

RAIFFEISEN BANK S.H.A.

**Independent auditor's report and
Consolidated Financial Statements
as at and for the year ended 31 December 2012**

CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	3
CONSOLIDATED STATEMENT OF CASH FLOWS	4
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	5 - 50

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Raiffeisen Bank sh.a.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Raiffeisen Bank sh.a., which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Raiffeisen Bank sh.a. as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 27, 2013
Tirana, Albania

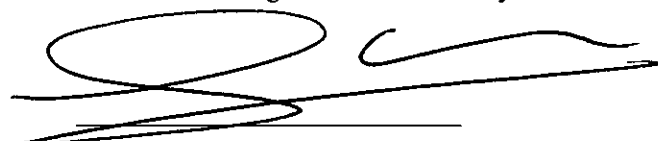
Deloitte Albania sh.p.k.
Deloitte Albania
Pallati Postshor i Fakultetit Gjeologji Miniera
Rr. Elbasanit, Tirana, Albania
Tel: +355 4 45 17 920
Fax: +355 4 45 17 990
www.deloitte.al

Deloitte refers to one or more of the member firms of the Deloitte network, each of which is a separate and independent entity. Please see <http://www.deloitte.com> for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

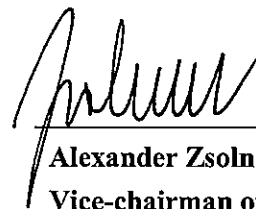
RAIFFEISEN BANK SH.A.**Consolidated statement of financial position as at 31 December 2012***(amounts in Lek'000)*

	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	7	38,153,089	24,076,796
Restricted balances	8	28,243,158	25,671,451
Investments held for trading	9.1	41,281,170	39,202,048
Held-to-maturity investment securities	9.2	81,381,682	105,760,202
Loans and advances to customers, net	10	124,576,719	124,126,282
Property and equipment, net	11	1,987,074	1,808,116
Intangible assets, net	11	1,225,926	609,060
Equity investments	12	37,785	25,713
Goodwill	13	92,783	92,783
Prepaid income tax		190,190	-
Other assets, net	14	1,749,047	1,481,846
Total assets		318,918,623	322,854,297
Liabilities			
Due to financial institutions	15	1,941,112	5,335,409
Repurchase agreements sold	16	-	8,150,088
Due to customers	17	284,395,826	278,515,611
Current income tax payable		-	10,258
Deferred tax liabilities	18	262	125,375
Other liabilities	19	1,513,284	1,238,209
Total liabilities		287,850,484	293,374,950
Equity			
Share capital	20	14,178,593	9,926,093
General reserve	21	2,822,814	6,314,300
Since acquisition reserves of the subsidiary	22	105,390	63,773
Revaluation reserve		37,785	25,713
Retained earnings		13,822,139	13,064,551
Total equity attributable to equity holder of the Bank		30,966,721	29,394,430
Non-controlling interest	23	101,418	84,917
Total equity		31,068,139	29,479,347
Total liabilities and equity		318,918,623	322,854,297

These consolidated financial statements have been approved by the Supervisory Board of the Bank on 13 March 2013 and signed on its behalf by:



Christian Canacaris
Chief Executive Officer



Alexander Zsolnai
Vice-chairman of the
Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 50.

RAIFFEISEN BANK SH.A.**Consolidated statement of comprehensive income for the year ended 31 December 2012***(amounts in Lek'000)*

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	24	18,935,579	19,975,992
Interest expense	25	(8,138,185)	(7,673,450)
Net interest income		10,797,394	12,302,542
Fee and commission income	26	1,500,585	1,405,700
Fee and commission expense	27	(318,384)	(307,220)
Net fee and commission income		1,182,201	1,098,480
Net trading income	28	2,585,396	1,980,684
Net other operating income	29	(101,747)	(101,834)
		2,483,649	1,878,850
Deposit insurance premium	30	(802,684)	(722,809)
Personnel expenses	31	(2,520,468)	(2,219,571)
Depreciation and amortisation	11	(572,462)	(560,938)
General and administrative expenses	32	(1,968,247)	(1,911,283)
Net impairment loss on financial assets	10,19	(2,822,695)	(2,008,781)
		(8,686,556)	(7,423,382)
Profit before income tax		5,776,688	7,856,490
Income tax	33	(471,021)	(771,208)
Profit for the year		5,305,667	7,085,282
Other comprehensive income			
Fair value reserve (available for sale financial assets)			
Net change in fair value	12	12,073	8,476
Total comprehensive income for the year		5,317,740	7,093,758
Attributable to			
Equity holders of the Bank		5,289,166	7,069,320
Non-controlling interest		16,501	15,962

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 50.

