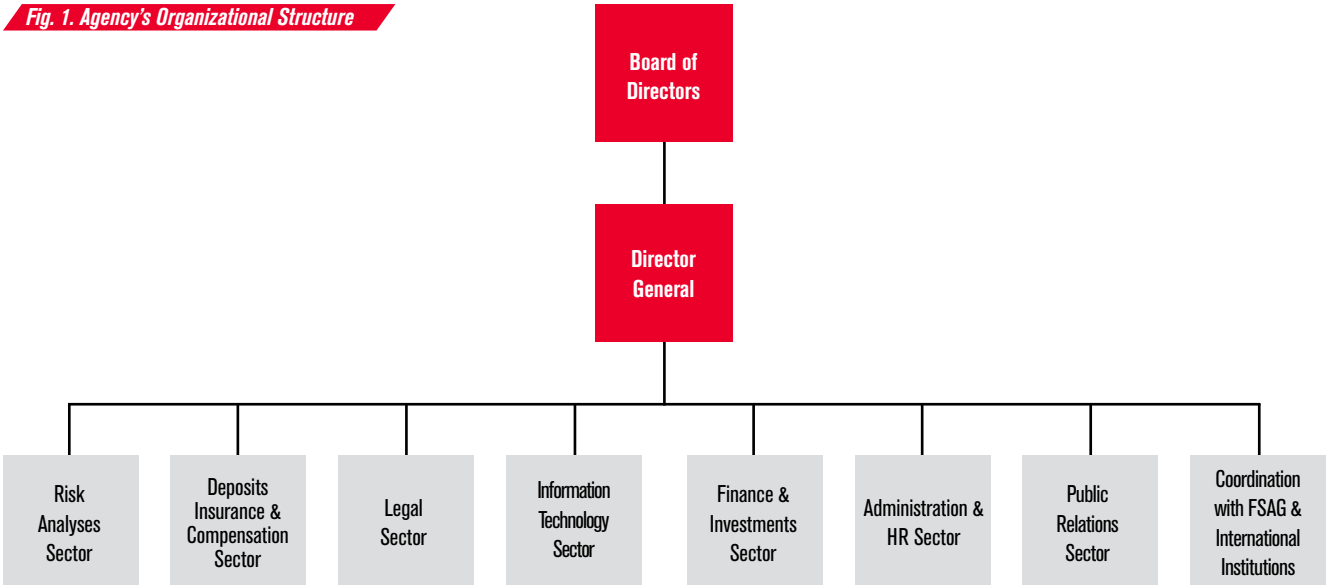


*Table 1. Composition of the Board of Directors*

| BOARD OF DIRECTORS | FUNCTION | PROPOSING INSTITUTION | NOMINATED ON |
|---|---|---|---|
| Genci Mamani | Chairman | Bank of Albania | Jan 2012 |
| Toni Gogu | Member | Bank of Albania | Nov 2012 |
| Erjon Luçi | Member | Minister of Finance | Feb 2014 |
| Majlinda Dhuka | Member | Minister of Finance | Jan 2015 |
| Doranin Agalliu | Member | Institute of Authorized Chartered Auditors (IEKA) | Mar 2013 |

Boards of Directors' Members are subject to conflict of interest policies in order to prevent eventual bias on judgment on issues object of Board discussion. The Board of Directors is responsible of a number of statutory requirements coming from law "On Deposit Insurance", DIA's Statute and Board of Directors' Regulation. Among the main Board operational directions are: (i) adjustment into deposit insurance legal regulatory framework; (ii) budget approval and operational plans: (iii) approval of financial assets management policies; (iv) approval, review and internal regulations devaluation; (v) Agency's operational management - related matters like organizational structure and human resources management and other matters seeking Board of Directors decision – making.

During 2014, the Agency's Board of Directors was committed on establishment and maintenance of well – governance relation standards. Aiming identification of strategic directions and well – convening of all functions improvement - related issues and Agency's operational activity, Board of Director meetings were set to a monthly frequency. Some of most important Board decisions, during 2014, are: (i) Agency Statute approval; (ii) Approval of the Loan Agreement between DIA and EBRD on line of credit; (iii) Internal Audit approval; (iv) Agency's Official emblem approval; (v) Financial Statement approval and Budget Achievement Report on tree – month basis; (vi) Approval of Cooperation Agreement between the Agency and homologous deposit agency, etc.

## 6.3 Internal Audit

In order to attain a disciplinary and systematic objective - achievement and to evaluate and improve risk management and process - monitoring efficiency, the Agency is assisted by the internal audit. This is and independent activity, provided as: objective - assurance, management - advisory, value adding - design and Agency's operational - improving.

One of Board of Directors' responsibilities is to assure that the Agency functions in a controlled environment, supporting a careful operations management and exposed risks, applying policies and efficient procedures to ensure internal inspection integrity. In this context, based on the Agency's Statute, the Board of Directors took the decision that internal auditing operation be carried out by contractual services. The chosen subject to this task, to 2014 - 2016, is PricewaterhouseCoopers (PWC), a limited responsibility company, one of most important in world guaranteeing a qualitative service, in compliance with internal auditing international standards.

PWC carried out a customized technical activity in accordance with the Agency activity. In internal auditing strategic plan, for 2014 – 2016, there is a clear methodology identification and audit approach, in full compliance with Agency's main processes and special functions. Internal auditing will be effectuated with a high performance, reaching public sector internal auditing standards, ranking PWC as a DIA partner and consultant, with expected management achievements, responsibility and compatibility in compliance with group of interest needs and Agency's objectives.

PWC guarantees an internal auditing - effective process, through technology updated systems, interaction of internal auditing with Agency's strategic initiatives, expected to be the focus of operational plans over three - coming years.

## 6.4 Risks Management

On 2014, one of main Agency's development directions was the risks management, as a process entirely involving operations in relation with identification, assessment, minimizing, monitoring and risks reporting.

The Agency, through Risk Analyze Sector, based on studies and international experiences as well as standards of various deposit insurance organizations, identifies and assesses the internal risks over all its administrative units. Analyzing the procedures followed in the Agency's main activities, would make possible the eventual financial risks management in funds investment, technological risks during the use of information systems and eventual operational risks in the course of concrete tasks performance.
To manage the external risks, based on the indexes received from the Bank of Albania, the Agency periodically prepares information on system - banks risk profile. Such analyze, based on Earlier Warning System, identifies the risk-bearing bearing banks requiring additional attention compared with other system - banks.

## 6.5 Human Resources Management

Considering continuous staff training and development process as one of the main responsibilities in a prestigious institution management, DIA has provided supportive resources and necessary environment to increase employees' professionalism.
One of the most important initiatives was the project "Assessment consultancy offering, rise of DIA employees' motivation and productivity efficiency", with the focus on Agency's Leading Team development. In this context, performance system was promoted, including clear identification and fulfillment of individual objectives in relation with institutional ones as well as enhance of everybody's duty performance, productivity and efficiency. Part of this initiative was training of the Leading Team with improvements of communicative abilities, conflict management and relationship establishment.

