

ALBANIAN DEPOSIT INSURANCE AGENCY

*Financial Statements for the year ended
December 31, 2015 with the Independent Auditor's Report*

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Albanian Deposit Insurance Agency

We have audited the accompanying financial statements of Albanian Deposit Insurance Agency (the "Agency"), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

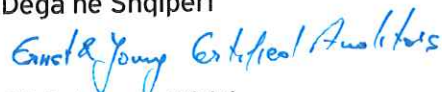
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

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

Ernst & Young - Ekspertë Kontabël të Autorizuar
Dega në Shqipëri



25 February 2016
Tirana, Albania

Mario Vangjel
Certified Auditor



ALBANIAN DEPOSIT INSURANCE AGENCY
Statement of Financial Position as of December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

	Note	December 31, 2015	December 31, 2014
ASSETS			
Cash and cash equivalents	8	1,752,937,779	260,758,013
Insurance premiums receivable	9	-	615,353,308
Investments held to maturity	10	25,890,867,189	23,063,511,234
Property and equipment, net	11	73,034,384	67,583,445
Intangible assets, net	12	39,307,373	42,437,096
Other assets, net	13	2,270,745	2,488,020
TOTAL ASSETS		27,758,417,470	24,052,131,116
LIABILITIES			
Other liabilities	14	13,901,448	6,512,374
TOTAL LIABILITIES		13,901,448	6,512,374
DEPOSIT INSURANCE FUND			
Initial establishment fund for bank deposit insurance	15	400,000,000	400,000,000
Initial establishment fund for SCA deposit insurance	15	76,000,000	-
Accumulated fund for bank deposit insurance		27,267,345,685	23,645,618,742
Accumulated fund for SCA deposit insurance		1,170,337	-
TOTAL DEPOSIT INSURANCE FUND		27,744,516,022	24,045,618,742
TOTAL LIABILITIES AND DEPOSITS INSURANCE FUND		27,758,417,470	24,052,131,116

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

ALBANIAN DEPOSIT INSURANCE AGENCY**Statement of Comprehensive Income for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)*

	Note	Year ended December 31, 2015	Year ended December 31, 2014
Operating income:			
Income from insurance premiums	16	2,900,428,943	2,836,807,158
Investment income	17	875,319,149	803,986,089
Other operating income	18	17,530,894	35,558,579
		3,793,278,986	3,676,351,826
Finance expenses:			
Gain (Loss) on foreign currency re-translation		20,707,989	66,168,795
Finance expenses	19	(72,065,900)	(71,808,481)
		(51,357,911)	(5,639,686)
Operating expenses:			
Personnel expenses	20	(63,946,135)	(62,701,173)
Administrative expenses	21	(28,299,239)	(26,686,218)
Depreciation and amortisation	11,12	(26,778,421)	(12,786,335)
		(119,023,795)	(102,173,726)
NET PROFIT FOR THE YEAR		3,622,897,280	3,568,538,414
Other comprehensive income, net		-	-
TOTAL COMPREHENSIVE INCOME		3,622,897,280	3,568,538,414

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

ALBANIAN DEPOSIT INSURANCE AGENCY
Statement of Cash Flow for the years ended December 31, 2015 and 2014
(All amounts are in LEK unless otherwise stated)

	Note	Year ended December 31, 2015	Year ended December 31, 2014
NET PROFIT FOR THE YEAR		3,622,897,280	3,568,538,414
Adjustment for:			
Depreciation and amortization	11, 12	26,778,421	12,786,335
Accrued interest on investment securities		(110,596,373)	(98,372,866)
Change in:			
Insurance premiums receivable		615,353,308	69,034,875
Other assets		217,275	707,419
Other liabilities		7,389,074	2,464,863
Cash flows generated from operating activities		4,162,038,985	3,555,159,040
 FINANCING ACTIVITIES			
Initial establishment fund for SCA deposit insurance		76,000,000	-
Cash flows generated from financing activities		76,000,000	-
 INVESTING ACTIVITIES			
Purchases of equipment	11	(12,020,525)	(5,232,013)
Purchases of intangibles	12	(17,079,113)	(46,381,114)
Purchases of investment securities		(2,716,759,581)	(3,573,195,838)
Cash flows used for investing activities		(2,745,859,219)	(3,624,808,965)
 Increase/(Decrease) in cash during the year		1,492,179,766	(69,649,925)
Cash and cash equivalents at the beginning of the year	8	260,758,013	330,407,938
Cash and cash equivalents at the end of the year	8	1,752,937,779	260,758,013