RAIFFEISEN BANK SH.A.

Consolidated statement of changes in equity for the year ended 31 December 2012

(amounts in Lek'000)

	Attributable to equity holder of the Bank						Non-controlling interest	Total	Total equity
	Share capital	General reserves	Revaluation reserve	Since acquisition reserves of the subsidiary	Retained earnings				
Balance as at 31 December 2010	9,926,093	2,801,000	17,237	-	14,840,357	27,584,687	68,955	27,653,642	
Transfer of retained earnings in general reserve	-	3,513,300	-	-	(3,513,300)	-	-	-	
Dividend payment	-	-	-	-	(5,268,053)	(5,268,053)	-	(5,268,053)	
Since acquisition reserves of the subsidiary	-	-	-	63,773	(63,773)	-	-	-	
Net profit for the year	-	-	-	-	7,069,320	7,069,320	15,962	7,085,282	
Other comprehensive income (Note 12)	-	-	8,476	-	-	8,476	-	8,476	
Balance as at 31 December 2011	9,926,093	6,314,300	25,713	63,773	13,064,551	29,394,430	84,917	29,479,347	
Capital increase	4,252,500	-	-	-	(4,252,500)	-	-	-	
Transfer of general reserve in retained earnings	-	(3,491,486)	-	-	3,491,486	-	-	-	
Dividend payment	-	-	-	-	(3,728,947)	(3,728,947)	-	(3,728,947)	
Since acquisition reserves of the subsidiary	-	-	-	41,617	(41,617)	-	-	-	
Net profit for the year	-	-	-	-	5,289,166	5,289,166	16,501	5,305,667	
Other comprehensive income (Note 12)	-	-	12,072	-	-	12,072	-	12,072	
Balance as at 31 December 2012	14,178,593	2,822,814	37,785	105,390	13,822,139	30,966,721	101,418	31,068,139	

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 50.

RAIFFEISEN BANK SH.A.**Consolidated statement of cash flows for the year ended 31 December 2012***(amounts in Lek'000)*

	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities		
Net profit for the period before taxation	5,776,688	7,856,490
Non-cash items in the consolidated statement of comprehensive income		
Depreciation and amortisation	572,462	560,938
Fixed assets written off	3,356	31,841
Net impairment loss on financial assets	2,822,695	2,008,781
Net interest income	(10,797,394)	(12,302,542)
Change in provision for other debtors	(10,559)	(11,226)
	(1,632,752)	(1,855,718)
Increase in loans and advances to credit institutions	(2,572,662)	(2,372,510)
Increase in loans and advances to customers	(3,261,233)	(27,609,464)
Increase in trading securities	(2,079,122)	(533,874)
Increase in other assets	(455,421)	(450,513)
Decrease in reverse repurchase agreements	(8,169,197)	(164,355)
(Decrease)/Increase in due to financial institutions	(3,384,529)	1,447,261
Increase in due to customers	5,708,298	41,377,537
Increase/(decrease) in other liabilities	479,088	(70,083)
	(15,367,530)	9,768,281
Interest received	18,906,215	19,720,869
Interest paid	(7,956,925)	(7,124,666)
Corporate income tax paid	(801,817)	(854,184)
Net cash (used in)/generated from operating activities	(5,220,057)	21,510,300
Cash flows from investing activities		
Purchases of property and equipment	(633,075)	(723,561)
Purchases of intangible assets	(738,566)	(424,019)
Net proceeds from purchase and redemption of securities held to maturity	24,396,938	(10,271,799)
Net cash generated from/(used in) investing activities	23,025,297	(11,419,379)
Cash flows from financing activities		
Dividends paid from retained earnings for the previous year	(3,728,947)	(5,268,053)
Net cash used in financing activities	(3,728,947)	(5,268,053)
Increase in cash and cash equivalents during the year	14,076,293	4,822,868
Cash and cash equivalents at the beginning of the year	24,076,796	19,253,928
Cash and cash equivalents at the end of the year (Note 7)	38,153,089	24,076,796

The consolidated statement of cash flow is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 50.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

1. INTRODUCTION

The name was changed to Raiffeisen Bank Sh.a. (the "Bank") on 1 October 2004 from Banka e Kursimeve Sh.a. (Savings Bank of Albania). Banka e Kursimeve was established in 1991, from part of the previous "Insurance and Savings Institute" entity, to collect deposits from individuals and enterprises, grant and maintain loans to private individuals, enterprises and state owned entities and carry out general banking services.