In addition, a Continuous Improvement Team (CIT) was set up, aiming: (i) identification of further improvements area, including DIA's employees' commitment; (ii) investigation on cost -effective improvement methods; and (iii) reporting to Leading Team within a defined time. This goal fulfillment was assured by characteristics of CIT's members: reliable to managers and respectful to all institution's employees; positive attitude toward Agency's adoptions in benefit to the institution and its employees; ability to understand the project importance.

Moreover, aiming an effective human resources management and undertaken projects, in the course of 2014, a substantial role was played by ERP (Enterprise Resource Planning) system. This system, through reports generation and in – real time information, served as to the aid of Agency's employees and leading structures making their assessment. Computerization for splitting several functions and responsibilities through this system enables the assessment, optimal working time use and real reflecting of such assessment on every Agency employee performance.

Activities related with continuous improvement and updating of Agency's human resources and professional capacities will be going throughout year 2015.

# 07 FINANCIAL STATEMENTS

## INDEPENDENT AUDITOR'S REPORT

## FINANCIAL STATEMENTS:

## STATEMENT OF FINANCIAL POSITION

## STATEMENT OF COMPREHENSIVE INCOME

## STATEMENT OF CASH FLOW

## STATEMENT OF CHANGES IN DEPOSIT INSURANCE FUND

## NOTES TO THE FINANCIAL STATEMENTS

Building a better working world

Ernst&Young Certified Auditors
Ltd. Skopje - Tirana Branch
NUIS: K61911012I
Ibrahim Rugova Str., Sky Tower
6th Floor, 1001, Tirana, Albania

Tel: (+355 4) 24 19 575
Fax: (+355 4) 24 19 570
www.ey.com

## RAPORTI I AUDITUESIT TË PAVARUR

**Këshillit Drejtues të Agjencisë së Sigurimit të Depozitave:**

Ne kemi audituar pasqyrat financiare të Agjencisë së Sigurimit të Depozitave (më poshtë "Agjencia"), që përmbajnë pasqyrën e pozicionit financiar më datë 31 dhjetor 2014, pasqyrën përmbledhëse të të ardhurave, pasqyrën e ndryshimit të kapitalit, pasqyrën e fluksit të mjeteve monetare për vitin e mbyllur në këtë datë, dhe një përmbledhje të politikave kontabël dhe informacione të tjera sqaruese.

**Përgjegjësia e drejtimit për pasqyrat financiare**

Drejtimi është përgjegjës për përgatitjen dhe paraqitjen e sinqertë të këtyre pasqyrave financiare në përputhje me Standardet Ndërkombëtare të Raportimit Financiar (SNRF), dhe për ato kontrolle të brendshme, të cilat drejtimi i përcakton si të nevojshme për të mundësuar përgatitjen e pasqyrave financiare që janë pa pasaktësi materiale, si pasojë e mashtrimit apo gabimeve.

**Përgjegjësia e audituesit**

Përgjegjësia jone është të shprehim një opinion për pasqyrat financiare duke u bazuar në auditimin e kryer. Ne kryem auditimin tonë në pajtim me Standardet Ndërkombëtare të Auditimit. Këto standarde kërkojnë që ne të përmbushim kërkesat e etikës dhe të planifikojmë e të kryejmë auditimin me qëllim që të përfitojmë një siguri të arsyeshme që pasqyrat financiare nuk përmbajnë pasaktësi materiale.

Auditimi përfshin kryerjen e procedurave për sigurimin e të dhënave të auditimit për shumat dhe deklarimet në pasqyrat financiare. Procedurat e zgjedhura janë në gjykimin e audituesit, duke përfshirë vlerësimin e rrezikut të pasaktësive materiale, si pasojë e mashtrimeve apo gabimeve. Gjatë vlerësimit të këtyre rreziqeve, audituesi merr në konsideratë kontrollin e brendshëm në lidhje me përgatitjen dhe paraqitjen e sinqertë të pasqyrave financiare të Agjencisë në mënyrë që të përcaktojë procedurat e auditimit që janë të përshtatshme për rrethanat financiare, por jo për qëllimin e shprehjes së një opinioni për efektivitetin e kontrollit të brendshëm të Agjencisë. Një auditim gjithashtu përfshin vlerësimin e përshtatshmërisë së parimeve të kontabilitetit të përdorura dhe pranueshmërinë e vlerësimeve kontabël të kryera nga drejtimi, si edhe vlerësimin e paraqitjes së përgjithshme të pasqyrave financiare.

Ne besojmë se të dhënat e auditimit që ne kemi siguruar janë të mjaftueshme dhe të përshtatshme për të bazuar opinionin tonë.

**Opinioni**

Sipas opinionit tonë, pasqyrat financiare të Agjencisë së Sigurimit të Depozitave paraqesin në mënyrë të sinqertë, në të gjitha aspektet materiale, gjendjen financiare të Agjencisë më 31 dhjetor 2014, të rezultatit të saj financiar dhe të fluksit të mjeteve monetare për vitin e mbyllur në atë datë, në përputhje me Standardet Ndërkombëtare të Raportimit Financiar.

**Çështje të tjera**

Pasqyrat financiare të Agjencisë për vitin e mbyllur më 31 dhjetor 2013 janë audituar nga auditues të tjerë të cilët kanë lëshuar një opinion të pamodifikuar më 28 shkurt 2014.

**Ernst & Young Certified Auditors Sh.p.k.**
**Skopje - Tirana Branch**

Ernst Young Certified Auditors Shpk

**Mario Vangjel**
**Ekspert Kontabël i Regjistruar**

**25 mars 2015**
**Tiranë, Shqipëri**

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| | Note | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 8 | 260,758,013 | 330,407,938 |
| Insurance premiums receivable | 9 | 615,353,308 | 684,388,183 |
| Investments held to maturity | 10 | 23,063,511,234 | 19,391,942,529 |
| Property and equipment, net | 11 | 67,583,445 | 67,802,005 |
| Intangible assets, net | 12 | 42,437,096 | 3,391,745 |
| Other assets, net | 13 | 2,488,020 | 3,195,439 |
| **TOTAL ASSETS** | | **24,052,131,116** | **20,481,127,839** |
| | | | |
| **LIABILITIES** | | | |
| Other liabilities | 14 | 6,512,374 | 4,047,511 |
| **TOTAL LIABILITIES** | | **6,512,374** | **4,047,511** |
| | | | |
| **DEPOSIT INSURANCE FUND** | | | |
| Initial establishment fund | 15 | 400,000,000 | 400,000,000 |
| Accumulated fund | | 20,077,080,328 | 16,356,720,641 |
| Profit for the year | | 3,568,538,414 | 3,720,359,687 |
| **TOTAL DEPOSIT INSURANCE FUND** | | **24,045,618,742** | **20,477,080,328** |
| | | | |
| **TOTAL LIABILITIES AND DEPOSITS INSURANCE FUND** | | **24,052,131,116** | **20,481,127,839** |