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

ALBANIAN DEPOSIT INSURANCE AGENCY

Statement of Changes in Deposit Insurance Fund for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

	Initial establishment fund for bank deposit insurance	Initial establishment fund for SCA deposit insurance	Accumulated fund for bank deposit insurance	Accumulated fund for SCA deposit insurance	Total
At December 31, 2013	400,000,000	-	20,077,080,328	-	20,477,080,328
Changes on initial establishment fund	-	-	-	-	-
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
Changes on initial establishment fund	-	76,000,000	-	-	76,000,000
Total comprehensive income for the year	-	-	3,621,726,943	1,170,337	3,622,897,280
At December 31, 2015	400,000,000	76,000,000	27,267,345,685	1,170,337	27,744,516,022

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

These financial statements are approved by the Board of Directors of the Agency with decision No. 4 on February 25, 2016 and signed on its behalf by:


Genci Mamani
General Director


Azmi Stringa
Head of Finance and Investments

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

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 ("SCAs") 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, 2015 and 2014 all banks operating in Albania (2015:16, 2014:16) 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, 2015 and 2014, 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, 2015, the Agency had 27 employees (December 2014: 26).

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, 2015 and 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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

2. REGULATORY FRAMEWORK OF ADIA OPERATIONS (CONTINUED)

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 revenue 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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

- **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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

- **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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

- **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.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***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, 2015	December 31, 2014
EURO	137.28	140.14
United States Dollar (USD)	125.79	115.23
Swiss Franc (CHF)	126.74	116.52

5.2 Deposit insurance premium and contributions

In accordance with the Law on deposit insurance, starting from the year 2015 the insurance premium is determined by member institutions on quarterly basis. 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. Quarterly insurance premium for banking institutions is paid no later than the 15th of the first month of the quarter for which it is paid.

In accordance with the Law on deposit insurance, the annual insurance premium for the year 2014 is calculated by member institutions on annual basis as 0.5% of the arithmetic average balance of the insured deposits in banks at the end of each working day in the last quarter of the previous year. For the year ended 2014, the annual premium was payable in four equal instalments. Each instalment was 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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and December 31, 2014 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, 2015 and December 31, 2014. 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, 2015 and December 31, 2014 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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities (continued)

(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 activity. 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

As of December 31, 2014 insurance premiums receivable comprises the fourth instalment of the annual insurance premiums and was 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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.8 Investment securities (continued)

(i) Held-to-maturity (continued)

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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and December 31, 2014 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. The Agency is subject to local taxes and fees.

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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

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, 2015 and 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.

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 Finance and Investment Sector is responsible for implementation of the policy and annual investment strategy. The Risk Analysis Sector independently monitors the investment activity. Information from these sectors is examined in the monthly meetings of the Investment Committee. The Investment Committee periodically reports to the Board of Directors on the performance of the investment portfolio. When deemed appropriate the Committee can propose to the Board of Directors changes in the Investment Policy.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****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
<i>As of December 31, 2015</i>	25,420,589,323	470,277,866	25,890,867,189
Neither past due nor impaired			
<i>As of December 31, 2014</i>			
Neither past due nor impaired	22,632,197,000	431,314,234	23,063,511,234

The Agency had no outstanding contingent financial commitments as of December 31, 2015 and December 31, 2014.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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, 2015	Carrying amount in '000	up to 1 month in '000	1 - 3 months in '000	3 - 6 months in '000	6 - 12 months in '000	12 - 24 months in '000
Cash and cash equivalents	1,752,938	1,752,938	-	-	-	-
Insurance premiums receivable	-	-	-	-	-	-
Investments held to maturity	25,890,867	1,896,583	3,938,512	5,297,068	10,687,644	4,071,060
TOTAL	27,643,805	3,649,521	3,938,512	5,297,068	10,687,644	4,071,060
As of December 31, 2014	Carrying amount in '000	up to 1 month in '000	1 - 3 months in '000	3 - 6 months in '000	6 - 12 months in '000	12 - 24 months 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