On 11 December 1992, the Bank was registered to operate as a bank in the Republic of Albania, in accordance with Law No. 7560 "On the Banking system in Albania". The Bank of Albania at that time granted a non-transferable general banking license for an unlimited time period. On 27 July 1997, the Bank was incorporated as a Joint Stock Company based on Decision No. 17426 of the Tirana District Court. The sole shareholder of the Bank was the Ministry of Finance with a paid up capital of Lek 700 million, which consists of 7,000 shares of Lek 100,000 nominal value each. Based on this decision, the Bank of Albania updated the license of the Bank to reflect these changes on 11 January 1999.

On 14 April 2004, the Ministry of Finance of Albania sold 100% of the issued and outstanding shares of the Group to Raiffeisen Zentralbank Osterreich Aktiengesellschaft (RZB AG). On 21 July 2004, RZB AG transferred its 100% share in the Bank to RZB AG's fully owned subsidiary Raiffeisen International AG, Vienna, Austria, which therefore became the holder of 100% of the issued and outstanding shares of the Bank. On July 2010, the sole shareholder has changed the name, from Raiffeisen International Bank-Holding AG, to Raiffeisen Bank International AG. This change is registered in the Austrian commercial register on October 2010. Since 21 May 2012, the sole shareholder of the Raiffeisen Bank is Raiffeisen SEE Region Holding GmbH, a company duly incorporated under the laws of Austria.

On 28 April 2006, the Bank and Raiffeisen Leasing International established Raiffeisen Leasing Sh.a. The Bank is the owner of 75% of the shares of the company. On 26 December 2008 the Bank obtained ownership of 100% of the issued and outstanding shares of Instituti Amerikan i Pensioneve Private Suplementare të Shqipërisë - American Pension Fund of Albania Sh.a. based on sale purchase agreement dated on 26 December 2008. On 23 April 2009, Instituti Amerikan i Pensioneve Private Suplementare të Shqipërisë - American Pension Fund of Albania Sh.a. changed its name to Instituti Privat i Pensioneve Suplementare Raiffeisen – Raiffeisen Pensions Sh.a.

On 31 March 2010, the name of the subsidiary was changed from "Instituti Privat i Pensioneve Suplementare Raiffeisen - Raiffeisen Pensions sh.a.", to "Shoqëria Administruese e Fondeve të Pensionit Raiffeisen – Raiffeisen Pension Funds Management Company sh.a" and further on 30 November 2011 the name was changed into "Raiffeisen INVEST- Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive" sh.a (hereinafter referred to as "Raiffeisen INVEST").

The consolidated financial statements of the group as at 31 December 2012 and as at 31 December 2011 comprise the Bank, Raiffeisen Leasing and Raiffeisen INVEST (together referred to as the "Group").

The Bank operates through a banking network of 103 service points as of 31 December 2012 (31 December 2011: 103 service points) throughout Albania, which are managed through 8 districts.

Directors and Management as of 31 December 2012 and 2011

Board of Directors (Supervisory Board)

Helmut Breit	Chairman
Heinz Hodl	Member
Peter Lennkh	Member
Ferenc Berszan	Member
Andreas Engels	Member

Audit Committee

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Mitter	Member

Management Board

Christian Canacaris	Chief Executive Officer
Alexander Zsolnai	Vice-chairman of the Management Board
John McNaughton	Member
Raphaela Bischof-Rothauer	Member

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies have been applied consistently by Group entities, therefore no adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(a) Basis of consolidation

(i) Business combinations

In accordance with IFRS 3 "Business Combinations", a business combination is the bringing together of separate enterprises or businesses into one reporting entity. If the transaction meets the criteria for a business combination, it should be determined if the business combination is involving companies under common control. According to IFRS 3, two enterprises are under common control, when the combining enterprises or businesses are ultimately controlled by the same party (parties) both before and after the business combination and when the control is not temporary (transitional).