*The accompanying notes on pages 47 to 78 are an integral part of these financial statements.*

| | Note | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|---|
| Operating income: | | | |
| Income from insurance premiums | 16 | 2,836,807,158 | 2,775,118,878 |
| Investment income | 17 | 803,986,089 | 1,029,437,022 |
| Other operating income | 18 | 35,558,579 | 433,233 |
| | | **3,676,351,826** | **3,804,989,133** |
| **Finance expenses:** | | | |
| Gain (Loss) on foreign currency re-translation | | 66,168,795 | (15,602,113) |
| Finance expenses | 19 | (71,808,481) | (1,738,600) |
| | | **(5,639,686)** | **(17,340,713)** |
| Operating expenses: | | | |
| Personnel expenses | 20 | (62,701,173) | (42,203,811) |
| Administrative expenses | 21 | (26,686,218) | (20,918,749) |
| Depreciation and amortisation | 11,12 | (12,786,335) | (4,166,173) |
| | | **(102,173,726)** | **(67,288,733)** |
| NET PROFIT FOR THE YEAR | | **3,568,538,414** | **3,720,359,687** |
| Other comprehensive income, net | | - | - |
| TOTAL COMPREHENSIVE INCOME | | **3,568,538,414** | **3,720,359,687** |

*The accompanying notes on pages 47 to 78 are an integral part of these financial statements.*

| | Note | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **3,568,538,414** | **3,720,359,687** |
| **Adjustment for:** | | | |
| Depreciation and amortization | 11, 12 | 12,786,335 | 4,166,173 |
| Accrued interest on investment securities | | (98,372,866) | (90,388,969) |
| **Change in:** | | | |
| Insurance premiums receivable | | 69,034,875 | (97,529,745) |
| Other assets | | 707,419 | (1,031,510) |
| Other liabilities | | 2,464,863 | 2,287,821 |
| **Cash flows generated from operating activities** | | **3,555,159,040** | **3,537,863,457** |
| **INVESTING ACTIVITIES** | | | |
| Purchases of equipment | 11 | (5,232,013) | (14,556,726) |
| Purchases of intangibles | 12 | (46,381,114) | (3,401,400) |
| Purchases of investment securities | | (3,573,195,838) | (3,341,950,638) |
| **Cash flows used for investing activities** | | **(3,624,808,965)** | **(3,359,908,764)** |
| **(Decrease) Increase in cash during the year** | | **(69,649,925)** | **177,954,693** |
| Cash and cash equivalents at the beginning of the year | 8 | 330,407,938 | 152,453,245 |
| **Cash and cash equivalents at the end of the year** | 8 | **260,758,013** | **330,407,938** |

*The accompanying notes on pages 47 to 78 are an integral part of these financial statements.*

| | Initial establishment fund | Accumulated fund | Total |
|---|---|---|---|
| **At December 31, 2012** | **400,000,000** | **16,356,720,641** | **16,756,720,641** |
| Total comprehensive income for the year | - | 3,720,359,687 | 3,720,359,687 |
| **At December 31, 2013** | **400,000,000** | **20,077,080,328** | **20,477,080,328** |
| Total comprehensive income for the year | - | 3,568,538,414 | 3,568,538,414 |
| **At December 31, 2014** | **400,000,000** | **23,645,618,742** | **24,045,618,742** |

*The accompanying notes on pages 47 to 78 are an integral part of these financial statements.*

These financial statements are approved by the Board of Directors of the Agency with decision No. 5 on February 19, 2015 and signed on its behalf by:

Toni Gogu
General Director

Azmi Stringa
Head of Finance and Investments

# 1. REPORTING ENTITY

Albanian Deposit Insurance Agency (the "Agency" or "ADIA") is an independent entity established in 2002 by Law no. 8873, dated March 29, 2002, "On deposit insurance", amended by Law no.10106, dated March 30, 2009 and Law 78/2012, dated July 26, 2012. From July 2014, the activity and operations of the Agency are regulated by Law no. 53/2014, dated May 22, 2014, "On deposit insurance" (the "Law" or "Law on deposit insurance"), which superseded the Law no. 8873, dated March 29, 2002, "On deposit insurance", as amended. In accordance with the Law, the Agency reports to the Bank of Albania (the "Supervising Authority"), the Parliament of the Republic of Albania, and the Council of Ministers of the Republic of Albania. ADIA is member of the International Association of Deposit Insurers and the European Forum of Deposit Insurers.

The Agency was established to insure and compensate the deposits of individuals with local banks, branches and subsidiaries of foreign banks, and savings and credit associations operating in Albania. The institutions, which are members of the insurance scheme, cannot accept deposits of individuals unless they are insured by ADIA. Compensation of insured deposits begins when the Agency is notified in writing by Bank of Albania on the intervention on an insured institution.

According to the Law on deposit insurance, ADIA's core activity involves issuing the certificate of deposit insurance to new institutions that comply with the legal and regulatory requirements for entering the scheme, determining and collecting the initial contributions from institutions entering the insurance scheme, determining and collecting the annual insurance premiums from institutions that are members of the insurance scheme, and investing the accumulated funds.

In accordance with the Law on deposits insurance, the Agency insures up to 2,500,000 Albanian Lek ("Lek") all eligible deposits held by individuals in each banking institution that is a member of the insurance scheme. As of December 31, 2014 and 2013 all banks operating in Albania (2014:16, 2013:16) are participating members in the insurance scheme.

The Agency, in accordance with the Law on deposits insurance, insures up to 2,000,000 Lek all eligible deposits held by individuals in each savings and credit association that is a member of the insurance scheme. As of December 31, 2014 and 2013, there are no savings and credit associations that are members of ADIA's insurance scheme.

The Agency started its operations on October 12, 2002. Currently, the Agency's address and headquarters are in Tirana ("Rruga e Elbasanit", Tirana, Albania).

As of December 31, 2014, the Agency had 26 employees (December 2013: 23).

## 2. REGULATORY FRAMEWORK OF ADIA OPERATIONS

The Agency's operations are regulated by the Law on deposit insurance and relevant regulations issued by the Agency and the Supervisory Authority. Such Law and regulations require that proceeds from member institutions be invested in debt instruments issued by the Government of Albania or Bank of Albania, debt instruments issued by foreign governments or central banks that are highly rated by reputable credit rating agencies, or placed into short term deposits with Bank of Albania or international financial institutions that are highly rated by reputable credit rating agencies. As of December 31, 2014, in accordance with the Law and relevant regulations, all investment instruments have maturity of no longer than 24 months from the date of purchase by the Agency. As of December 31, 2013, in accordance with the previous law on deposit insurance, all investment instruments had maturity of no longer than 12 months from the date of purchase by the Agency.

The highest governing body of the Agency is the Board of Directors. The Board of Directors is composed of five members appointed by the Supervisory Authority. Two members are proposed by the Supervisory Authority, two members are proposed by the Minister of Finance of the Republic of Albania, and one member is proposed by the Institute of Authorized Chartered Auditors of Albania.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Basis of measurement

These financial statements have been prepared on the historical cost basis. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (c) Functional and presentation currency

These financial statements are presented in Lek, which is the Agency's functional currency.

### (d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Notes 6 and 7.

# 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

## 4.1 Standards and Interpretations effective in the current period

The following standards and amendments of IFRS became effective as of January 1, 2014:

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
  These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The application of these amendments did not have any effect in the policies of the Agency.

- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**
  The Agency does not have any derivative instruments and this amendment did not affect the Agency.

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**
  These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The Agency does not have any recognised impairment of non-financial assets and as a result, this amendment did not affect the Agency.