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks (continued)***(i) Exposure to interest rate risk – held-to-maturity investments (continued)*

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, 2015	As of December 31, 2014
+100bp	158,154,000	132,126,701
-100bp	(158,154,000)	(132,126,701)

(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, 2015	LEK	USD	EUR
ASSETS			
Cash and cash equivalents	1,603,785,481	148,593,948	558,349
Insurance premiums receivable	-	-	-
Investments held to maturity	23,824,869,972	470,277,866	1,595,719,351
TOTAL	25,428,655,453	618,871,814	1,596,277,700
LIABILITIES			
Other liabilities	(8,181,448)	-	(5,720,000)
TOTAL LIABILITIES	(8,181,448)	-	(5,720,000)
CURRENCY EXPOSURE	25,420,474,005	618,871,814	1,590,557,700
 As of December 31, 2014	 LEK	 USD	 EUR
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

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks (continued)****(ii) Exposure to currency risk (continued)***Foreign currency sensitivity analysis*

The table below demonstrates the sensitivity to a 1,500 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, 2015	92,830,772	(92,830,772)	238,583,655	(238,583,655)
As of December 31, 2014	84,978,699	(84,978,699)	129,153,326	(129,153,326)

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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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, 2015	Carrying amount in '000	up to 1 month in '000	1 - 3 months in '000	3 - 6 months in '000	6 - 12 months in '000	12 - 24 months in '000	Total contractual cash flows in '000
ASSETS							
Cash and cash equivalents	1,752,938	1,752,938	-	-	-	-	1,752,938
Insurance premiums receivable	-	-	-	-	-	-	-
Investments held to maturity	25,890,867	1,904,761	3,969,141	5,395,660	11,003,839	4,190,585	26,463,986
TOTAL	27,643,805	3,657,699	3,969,141	5,395,660	11,003,839	4,190,585	28,216,924
LIABILITIES							
Other liabilities	(13,901)	(8,181)	-	(34,320)	-	-	(42,501)
TOTAL	(13,901)	(8,181)	-	(34,320)	-	-	(42,501)
CUMULATIVE LIQUIDITY GAP	27,629,904	3,649,518	3,969,141	5,361,340	11,003,839	4,190,585	28,174,423

Total cumulative liquidity gap is higher than the Deposit Insurance Fund as of December 31, 2015.

ALBANIAN DEPOSIT INSURANCE AGENCY
Notes to the Financial Statements for the years ended December 31, 2015 and 2014
(All amounts are in LEK unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 Liquidity risk (continued)

As of December 31, 2014	Carrying amount in '000	up to 1 month in '000	1 - 3 months in '000	3 - 6 months in '000	6 - 12 months in '000	12 - 24 months in '000	Total contractual cash flows 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.

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 Liquidity risk (continued)

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 the latest assessment on financial stability by Bank of Albania, in general the positive developments in the economy and banking sector have contributed to the strengthening of financial stability during the period, as evidenced by the performance of the respective indicators. However, risks remain present and specifically the level of non-performing loans ratio is still considered high. The short term liabilities of banking sector and its current structure do not provide the necessary support for the sustainable revival of lending, and expose the sector to interest rate risk. The sector is also exposed to exchange rate fluctuations. The considerable investment of the banking sector in government debt securities imposes the need to improve the size and depth of the market where these securities are traded, as an important instrument for the administration and minimization of the relevant risks.

Bank of Albania assesses the banking sector's financial position as good and stable. Indicators of capital and liquidity levels of activity are at good levels and the banking sector generates profits. For these reasons, it is assessed that the sector's absorption capacity of different shocks has been strengthened during the period. This conclusion is confirmed by stress-test exercises, based on different macroeconomic scenarios and liquidity risk.

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).