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(i) Business combinations (continued)

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill arising on business acquisitions is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements and separate financial statements in accordance with IFRS and the financial reporting period is the same for all entities of the group.

Based on the nature of the activity, the Groups' subsidiaries have several specific accounting policies which are detailed in note 3(n) for Raiffeisen Leasing sh.a. and in notes 3 (r) and 3 (s), for Raiffeisen INVEST.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest

Interest income and expense are recognised in the consolidated statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost and interest on available-for-sale investment securities calculated on an effective interest rate basis.

(d) Fees and commission

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

Other fees and commission income, including account servicing fees, sales commission, and placement fees, are recognised as the related services are performed.

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

(e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(f) Operating lease and other operating expenses

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

The operating expenses are recognised when incurred.

(g) Employee benefits

- *Defined contribution plans*

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

- *Paid annual leave*

The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

- *Short-term benefits*

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

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

• Short-term benefits (continued)

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

• Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are generally recognised for all taxable temporary differences. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

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

(i) Financial assets and liabilities

i Recognition

The Group initially recognises loans and advances, and deposits at cost, on the date that they originate. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

ii Derecognition

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities (continued)

ii Derecognition (continued)

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets, or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

iii Amortised cost measurement

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

iv Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

v Offsetting

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

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

vi Identification and measurement of impairment

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

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities (continued)

vi Identification and measurement of impairment (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure that they remain appropriate.

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

vii Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

(j) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of the portfolio that is managed together for the short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of the trading income in the consolidated statement of comprehensive income. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Non-trading derivatives

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives are measured at fair value in the consolidated statement of financial position. When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net trading income.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

(m) Loans and advances

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

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(n) Finance Leasing

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to legal ownership are transferred by the lessor to the lessee, and thus the lease payment receivables are treated by the Group as repayment of principal and finance income to reimburse and reward for the Group's investment and services. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group net investment in the leases.

Initial direct costs incurred by the Group are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately.

The allocation of finance income is based on a pattern reflecting a constant periodic return on the Company's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Minimum lease payments received under finance leases are apportioned between the finance income and the reduction of the outstanding asset.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when adjustment is confirmed.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Investment securities

Investment securities are initially measured at fair value plus 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 assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

ii Fair value through profit or loss

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3(i) (vii).

iii Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(p) Property and equipment

i Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

ii Subsequent costs

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

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Property and equipment (continued)

iii Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and work in progress are not depreciated.

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

	2012 (in years)	2011 (in years)
• Buildings	20	20
• Computers, ATM, and IT equipment	4	4
• Vehicles	5	5
• Leasehold improvements	2-4	2-4
• Other (office furniture)	5	5

Useful lives and residual values are reassessed at the reporting date.

(q) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

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

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

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated statement of comprehensive income as an expense as incurred.

(r) Voluntary pension fund and Investment Funds

Raiffeisen INVEST acts as a Management Company for the following Defined Contribution Funds:

- The Defined Contribution Fund “Raiffeisen Voluntary Pension Fund” which was approved by the Albanian Financial Supervisory Authority on October 18, 2010;
- “Raiffeisen Prestige” which was approved by the Albanian Financial Supervisory Authority on December 13, 2011;
- “Raiffeisen Invest Euro Investment Fund” which was approved by the Albanian Financial Supervisory Authority on September 26, 2012.

New law No. 10197 dated on 10 December 2009 “On voluntary pension funds” and law No. 10198 dated on 10 December 2009 “On collective investment undertakings” requirements, include responsibility of the Management Company to prepare separate financial statements for the Company and the Funds.

On 30 November 2011, based on decision of the General Assembly of the Sole Shareholder the Management Company’s object of activity was extended to include:

- manage voluntary pension funds through collecting and investing funds based on the law no. 10197, dated 10 December 2009 “On Voluntary Pension Funds”, as well as in accordance with the principle of risk-spreading (diversification), for the purpose of providing retirement benefits for the persons that participate in the pension fund. The Company may provide also pensions delivery,

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Voluntary pension fund and Investment Funds (continued)

- to establish and/or manage the Collective Investment Undertakings based on the law no. 10198, dated 10 December 2009 "On collective investment undertakings",
- other activities as defined in the law no. 10198, dated December 10, 2009 "On collective Investment undertakings".