## 4.2 Standards and Interpretations in issue not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1, 2014 or later, and which the Agency has not early adopted. Standards and amendments that are not applicable to the Agency have not been disclosed.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
  The amendment is effective for annual periods beginning on or after January 1, 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that reve-

nue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The Agency does not currently use the specified revenue ratio for depreciation purposes and has assessed that this clarification will not impact the Agency when the standard becomes effective.

- **IAS 19 Employee benefits (Amended): Employee Contributions**
  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. Currently, the Agency does not provide a defined benefit plan to employees and this amendment will not impact the Agency.

- **IFRS 9 Financial Instruments – Classification and measurement**
  The standard is applied for annual periods beginning on or after January 1, 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Agency is still in the process of assessing the impact of this amendment and whether it will adopt the standard early.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations:** The Agency does not have any joint arrangements.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Agency is still in the process of assessing the impact that the standard will have, however being a financial institution, no significant impact is expected.

- **IAS 27 Separate Financial Statements (amended)**
  The amendment is effective from January 1, 2016. It will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. The Agency does not have any investments in other entities and the amendment is not expected to impact the Agency.

- **Amendment in 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**
  The amendments will be effective from annual periods commencing on or after January 1, 2016. The Agency does not have any investments in other entities and does not prepare consolidated financial statements, thus the amendment is not expected to impact the Agency.

**The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after July 1, 2014.**

***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The Agency does not use the revaluation model of IAS 16.

***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The clarification may include such entities in the related parties of the Agency.

***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The Agency does not presently use the revaluation model for intangible assets.

Following standards have also been amended but are not applicable to the Agency:

- **IFRS 2 Share-based Payment**
- **IFRS 3 Business combinations**
- **IFRS 8 Operating Segments**

**The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after July 1, 2014.**

***IFRS 13 Fair Value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. Presently, the Agency does not have any portfolio of assets and liabilities that is managed on the basis of net exposure, as defined in IFRS 13, so this clarification does not impact the Agency.

***IAS 40 Investment Properties:*** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The Agency has not engaged in any business combination that could also meet the definition of investment property.

***IFRS 3 Business Combinations:*** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The Agency does not have any ongoing or planned business combination.

**The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2016.**

***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

***IFRS 7 Financial Instruments*: *Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

***IAS 34 Interim Financial Reporting:*** The Agency does not report any general purpose interim financial statements.

**IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The Agency does not meet the definition of Investment Entity and the amendments are not applicable.

**IAS 1: Disclosure Initiative (Amendment)**

The amendments to IAS 1 *Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The Agency is assessing the impact of this amendment as it continuously tries to improve the presentation and relevance of information in the financial statements.

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

# 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 5.1 Transactions in foreign currencies

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are retranslated to the functional currency at the exchange rate ruling at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

Official exchange rates used for main foreign currencies to convert balance sheet items in Lek are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| EURO | 140.14 | 140.20 |
| United States Dollar (USD) | 115.23 | 101.86 |
| Swiss Franc (CHF) | 116.52 | 114.41 |

## 5.2 Deposit insurance premium and contributions

In accordance with the Law on deposit insurance, the annual insurance premium for the year 2014 and 2013 is calculated as 0.5% of the arithmetic average balance of the insured deposits at the end of each working day in the last quarter of the previous year. The annual premium is payable in four equal instalments. Each instalment is payable in arrears within 15 days of a quarter end.

Each insured bank pays an initial contribution, calculated as 0.5% of the bank's share capital, not later than 30 days from the date when the Banking License is granted by the Bank of Albania. The initial contribution is payable in one instalment at the Agency's account with the Bank of Albania and is recognized as income in the period when received.

## 5.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments 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 Agency 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 transaction costs and fees 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.

## 5.4 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.

## 5.5 Financial assets and financial liabilities

### (i) Recognition

The Agency initially recognises investment in securities, deposits, borrowings and other subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Agency commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Agency becomes a party to the contractual provisions of the instrument.

### (ii) Classification

*Financial assets*

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.

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

- loans and receivables;
- held to maturity;
- available-for-sale; or
- at fair value through profit or loss and within the category as:
- held for trading; or
- designated at fair value through profit or loss.

As of December 31, 2014 and December 31, 2013 the Agency's financial assets comprise of cash and cash equivalent, insurance premium receivables and investment securities classified as held-to-maturity. No changes in the classification of financial assets occurred during the years ended December 31, 2014 and December 31, 2013. See Notes 5.6, 5.7 and 5.8.

*Financial liabilities*

The Agency classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

As of December 31, 2014 and December 31, 2013 the Agency's financial liabilities are comprised only of payables to suppliers and other liabilities measured at amortised cost.

**(iii) Derecognition**

*Financial assets*

The Agency derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Agency 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 such transferred financial assets that qualify for derecognition that is created or retained by the Agency is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

*Financial liabilities*

The Agency derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

**(iv) Offsetting**

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from similar transactions.

**(v) Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method for any difference between the initial amount recognised 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 Agency has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Agency 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.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Agency 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, 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 supported wholly 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, the Agency measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Agency's accounting policy on fair value measurements is set out in Note 7.1.

The Agency measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

***Level 1:*** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

***Level 2:*** inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted

market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Agency determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

### (vii) Identification and measurement of impairment

At each reporting date the Agency 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 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 are impaired can include significant financial difficulty of the debt issuer, default or delinquency by a counterparty, 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 debt issuers in the group, or economic conditions that correlate with defaults in the group.

The Agency considers evidence of impairment for loans and advances and held-to-maturity investment securities at a specific asset level. All individually significant held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

## 5.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid deposits with Bank of Albania with original maturities of three months or less that are subject to an insignificant risk of changes in their fair value, and are used by the Agency in the management of its short-term operating activities. Cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value due to their short term nature.

## 5.7 Insurance premiums receivable

Insurance premiums receivable comprises the fourth instalment of the annual insurance premiums and that is payable within 15 days from the reporting date. Insurance premiums receivables are carried at amortised cost in the statement of financial position, which approximates fair value due to their short term nature.

## 5.8 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

### (i) Held-to-maturity

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

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. 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 Agency from classifying investment securities as held to maturity for the current and

the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Agency has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Agency's control that could not have been reasonably anticipated.

## 5.9 Property and equipment

### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

### (ii) Subsequent costs

A subsequent expenditure is capitalised only when it is probable that the future economic benefits from the expenditure will flow to the Agency. Ongoing repairs and maintenance are expensed as incurred.

### (iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

| | |
|---|---|
| ▪ Buildings and improvements | 25-40 years |
| ▪ Computer equipment | 3-5 years |
| ▪ Vehicles | 5 years |
| ▪ Office furniture and supplies | 3-20 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## 5.10 Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset. A subsequent expenditure is capitalised only when it is probable that the future economic benefits from the expenditure will flow to the Agency. Ongoing repairs and maintenance are expensed as incurred. Intangible assets are amortized on a straight-line basis over a period of three years.

## 5.11 Provisions

A provision is recognised if, as a result of a past event, the Agency 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 for insured deposits compensation*

Provisions for insured deposits compensation represent the best estimates of the Agency, for present obligation as a result of an intervention on an insured institution, for which the Agency is notified in writing by Bank of Albania.

Such provision is recognised in the period when notified in writing by Bank of Albania on the intervention on an insured institution.

As of December 31, 2014 and December 31, 2013 no such event has occurred (see Note 6.3), hence no provision is recognised in the statement of financial position.