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

7. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

7.1 Valuation of financial instruments

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

As of December 31, 2015	Loans and receivables	Held-to-maturity	Other at amortised cost	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	1,752,937,779	-	-	1,752,937,779	1,752,937,779
Insurance premiums receivable	-	-	-	-	-
Investments held to maturity	-	25,890,867,189	-	25,890,867,189	25,967,720,653
TOTAL	1,752,937,779	25,890,867,189	-	27,643,804,968	27,720,658,432
LIABILITIES					
Other liabilities	-	-	(13,901,448)	(13,901,448)	(13,901,448)
TOTAL	-	-	(13,901,448)	(13,901,448)	(13,901,448)

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)

Due to their short-term maturity, 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, 2015 and 2014.

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, 2015 and 2014.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***8. CASH AND CASH EQUIVALENTS**

Cash and cash equivalent balances as of December 31, 2015 and December 31, 2014 are detailed as follows:

	December 31, 2015	December 31, 2014
<i>Balances with banks</i>		
Current accounts with Bank of Albania	147,639,064	76,237,266
Short-term deposits	1,602,670,000	48,000,000
Current accounts with local banks	1,538,559	1,318,349
Current accounts with foreign banks	1,090,156	135,202,398
Total	1,752,937,779	260,758,013

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

As of December 31, 2015 insurance premiums receivable consist of quarterly insurance premium yet to be collected at the end of the year. Quarterly insurance premium for banking institutions is paid no later than the 15th of the first month of the quarter for which it is paid. As of December 31, 2015, all of the fourth quarterly insurance premiums for the year were collected.

As of December 31, 2014 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 paid the annual insurance premium in four instalments. Each instalment was 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.

10. INVESTMENT SECURITIES – HELD TO MATURITY

	December 31, 2015	December 31, 2014
Investments in Albanian Government securities (10.1)	25,420,589,323	22,632,197,000
Investments in foreign government securities (10.2)	470,277,866	431,314,234
Total	25,890,867,189	23,063,511,234

10.1 Albanian Government Treasury Securities

Investment in Albanian Government securities are detailed as follows:

	December 31, 2015	December 31, 2014
Treasury Securities in LEK	23,824,869,972	21,771,788,177
Treasury Securities in EUR	1,595,719,351	860,408,823
Total	25,420,589,323	22,632,197,000

ALBANIAN DEPOSIT INSURANCE AGENCY
Notes to the Financial Statements for the years ended December 31, 2015 and 2014
(All amounts are in LEK unless otherwise stated)
10. INVESTMENT SECURITIES – HELD TO MATURITY (CONTINUED)
10.1 Albanian Government Treasury Securities (continued)

Albanian Government securities by contractual maturity are presented as follows:

	December 31, 2015	weighted average yield	December 31, 2014	weighted average yield
<i>Treasuries in LEK</i>				
3 months	698,639,335	2.55%	1,188,768,274	3.09%
6 months	678,198,714	2.60%	296,584,334	3.15%
12 months	18,159,048,971	3.26%	19,581,390,501	3.42%
24 months	4,288,982,952	4.91%	705,045,068	4.96%
Total	23,824,869,972		21,771,788,177	
<i>Treasuries in EUR</i>				
12 months	270,976,605	2.37%	69,101,839	2.50%
24 months	1,324,742,746	3.34%	791,306,984	3.50%
Total	1,595,719,351		860,408,823	

The year ended December 31, 2015 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, 2015	weighted average yield	December 31, 2014	weighted average yield
<i>U.S. Treasuries in USD</i>				
	470,277,866	0.34%	431,314,234	0.11%
Total	470,277,866		431,314,234	