As at 31 December 2012, the net assets value of Raiffeisen voluntary pension fund amount to Lek 113,908 thousand (2011: 73,865 thousand), Raiffeisen Prestige amount Lek 15,222 million (2011: zero) and Raiffeisen Invest Euro amount Lek 786,208 thousand (2011: zero).

(s) Defined contribution plans (Voluntary Pension Fund and Investment Funds)

Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid, and the investment earnings of the fund. Obligations are recognised in profit or loss when they are due and are disclosed as interest credited to the pension fund within investment income and income from transactions.

The Funds operate according to law No. 10197, dated 10 December 2009 "On the Voluntary Pension Fund" and law No. 10198, dated 10 December 2009 "On collective investment undertakings". Also, the investment strategy of these Funds' assets is based on the internal policy of investment of the Management Company and the regulation "For the permitted assets, the limitations and maximum limit of the investment of the pension fund" approved by the Albanian Financial Supervisory Authority.

As at 31 December 2012 and 2011 the investment portfolio of the Funds includes government bonds and treasury bills, short term deposits in second level Banks in Albania and other cash and cash equivalents. First Investment Bank Albania sh.a. acts as the custodian bank of all the Funds.

Net value of assets

The net value of assets is equal with the total of the net assets minus the Fund's obligations.

The value of pension fund unit

The Value of the unit is equal to the net value of assets divided with the number of units at the reporting date. Based in each Fund's policy, the opening value of one unit has been equal to Lek 1,000.

Interest income

Interest income includes incomes from bonds' coupons and interest from deposits. Interest income is presented based on accrual basis.

The fee to the Management company

Each Fund should pay to the Management Company a fee which differs for each Fund. Up to May 2012 the Raiffeisen voluntary pension fund has paid a fee of 3% (annually) of net value of assets, but starting from June 2012 there has been applied a fee of 1.5% (2011: 3%), expense which is calculated on a daily basis. Raiffeisen Invest Euro Investment Fund pays also a fee of 1.5%. Raiffeisen Prestige has applied a fee of 1% on net assets since its inception.

Realized gain / losses and unrealized gain / losses

Realized gain / losses are recognised based on the sale of the securities with a difference between the offered price with the value of principal and matured interest of securities bought with premium or discount. These differences are recognised in profit or loss when occurred. Unrealized gain/losses are recognised as the difference between the cost and the fair value. When the securities are sold the unrealized gain/loss is transferred in the profit and loss for the period.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Deposits and other financial liabilities

Deposits and other financial liabilities are the Group's main sources of debt funding.

When the Group sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's consolidated financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits and other financial liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(u) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

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

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

(v) Provisions

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

Loan loss provisions for contingent liabilities and commitments

Commitments and contingent liabilities are such as undrawn agreements to lend in case that they are formally binding and not just internal limits. Contingent liabilities may develop in a way not initially expected. Therefore they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. In case that the contingent liability results in a present obligation that can be measured reliably, a provision on-balance has to be made. Only irrevocable commitments give rise to a credit risk, therefore only irrevocable contingencies and commitments can be subject to provisioning. For significant exposures, the assessment is done individually. In case of portfolio based assessment the portfolio-building and calculation of portfolio-based provisions has to be made as indicated in the impairment of Loans and Advances to customers.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Standards and interpretations effective in the current period

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

- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

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

(y) Standards and Interpretations in issue not yet adopted

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2015), published by IASB on 12 November 2009. On 28 September 2011 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss. The adoption of the first phase of IFRS 9, will primary have an effect on the classification and measurement of the bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.
- **IFRS 10 “Consolidated Financial Statements”** (effective for annual periods beginning on or after 1 January 2013), published by IASB on 12 May 2012. IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.
- **IFRS 11 “Joint Arrangements”** (effective for annual periods beginning on or after 1 January 2013),

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Standards and interpretations in issue not yet adopted (continued)

- **IFRS 12 “Disclosures of Interests in Other Entities”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 “Fair Value Measurement”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) “Separate Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS” - Government Loans** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”** - Mandatory Effective Date and Transition Disclosures, published by IASB on 16 December 2012. Amendments defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities”** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements”** - Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 1 “Presentation of financial statements”** - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 “Financial instruments: presentation”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to various standards “Improvements to IFRSs (2012)”** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”** (effective for annual periods beginning on or after 1 January 2013).