## 5.12 Taxation

In accordance to Law on deposit insurance, the Agency is exempted from value added tax and tax on profit.

## 5.13 Employees' contributions and benefits

The Agency makes only compulsory health insurance contributions and social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legal thresholds for such contributions in Albania under defined contribution plans. The Agency's contributions for health insurance and social security are charged to the profit or loss as incurred.

## 6. FINANCIAL RISK MANAGEMENT

In the ordinary course of its operations, the Agency is exposed to a variety of financial risks, the most important of which are market risk (including currency risk, risk of changes in fair value and interest rates), credit risk and liquidity risk. General risk management is focused on identifying the risks that might affect the financial results and position of the Agency and minimising the potential negative effects arising from such risks. Financial risks are currently identified, measured and monitored through various control mechanisms introduced to adequately assess the market circumstances of its investments and the ways for maintaining liquid assets in order to prevent undue risk concentration.

The management of ADIA continuously tries to improve the methods for assessing and managing the risks related to the investment portfolio (credit, liquidity, interest and currency risks) in order to ensure effective management of funds and timely fulfilment of its obligations toward insured depositors in case of an insurance event. With the objective of minimising risks, the Agency maintains currency limits, maturity distribution limits and a portfolio with maturities of no longer than 24 months. In addition the Agency has entered into an agreement with the Ministry of Finance and Bank of Albania that allows the Agency, in case of an insurance event, to obtain liquidity through executing with the Ministry of Finance a sale and repurchase agreement on the Government of Albania debt securities it owns. To ensure additional liquidity and funds in case of an insurance event, the Agency has signed a loan agreement with the European Bank for Reconstruction and Development, guaranteed by the Government of Albania, for a line of credit up to EUR 100,000,000. The loan agreement is effective starting on December 29, 2014. The line of credit is available for a period of five years.

The Agency's financial operations are regulated by the Law on deposit insurance and the Agency's Investment Policy. The Law and relevant regulations require that proceeds from member institutions be invested in debt instruments issued by the Government of Albania or Bank of Albania, debt instruments issued by foreign governments or central banks that are highly rated by reputable credit rating agencies, or placed into short term deposits with Bank of Albania or international financial institutions that are highly rated by reputable credit rating agencies. As of December 31, 2014, in accordance with the Law and relevant regulations, all investment instruments have maturity of no longer than 24 months from the date of purchase by the Agency. As of December 31, 2013, in accordance with the previous law on deposit insurance, all investment instruments had maturity of no longer than 12 months from the date of purchase by the Agency. The Investment Policy, which is approved by the Board of Directors, outlines the investment procedures and sets the limits on the credit quality of foreign investments, maturity concentrations, and currency concentrations of ADIA's investment portfolio. The Investment Committee of ADIA is responsible for approving the annual investment strategy, ensuring the execution of the investment strategy and the structure of the portfolio are in compliance with the Investment Policy as well as reviewing the investment performance. The structure

of financial assets and liabilities is assessed on a regular basis based on the information provided by the Finance and Investments Sector, the Risk Analysis Sector, and Bank of Albania. The Investment Committee periodically reports to the Board of Directors on the performance of the investment portfolio.

## 6.1 Credit risk

Credit risk is the risk of financial loss to the Agency if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Agency's investment securities and balances with banks. For risk management reporting purposes the Agency considers and consolidates all elements of credit risk exposure such as individual obligor default risk and country risk.

The Investment Committee is responsible for the oversight of credit risk, including review and assessment of credit risk, and ensuring compliance with concentration limits on exposure to counterparties/countries and other relevant policies set in the regulatory framework.
The table below presents credit risk exposure by counterparty (country) and related delinquency or impairment, if any:

| Investment securities | Government of Albania | US Government | Total |
|---|---|---|---|
| ***As of December 31, 2014*** | 22,632,197,000 | 431,314,234 | **23,063,511,234** |
| Neither past due nor impaired | | | |
| ***As of December 31, 2013*** | | | |
| Neither past due nor impaired | 19,013,091,170 | 378,851,359 | **19,391,942,529** |

The Agency had no outstanding contingent financial commitments as of December 31, 2014 and December 31, 2013.

## 6.2 Market risks

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

(i) *Exposure to interest rate risk – held-to-maturity investments*

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 interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Investment Committee is the monitoring body for compliance with these limits.
A summary of the Agency's interest rate gap position on non-trading portfolios is as follows:

| As of December 31, 2014 | Carrying amount | up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 12 – 24 months |
|---|---|---|---|---|---|---|
| | in '000 | in '000 | in '000 | in '000 | in '000 | in '000 |
| Cash and cash equivalents | 260,758 | 260,758 | - | - | - | - |
| Insurance premiums receivable | 615,353 | 615,353 | - | - | - | - |
| Investments held to maturity | 23,063,511 | 962,666 | 5,077,867 | 5,926,847 | 9,614,850 | 1,481,281 |
| **TOTAL** | **23,939,622** | **1,838,777** | **5,077,867** | **5,926,847** | **9,614,850** | **1,481,281** |

| As of December 31, 2013 | Carrying amount | up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 12 – 24 months |
|---|---|---|---|---|---|---|
| | in '000 | in '000 | in '000 | in '000 | in '000 | in '000 |
| Cash and cash equivalents | 330,408 | 330,408 | - | - | - | - |
| Insurance premiums receivable | 684,388 | 684,388 | - | - | - | - |
| Investments held to maturity | 19,391,943 | 2,825,556 | 2,460,393 | 4,654,553 | 9,451,441 | - |
| **TOTAL** | **20,406,739** | **3,840,352** | **2,460,393** | **4,654,553** | **9,451,441** | **-** |

Management considered a standard scenario that includes a 100 basis point ("bp") parallel fall or rise in all yield curves worldwide. An analysis of the Agency's sensitivity to an increase or decrease in market interest rates is as follows:

| Change in rates | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|
| +100bp | 132,126,701 | 110,026,206 |
| -100bp | (132,126,701) | (110,026,206) |

*(ii) Exposure to currency risk*

Currency risk is defined as the risk that movements in exchange rates may cause significant changes, positive or negative, in the statement of financial position. The Agency is mainly exposed to risk of changes in the exchange rate of the US dollar and Euro to the Albanian Lek, with a view of its open exposures denominated in US dollars and Euro. The existing exposures and limits on such exposures are set and monitored in accordance with the Investment Policy of the Agency.
A summary of the Agency's currency exposure position is as follows (amounts in Lek):

| As of December 31, 2014 | LEK | USD | EUR | CHF |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 124,934,240 | 135,210,421 | 613,352 | - |
| Insurance premiums receivable | 615,353,308 | - | - | - |
| Investments held to maturity | 21,771,788,177 | 431,314,234 | 860,408,823 | - |
| **TOTAL** | **22,512,075,725** | **566,524,655** | **861,022,175** | **-** |
| | | | | |
| **LIABILITIES** | | | | |
| Other liabilities | (6,512,374) | - | - | - |
| **TOTAL LIABILITIES** | **(6,512,374)** | **-** | **-** | **-** |
| | | | | |
| **CURRENCY EXPOSURE** | **22,505,563,351** | **566,524,655** | **861,022,175** | **-** |

| As of December 31, 2013 | LEK | USD | EUR | CHF |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 56,725,088 | 121,254,633 | 152,422,359 | 5,858 |
| Insurance premiums receivable | 684,388,183 | - | - | - |
| Investments held to maturity | 18,504,413,408 | 378,851,359 | 508,677,762 | - |
| **TOTAL** | **19,245,526,679** | **500,105,992** | **661,100,121** | **5,858** |
| | | | | |
| **LIABILITIES** | | | | |
| Other liabilities | (4,047,511) | - | - | - |
| **TOTAL LIABILITIES** | **(4,047,511)** | **-** | **-** | **-** |
| | | | | |
| **CURRENCY EXPOSURE** | **19,241,479,168** | **500,105,992** | **661,100,121** | **5,858** |