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

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

11. PROPERTY AND EQUIPMENT

<i>Cost</i>	Building	Technical installations	Computer equipment	Vehicles	Office Supplies	Total
<i>At January 1, 2014</i>	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	-	-	-	-	-	-
<i>At December 31, 2014</i>	59,008,124	2,928,685	7,981,447	6,240,000	5,556,568	81,714,824
Additions	3,121,402	8,803,722	95,400	-	-	12,020,524
Transfers	-	-	-	-	-	-
<i>At December 31, 2015</i>	62,129,526	11,732,407	8,076,847	6,240,000	5,556,568	93,735,348
<i>Accumulated depreciation</i>						
<i>At January 1, 2014</i>	(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)
<i>At December 31, 2014</i>	(7,199,207)	(529,067)	(3,287,968)	(1,477,085)	(1,638,052)	(14,131,379)
Charge for the period	(1,833,833)	(584,787)	(1,787,055)	(1,248,000)	(1,115,910)	(6,569,585)
<i>At December 31, 2015</i>	(9,033,040)	(1,113,854)	(5,075,023)	(2,725,085)	(2,753,962)	(20,700,964)
<i>Net carrying amount</i>						
<i>As January 1, 2014</i>	53,515,149	1,874,491	2,605,662	6,010,915	3,795,788	67,802,005
<i>At December 31, 2014</i>	51,808,917	2,399,618	4,693,479	4,762,915	3,918,516	67,583,445
<i>At December 31, 2015</i>	53,096,486	10,618,553	3,001,824	3,514,915	2,802,606	73,034,384

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

12. INTANGIBLE ASSETS, NET

	Software
<i>Cost</i>	
At January 1, 2014	4,332,900
Additions	46,381,114
At December 31, 2014	50,714,014
Additions	17,079,113
At December 31, 2015	67,793,127
<i>Accumulated amortisation</i>	
At January 1, 2014	(941,155)
Amortisation for the year	(7,335,763)
At December 31, 2014	(8,276,918)
Amortisation for the year	(20,208,836)
At December 31, 2015	(28,485,754)
<i>Net Carrying amount</i>	
At January 1, 2014	3,391,745
At December 31, 2014	42,437,096
At December 31, 2015	39,307,373

13. OTHER ASSETS, NET

	December 31, 2015	December 31, 2014
Inventory	1,544,570	1,567,986
Prepaid expenses	455,671	640,417
Other assets	270,504	279,617
Total	2,270,745	2,488,020

14. OTHER LIABILITIES

	December 31, 2015	December 31, 2014
Accrued expenses	10,280,848	2,559,265
Social and health insurance	715,450	660,691
Personal income tax	1,394,415	1,329,197
Other liabilities	1,510,735	1,963,221
Total	13,901,448	6,512,374

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***15. INITIAL ESTABLISHMENT FUNDS**

As of December 31, 2015, the Initial Establishment Fund for the bank deposit insurance of Lek 400,000,000 (December 31, 2014: Lek 400,000,000) and the Initial Establishment Fund for the saving and credit association deposit insurance of Lek 76,000,000 (December 31, 2014: 0 Lek) represent the contributions of the State Budget for the bank deposit insurance fund and for the saving and credit association deposit insurance fund. Per the Law on deposit insurance, the Initial Establishment Funds can be used in preparing to pay-out and/or paying out insured bank depositors. The Initial Establishment Funds 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.

16. INCOME FROM INSURANCE PREMIUMS

For the year ended December 31, 2015, the Agency accrued annual insurance premium income from 16 banks in the amount of Lek 2,900,428,943 (2014: Lek 2,836,807,158 from 16 banks). In accordance with the Law on deposit insurance, starting from the year 2015 the insurance premium is calculated by member institutions on quarterly basis. 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.

For the year ended December 31, 2014, the annual insurance premium for the year is calculated by member institutions 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.

17. INTEREST INCOME

Interest income for the year ended on December 31, 2015 and 2014 are generated from the following activities:

	Year ended December 31, 2015	Year ended December 31, 2014
Albanian Treasury Securities in LEK	822,900,097	770,438,590
Albanian Treasury Securities in EURO	36,802,235	19,442,359
Foreign Treasury Securities in EURO	-	48,613
Foreign Treasury Securities in USD	1,311,505	738,911
Short term deposits at Bank of Albania	14,303,515	13,315,802
Other interest income	1,797	1,814
Total	875,319,149	803,986,089

18. OTHER OPERATING INCOME

	Year ended December 31, 2015	Year ended December 31, 2014
Income from Grants	17,530,894	35,541,910
Other	-	16,669
Total	17,530,894	35,558,579

In the year ended December 31, 2015 and 2014, the Agency received funds in the form of a grant from the European Bank for Reconstruction and Development to finance the development, implementation, and maintenance of the Information System for Reporting and Compensation (see note 12 of intangible assets).

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2015 and 2014***(All amounts are in LEK unless otherwise stated)***19. FINANCE EXPENSES**

	Year ended December 31, 2015	Year ended December 31, 2014
Front-end fee on Line of Credit	-	70,070,700
Commitment fee on Line of Credit	69,784,000	-
Other finance expenses	2,281,900	1,737,781
Total	72,065,900	71,808,481

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. For the year ended 2015, the commitment fee as per the agreement is calculated as 0.5% of the maximum available amount of line of credit for the period.

20. PERSONNEL EXPENSES

Personnel expenses for the year ended December 31, 2015 and 2014 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Expenses for salaries and bonuses	57,830,189	57,064,894
Social security and health insurance	4,924,754	4,776,267
Other	1,191,192	860,012
Total	63,946,135	62,701,173

21. ADMINISTRATIVE EXPENSES

	Year ended December 31, 2015	Year ended December 31, 2014
Training and continuous education	6,776,911	8,113,166
Maintenance and repairs	6,285,208	2,597,850
Board of Directors expenses	4,342,250	3,984,750
Professional services	2,908,312	3,487,078
Publications and subscriptions	2,170,513	95,868
Utilities	1,689,184	1,432,925
Membership fees	1,560,430	1,467,282
Communication and post	416,245	549,897
Office supplies	411,026	502,241
Workshops and conferences	180,460	2,129,653
Other operating expenses	1,558,700	2,325,508
Total	28,299,239	26,686,218

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

22. COMPREHENSIVE INCOME OF DEPOSITS INSURANCE FUNDS

Based on the law on deposit insurance, the Agency maintains separate accounting records for the bank deposit insurance fund and the saving and credit association deposit insurance fund. The accumulated funds are increased/decreased by profits/losses from the activity of the Agency. In the year ended December 31, 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 saving and credit association deposit insurance fund.

Given that no saving and credit associations were included in the deposit scheme in 2015, these funds were placed by the Agency as deposit with Bank of Albania from which generated income for the year in the amount of Lek 1,170,337. During the year 2014, the Agency has managed only bank insurance deposit funds.

The allocation of comprehensive income between funds for the years ended December 31, 2015 and 2014 is presented as follows:

	Year ended 31 December 2015		
	Bank deposit insurance fund	Saving and credit association deposit insurance fund	Total
Operating income:			
Income from insurance premiums	2,900,428,943	-	2,900,428,943
Interest income	874,148,812	1,170,337	875,319,149
Other operating income	17,530,894	-	17,530,894
	3,792,108,649	1,170,337	3,793,278,986
Financial expenses:			
Profit from foreign currency translation	20,707,989	-	20,707,989
Other financial expenses	(72,065,900)	-	(72,065,900)
	(51,357,911)	-	(51,357,911)
Operating expenses:			
Personnel expenses	(63,946,135)	-	(63,946,135)
Administrative expenses	(28,299,239)	-	(28,299,239)
Depreciation expense	(26,778,421)	-	(26,778,421)
	(119,023,795)	-	(119,023,795)
NET PROFIT FOR THE YEAR	3,621,726,943	1,170,337	3,622,897,280
Other comprehensive income	-	-	-
TOTAL OF COMPREHENSIVE INCOME	3,621,726,943	1,170,337	3,622,897,280

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2015 and 2014

(All amounts are in LEK unless otherwise stated)

23. 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 Agency is governed by the Board of Directors, which members are appointed in accordance with the Law on deposits insurance (Note 2).

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 through participation in auctions and the secondary market.

24. EVENTS AFTER THE REPORTING DATE

The Agency has evaluated subsequent events through February 25, 2016, the date these financial statements were available to be issued. There are no events after the reporting date and as of February 25, 2016 that would require either adjustments or additional disclosures in the financial statements of the Agency.