**Foreign currency sensitivity analysis**

The table below demonstrates the sensitivity to a 1,500 basis points (2013: 1,000 basis points) increase/decrease in the spot rates of Lek against USD and EUR based on the structure of foreign currency denominated assets and liabilities of the Agency as of December 31, assuming that all other variables remain constant. The effect is measured and presented as an impact on the result and directly on the net assets with all other conditions held constant.

| | USD | | EUR | |
|---|---|---|---|---|
| | ***+15%*** | ***-15%*** | ***+15%*** | ***-15%*** |
| As of December 31, 2014 | 84,978,699 | (84,978,699) | 129,153,326 | (129,153,326) |
| | ***+10%*** | ***-10%*** | ***+10%*** | ***-10%*** |
| As of December 31, 2013 | 50,010,599 | (50,010,599) | 66,110,012 | (66,110,012) |

On a 15 per cent increase in the spot rate of USD and EUR against Lek, the overall impact on the financial result and net assets of the Agency would be an increase as per table above.

On a 15 per cent decrease in the spot rate of USD and EUR against Lek, the overall impact on the financial result and net assets of the Agency would be equal but in opposite direction to the increase described above.

## 6.3 Liquidity risk

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

The liquidity management policy of ADIA is conservative, maintaining a constant optimal liquid cash reserve to secure an adequate capability for funding its activities. The Agency has entered into an agreement with the Ministry of Finance and Bank of Albania that allows the Agency, in case of an insurance event, to obtain liquidity through executing with the Ministry of Finance a sale and repurchase agreement on the Government of Albania debt securities it owns. In addition, in accordance with the Law on deposit insurance, in the event of an insufficiency of funds the Agency has the right to request advance payments of the insurance premiums from insured institutions, increase of the premium contributions, collect a special contribution from insured institutions, and obtain loans from the State Budget (Article 61 of the Law on deposit insurance). To ensure additional liquidity and funds in case of an insurance event, the Agency has signed a loan agreement with the European Bank for Reconstruction and Development, guaranteed by the Government of Albania, for a line of credit up to EUR 100,000,000. The loan agreement is effective starting on December 29, 2014. The line of credit is available for a period of five years. The table below includes the Agency's financial instruments classified by their residual term to maturity on the basis of undiscounted contractual cash flows:

| As of December 31, 2014 | Carrying amount | up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 6 - 12 months | Total contractual cash flows |
|---|---|---|---|---|---|---|---|
| | in '000 | in '000 | in '000 | in '000 | in '000 | in '000 | in '000 |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 260,758 | 260,758 | - | - | - | - | 260,758 |
| Insurance premiums receivable | 615,353 | 615,353 | - | - | - | - | 615,353 |
| Investments held to maturity | 23,063,511 | 964,190 | 5,110,491 | 6,011,865 | 9,871,905 | 1,543,355 | 23,501,806 |
| **TOTAL** | **23,939,622** | **1,840,301** | **5,110,491** | **6,011,865** | **9,871,905** | **1,543,355** | **24,377,917** |
| **LIABILITIES** | | | | | | | |
| Other liabilities | (6,512) | (6,512) | - | - | - | - | (6,512) |
| **TOTAL** | **(6,512)** | **(6,512)** | **-** | **-** | **-** | **-** | **(6,512)** |
| **CUMULATIVE LIQUIDITY GAP** | **23,933,110** | **1,833,789** | **6,944,280** | **12,956,145** | **22,828,050** | **24,371,405** | **24,371,405** |

Total cumulative liquidity gap is higher than the Deposit Insurance Fund as of December 31, 2014.

| As of December 31, 2013 | Carrying amount | up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 12 - 24 months | Total contractual cash flows |
|---|---|---|---|---|---|---|---|
| | in '000 | in '000 | in '000 | in '000 | in '000 | in '000 | in '000 |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 330,408 | 330,408 | - | - | - | - | 330,408 |
| Insurance premiums receivable | 684,388 | 684,388 | - | - | - | - | 684,388 |
| Investments held to maturity | 19,391,943 | 2,835,600 | 2,482,609 | 4,749,795 | 9,733,475 | - | 19,801,479 |
| **TOTAL** | **20,406,739** | **3,850,396** | **2,482,609** | **4,749,795** | **9,733,475** | **-** | **20,816,275** |
| **LIABILITIES** | | | | | | | |
| Other liabilities | (4,048) | (4,048) | - | - | - | - | (4,048) |
| **TOTAL** | **(4,048)** | **(4,048)** | **-** | **-** | **-** | **-** | **(4,048)** |
| **CUMULATIVE LIQUIDITY GAP** | **20,402,691** | **3,846,348** | **6,328,957** | **11,078,752** | **20,812,227** | **20,812,227** | **20,812,227** |

Total cumulative liquidity gap is higher than the Deposit Insurance Fund as of December 31, 2013.

## Financial stability

The stability of the banking sector is the main factor affecting the liquidity position of the Agency. The Agency, through the information received from Bank of Albania, continuously monitors the stability of the banking sector in order to forecast its obligations towards insured depositors in accordance with the Law on deposit insurance. According to latest assessment by Bank of Albania, the banking sector was assessed as stable. Stress-test exercises in the form of sensitivity and scenario analyses performed by Bank of Albania during the year show that the banking sector, overall, is resilient to various shock scenarios in respect to capital adequacy and quality. In the year 2014 the banking sector experienced slow growth rates and lending activity. Credit risk continues to represent the most important challenge for the sector. Such factors were reflected in the financial performance of the banking sector for the year. Despite these developments, the capitalization and operating liquidity position of the banking sector are assessed as satisfactory.

# 7. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Management discusses with the Agency's Board of Directors the development, selection and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed below.
These disclosures supplement the commentary on financial risk management (see Note 6).

## 7.1 Valuation of financial instrumets

Accounting classifications and fair values for the financial instruments is presented below:

| As of December 31, 2014 | Loans and receivables | Held to maturity | Other at amortised cost | Carrying amount | Fair value |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 260,758,013 | - | - | 260,758,013 | 260,758,013 |
| Insurance premiums receivable | 615,353,308 | - | - | 615,353,308 | 615,353,308 |
| Investments held to maturity | - | 23,063,511,234 | - | 23,063,511,234 | 23,064,674,580 |
| **TOTAL** | **876,111,321** | **23,063,511,234** | **-** | **23,939,622,555** | **23,940,785,901** |
| **LIABILITIES** | | | | | |
| Other liabilities | - | - | (6,512,374) | (6,512,374) | (6,512,374) |
| **TOTAL** | **-** | **-** | **(6,512,374)** | **(6,512,374)** | **(6,512,374)** |

| As of December 31, 2013 | Loans and receivables | Held to maturity | Other at amortised cost | Carrying amount | Fair value |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 330,407,938 | - | - | 330,407,938 | 330,407,938 |
| Insurance premiums receivable | 684,388,183 | - | - | 684,388,183 | 684,388,183 |
| Investments held to maturity | - | 19,391,942,529 | - | 19,391,942,529 | 19,443,319,397 |
| **TOTAL** | **1,014,796,121** | **19,391,942,529** | **-** | **20,406,738,650** | **20,458,115,518** |
| **LIABILITIES** | | | | | |
| Other liabilities | - | - | (4,047,511) | (4,047,511) | (4,047,511) |
| **TOTAL** | **-** | **-** | **(4,047,511)** | **(4,047,511)** | **(4,047,511)** |

Due to their short-term maturity (less than one month), Management estimates the fair values of the cash and cash equivalents, insurance premiums receivable and other liabilities to be equal to their carrying amounts at the end of December 31, 2014 and 2013.
Management estimated the fair value of held to maturity investments in treasury securities using observable market rates (level 2) for similar securities with similar maturity based on their remaining maturity as of December 31, 2014 and 2013.

## 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalent balances as of December 31, 2014 and December 31, 2013 are detailed as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| ***Balances with banks*** | | |
| Current accounts with Bank of Albania | 76,237,266 | 152,399,867 |
| Short-term deposits | 48,000,000 | 55,500,000 |
| Current accounts with local banks | 1,318,349 | 1,223,701 |
| Current accounts with foreign banks | 135,202,398 | 121,284,370 |
| **Total** | **260,758,013** | **330,407,938** |

Short-term deposits include 7-day deposit with Bank of Albania at the end of the year to be invested in next Government of Albania Treasury auction.

## 9. INSURANCE PREMIUMS RECEIVABLE

Insurance premiums receivable consist of the last instalments of the yearly insurance premium yet to be collected at the end of the year.

Each bank pays the annual insurance premium in four instalments. Each instalment should be paid in arrears for each quarter by the 15th of January, April, July and October.

At January 15, 2015, 100% of the premiums receivable on December 31, 2014 was collected. At January 15, 2014, 100% of the premiums receivable on December 31, 2013 was collected.

## 10. INVESTMENT SECURITIES – HELD TO MATURITY

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Investments in Albanian Government securities **(10.1)** | 22,632,197,000 | 19,013,091,170 |
| Investments in foreign government securities **(10.2)** | 431,314,234 | 378,851,359 |
| **Total** | **23,063,511,234** | **19,391,942,529** |

### 10.1 Albanian Government Treasury Securities

Investment in Albanian Government securities are detailed as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Treasury Securities in LEK | 21,771,788,177 | 18,504,413,408 |
| Treasury Securities in EUR | 860,408,823 | 508,677,762 |
| **Total** | **22,632,197,000** | **19,013,091,170** |

Albanian Government securities by contractual maturity are presented as follows:

| | December 31, 2014 | weighted average yield | December 31, 2013 | weighted average yield |
|---|---|---|---|---|
| *Treasuries in LEK* | | | | |
| 3 months | 1,188,768,274 | 3.09% | 496,422,378 | 3.06% |
| 6 months | 296,584,334 | 3.15% | 198,035,749 | 3.65% |
| 12 months | 19,581,390,501 | 3.42% | 17,809,955,281 | 5.12% |
| 24 months | 705,045,068 | 4.96% | - | - |
| **Total** | **21,771,788,177** | | **18,504,413,408** | |
| | | | | |
| *Treasuries in EUR* | | | | |
| 12 months | 69,101,839 | 2.50% | 508,677,762 | 2.66% |
| 24 months | 791,306,984 | 3.50% | - | - |
| **Total** | **860,408,823** | | **508,677,762** | |

The year ended December 31, 2014 was characterized by a decrease in market rates across all maturities and such trend has had an impact on the yields of the Agency's investments.

## 10.2 Foreign Government Treasury Securities

Investment in foreign government securities breakdown by currency and counterparty is presented as follows:

| | December 31, 2014 | weighted average yield | December 31, 2013 | weighted average yield |
|---|---|---|---|---|
| *U.S. Treasuries in USD* | 431,314,234 | 0.11% | 378,851,359 | 0.12% |
| **Total** | **431,314,234** | | **378,851,359** | |

All investments in foreign government securities have a contractual maturity up to 12 months.

## 11. PROPERTY AND EQUIPMENT

| | Building | Technical installations | Computer equipment | Vehicles | Office Supplies | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| **At January 1, 2013** | **58,819,632** | **381,173** | **2,080,474** | **-** | **644,807** | **61,926,086** |
| Additions | 93,060 | 964,276 | 5,415,360 | 6,240,000 | 1,844,030 | **14,556,726** |
| Transfers | - | 727,560 | (2,980,560) | - | 2,253,000 | **-** |
| **At December 31, 2013** | **58,912,692** | **2,073,009** | **4,515,274** | **6,240,000** | **4,741,837** | **76,482,812** |
| Additions | 95,432 | 855,676 | 3,466,173 | - | 814,731 | **5,232,012** |
| Transfers | - | - | - | - | - | **-** |
| **At December 31, 2014** | **59,008,124** | **2,928,685** | **7,981,447** | **6,240,000** | **5,556,568** | **81,714,824** |
| ***Accumulated depreciation*** | | | | | | |
| **At January 1, 2013** | **(3,595,878)** | **(121,172)** | **(1,175,272)** | **-** | **(443,467)** | **(5,335,789)** |
| Charge for the period | (1,801,665) | (77,346) | (734,340) | (229,085) | (502,582) | **(3,345,018)** |
| **At December 31, 2013** | **(5,397,543)** | **(198,518)** | **(1,909,612)** | **(229,085)** | **(946,049)** | **(8,680,807)** |
| Charge for the period | (1,801,664) | (330,549) | (1,378,356) | (1,248,000) | (692,003) | **(5,450,572)** |
| **At December 31, 2014** | **(7,199,207)** | **(529,067)** | **(3,287,968** | **(1,477,085)** | **(1,638,052)** | **(14,131,379)** |
| ***Net carrying amount*** | | | | | | |
| **As January 1, 2013** | **55,223,754** | **260,001** | **905,202** | **-** | **201,340** | **56,590,297** |
| **At December 31, 2013** | **53,515,149** | **1,874,491** | **2,605,662** | **6,010,915** | **3,795,788** | **67,802,005** |
| **At December 31, 2014** | **51,808,917** | **2,399,618** | **4,693,479** | **4,762,915** | **3,918,516** | **67,583,445** |

## 12. INTANGIBLE ASSETS, NET

| | Software |
|---|---|
| ***Cost*** | |
| **At January 1, 2013** | **931,500** |
| Additions | 3,401,400 |
| **At December 31, 2013** | **4,332,900** |
| Additions | 46,381,114 |
| **At December 31, 2014** | **50,714,014** |
| | |
| ***Accumulated amortisation*** | |
| **At January 1, 2013** | **(120,000)** |
| Amortisation for the year | (821,155) |
| **At December 31, 2013** | **(941,155)** |
| Amortisation for the year | (7,335,763) |
| **At December 31, 2014** | **8,276,918** |
| | |
| ***Net Carrying amount*** | |
| **At January 1, 2013** | **811,500** |
| **At December 31, 2013** | **3,391,745** |
| **At December 31, 2014** | **42,437,096** |

## 13. OTHER ASSETS, NET

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Inventory | 1,567,986 | 2,378,200 |
| Prepaid expenses | 640,417 | 817,239 |
| Other assets | 279,617 | - |
| **Total** | **2,488,020** | **3,195,439** |

## 14. OTHER LIABILITIES

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Accrued expenses | 2,559,265 | 2,265,007 |
| Social and health insurance | 660,691 | 560,729 |
| Personal income tax | 1,329,197 | 623,313 |
| Other liabilities | 1,963,221 | 598,462 |
| **Total** | **6,512,374** | **4,047,511** |

## 15. INITIAL ESTABLISHMENT FUNDS

As of December 31, 2014, the Initial Establishment Fund of Lek 400,000,000 (December 31, 2013: Lek 400,000,000) represents a contribution of the State Budget for the bank deposit insurance fund, which was provided at the time of the Agency's establishment. Per the Law on deposit insurance, the Initial Establishment Fund can be used in preparing to pay-out and/or paying out insured bank depositors. The Initial Establishment Fund can be increased by additional contributions of the State Budget at the request of the Agency and with the approval of the Government of Albania. For the years ended December 31, 2014 and December 31, 2013 there have been no increases or decreases in the Initial Establishment Fund.
In accordance with Law on deposit insurance, an Initial Establishment Fund for the savings and credit association deposit insurance fund in the amount of Lek 76,000,000 is to be provided to the Agency as a contribution of State Budget. Receipt of the contribution by the State Budget is a prerequisite for the inclusion of savings and credit association in the insurance scheme. As of December 31, 2014, no contribution has been received from the State Budget in relation to the Initial Establishment Fund for the savings and credit association deposit insurance fund.

## 16. INCOME FROM INSURANCE PREMIUMS

For the year ended December 31, 2014, the Agency accrued annual insurance premium income from 16 banks in the amount of Lek 2,836,807,158 (2013: Lek 2,775,118,878 from 16 banks). The annual insurance premium for the year is calculated as 0.5% of the arithmetic average balance of the insured deposits at the end of each working day in the last quarter of the previous year. For the year ended December 31, 2014, the amount of eligible deposits (average balance in the last quarter of 2013) used for calculating the annual insurance premium was Lek 567,361 million (2013: Lek 555,024 million based on the average balance of eligible deposits in the last quarted of 2012).

## 17. INTEREST INCOME

Interest income for the year ended on December 31, 2014 and 2013 are generated from the following activities:

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Albanian Treasury Securities in LEK | 770,438,590 | 982,288,763 |
| Albanian Treasury Securities in EURO | 19,442,359 | 26,925,065 |
| Foreign Treasury Securities in EURO | 48,613 | - |
| Foreign Treasury Securities in USD | 738,911 | 824,443 |
| Short term deposits at Bank of Albania | 13,315,802 | 19,382,250 |
| Other interest income | 1,814 | 16,501 |
| **Total** | **803,986,089** | **1,029,437,022** |

## 18. OTHER OPERATING INCOME

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Income from Grants | 35,541,910 | - |
| Other | 16,669 | 433,233 |
| **Total** | **35,558,579** | **433,233** |

In the year ended December 31, 2014, the Agency received funds in the form of a grant from the European Bank for Reconstruction and Development to finance the development and implementation of the Information System for Reporting and Compensation. Total costs for developing and implementing the new software totaled Lek 41,045,908 and were recorded as an addition to intangible assets in the year 2014 (see note 12).

## 19. FINANCE EXPENSES

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Front-end fee on Line of Credit | 70,070,700 | - |
| Other finance expenses | 1,737,781 | 1,738,600 |
| **Total** | **71,808,481** | **1,738,600** |

On July 16, 2014, the Agency signed a loan agreement with the European Bank for Reconstruction and Development, guaranteed by the Government of Albania, for a line of credit up to EUR 100,000,000. The loan agreement is effective starting on December 29, 2014. The guarantee agreement, signed by the Government of Albania and the European Bank for Reconstruction and Development on July 16, 2014, was ratified by the Parliament of Albania with Law no. 144/2014, dated October 23, 2014. The Agency paid in 2014 the front-end fee of EUR 500,000 or 0.5% of the maximum available amount of line of credit.

## 20. PERSONNEL EXPENSES

Personnel expenses for the year ended December 31, 2014 and 2013 are as follows:

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Expenses for salaries and bonuses | 57,064,894 | 38,577,855 |
| Social security and health insurance | 4,776,267 | 3,118,055 |
| Other | 860,012 | 507,901 |
| **Total** | **62,701,173** | **42,203,811** |

## 21. ADMINISTRATIVE EXPENSES

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Training and continuous education | 8,113,166 | 8,467,187 |
| Board of Directors expenses | 3,984,750 | 4,063,969 |
| Professional services | 3,487,078 | 2,062,000 |
| Maintenance and repairs | 2,597,850 | 122,122 |
| Workshops and conferences | 2,129,653 | 381,280 |
| Membership fees | 1,467,282 | 1,408,943 |
| Utilities | 1,432,925 | 1,488,194 |
| Communication and post | 549,897 | 787,231 |
| Office supplies | 502,241 | 354,972 |
| Publications and subscriptions | 95,868 | 216,836 |
| Other operating expenses | 2,325,508 | 1,566,015 |
| **Total** | **26,686,218** | **20,918,749** |

## 22. RELATIONS AND TRANSACTIONS WITH GOVERNMENTAL INSTITUTIONS, BODIES AND ENTERPRISES

The Bank of Albania and the Ministry of Finance are the governmental institutions with which the Agency has established regular relations in accordance with its legal status and functions and in line with relevant legal requirements.

The Agancy is governed by the Board of Directors, which members are appointed in accordance with the Law on deposits insurance (Note 1).

A significant portion of the financial assets are invested in debt instruments issued by the Government of Albania or placed into short deposits with Bank of Albania (Notes 8 and 10). Investment securities are acquired both in the primary market though participation in auctions and the secondary market.

## 23. EVENTS AFTER THE REPORTING DATE

The Agency has evaluated subsequent events through March 25, 2015, the date these financial statements were available to be issued. In January 2015 the Agency received contribution in the amount of Lek 76,000,000 from the State Budget in relation to the Initial Establishment Fund for the savings and credit association deposit insurance fund.

In accordance with the Law on deposit insurance, starting in the year 2015 the insurance premium for banking institutions is determined quarterly instead of annually. The quarterly insurance premium for banking institutions is calculated as 0.125% of the arithmetic average balance of the insured deposits on the last day of each month in the previous quarter. The quarterly insurance premium for banking institutions is payable in advance for each quarter by the 15th of January, April, July and October.

Such events do not require any adjustment or additional disclosure to these financial statements. There are no other events after the reporting date and as of March 25, 2015 that would require either adjustments or additional disclosures in the financial statements of the Agency.

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