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Standards and interpretations in issue not yet adopted (continued)

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Except as described above relating to IFRS 9, the Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

4. USE OF ESTIMATES AND JUDGMENTS

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

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

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(i) (vi). The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently estimated by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

The Group measures fair value using Level 2 of the fair value hierarchy that reflects the significance of the inputs used in making the measurements, which is explained as follows:

- Level 2: Valuation techniques based on observable inputs, 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.

Fair values of financial assets and liabilities that are traded in active markets are based on quoted market process or dealer price quotations. For all other financial instruments the Bank determines fair value using valuation techniques as described in accounting policy 3(i) (iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and Credit Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

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

Current developments

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The Management, based on this, analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A consolidated Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

(i) *Investment securities*

	Investments held for trading		Held-to-maturity investment securities	
	2012	2011	2012	2011
Neither past due nor impaired (internal rating used)				
Country rate: B4	41,281,170	39,202,048	81,381,682	105,760,202
Carrying amount	41,281,170	39,202,048	81,381,682	105,760,202

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Loans and advances to customers

	Loans and advances to customers	
	2012	2011
Individually impaired		
Grade 5: Impaired	13,526,705	12,930,870
Gross amount	13,526,705	12,930,870
Allowance for impairment	(9,605,933)	(9,294,945)
Carrying amount (A)	3,920,772	3,635,925
Portfolio based allowance for losses		
Enterprises		
Grade 1	189,029	428,255
Grade 1.5	348,487	4,952,394
Grade 2	6,296,641	9,096,202
Grade 2.5	10,437,679	9,923,276
Grade 3	9,236,493	7,861,843
Grade 3.5	42,632,219	30,023,186
Grade 4	7,363,341	19,655,201
Grade 4.5	13,619,145	11,359,095
Grade 5 (unrated)	9,625,379	5,312,078
	99,748,413	98,611,530
Private individuals	22,719,972	23,449,830
Gross amount	122,468,385	122,061,361
Allowance for impairment	(1,812,438)	(1,571,004)
Carrying amount (B)	120,655,947	120,490,357
<i>Past due but not impaired comprises:</i>		
30-60 days:	2,654,801	8,687,743
60-180 days:	3,426,181	5,430,914
Carrying amount	6,080,982	14,118,658
Total carrying amount (A+B)	124,576,719	124,126,282

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 0.5 to 5 in the Group's internal credit risk grading system.

Past due but not impaired loans

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

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when the Bank Problem Loans Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
	Gross	Net
31 December 2012		
<i>Individually impaired</i>		
Grade 5:Impaired	13,526,705	3,920,772
Total	<u>13,526,705</u>	<u>3,920,772</u>
31 December 2011		
<i>Individually impaired</i>		
Grade 5:Impaired	12,930,870	3,635,925
Total	<u>12,930,870</u>	<u>3,635,925</u>

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally re-valued annually by both, external and internal evaluators. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 and 31 December 2011.

	Against individually impaired	Against collectively impaired	2012 Total	2011 Total
Property	2,807,141	34,200,201	37,007,342	32,225,143
Pledge	1,285,969	14,040,086	15,326,055	14,331,297
Cash	38	2,192,391	2,192,429	2,362,302
Guarantee	40,312	5,151,018	5,191,330	8,568,610
Total	4,133,460	55,583,696	59,717,156	57,487,352

Minimum lease payments receivable

The finance lease is presented within loans and advances to customers. A reconciliation of gross investment to present value of minimum lease payments receivable is presented below:

	Finance lease 2012	2011
Gross investment in the lease	4,647,850	5,229,009
Unearned financial income	(568,418)	(702,103)
	4,079,432	4,526,906

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk Management.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk as at 31 December 2012 and 31 December 2011 is shown below:

	31 December 2012					
	Individual	Corporate	SME	Micro - Business	Employees	Total
Overdraft	2,137,172	46,733,603	5,716,631	1,125,523	68,125	55,781,054
Credit Card	328,290	-	-	-	39,892	368,182
Loans						
Short term	149,280	764,404	128,729	12,373	1,229	1,056,015
Medium term	3,518,209	24,855,866	3,107,301	1,337,698	127,920	32,946,994
Long term	8,303,794	18,778,852	3,081,429	453,544	351,364	30,968,983
minus Administrative fee	(169,236)	(273,473)	(53,282)	(23,971)	-	(519,962)
	11,802,047	44,125,649	6,264,177	1,779,644	480,513	64,452,030
Mortgage	8,813,112	-	62,630	316,515	1,875,804	11,068,061
Other	545,324	2,519,473	967,959	289,424	3,583	4,325,763
Total (Note 10)	23,625,945	93,378,725	13,011,397	3,511,106	2,467,917	135,995,090
	31 December 2011					
	Individual	Corporate	SME	Micro - Business	Employees	Total
Overdraft	2,642,981	45,407,105	6,770,969	1,620,777	61,162	56,502,994
Credit Card	228,592	-	-	-	31,427	260,019
Loans						
Short term	138,979	327,478	183,357	42,942	1,971	694,727
Medium term	3,823,889	22,859,189	3,677,216	1,933,416	160,827	32,454,537
Long term	9,603,044	17,415,120	3,460,370	408,470	429,692	31,316,696
minus Administrative fee	(184,390)	(251,533)	(62,858)	(41,936)	-	(540,717)
	13,381,522	40,350,254	7,258,085	2,342,892	592,490	63,925,243
Mortgage	7,818,371	-	-	363,262	1,294,814	9,476,447
Other	479,391	2,817,067	1,259,795	266,074	5,200	4,827,527
Total (Note 10)	24,550,857	88,574,426	15,288,849	4,593,005	1,985,093	134,992,230

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Carrying amount at 31 December 2012	Loans and advances to customers	Restricted balances	Investments held for trading	Held-to- maturity investments
Albania	129,215,057	27,679,797	41,281,170	81,381,682
North America	-	-	-	-
Europe	6,780,033	563,361	-	-
Total	135,995,090	28,243,158	41,281,170	81,381,682

Carrying amount at 31 December 2011	Loans and advances to customers	Restricted balances	Investments held for trading	Held-to- maturity investments
Albania	128,241,875	24,967,257	39,202,048	105,760,202
North America	-	-	-	-
Europe	6,750,355	704,194	-	-
Total	134,992,230	25,671,451	39,202,048	105,760,202

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and severe market or internal conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the undiscounted cash flows on the Group's financial assets and liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

Residual contractual maturities of financial assets and liabilities

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	31 December 2012	
						Non- specific	Total
Assets							
Cash and cash equivalents	38,153,089	-	-	-	-	-	38,153,089
Restricted balances	28,243,158	-	-	-	-	-	28,243,158
Investments held for trading	93,717	42,238	727	8,598,590	32,545,898	-	41,281,170
Held-to-maturity investment securities	2,913,253	11,741,350	16,443,657	23,747,131	26,536,291	-	81,381,682
Loans and advances to customers, net	11,130,833	12,690,534	10,897,070	38,486,460	62,619,831	(11,248,009)	124,576,719
Income tax prepaid	186,104	-	-	-	4,086	-	190,190
Other assets, net	84,515	86,044	135	152	662,743	-	833,589
Total	80,804,669	24,560,166	27,341,589	70,832,333	122,368,849	(11,248,009)	314,659,597
Liabilities							
Due to financial institutions	823,722	1,117,390	-	-	-	-	1,941,112
Due to customers	97,022,918	37,890,877	40,219,988	105,151,866	4,110,177	-	284,395,826
Other liabilities	1,445,592	24,716	39,155	4,083	-	-	1,513,546
Total	99,292,232	39,032,983	40,259,143	105,155,949	4,110,177	-	287,850,484
Liquidity risk at 31 December 2012	(18,487,563)	(14,472,817)	(12,917,554)	(34,323,616)	118,258,672	(11,248,009)	26,809,113
Cumulative	(18,487,562)	(32,960,380)	(45,877,934)	(80,201,550)	38,057,122	26,809,113	

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	31 December 2011			Total
					Over 1 year	Non-specific		
Assets								
Cash and cash equivalents	24,076,796	-	-	-	-	-	-	24,076,796
Restricted balances	25,671,451	-	-	-	-	-	-	25,671,451
Investments held for trading	154	183,589	351	3,422,133	35,567,460	28,361	-	39,202,048
Held-to-maturity investment securities	5,154,953	7,841,373	21,790,003	20,397,332	50,576,541	-	-	105,760,202
Loans and advances to customers, net	15,017,849	12,101,269	9,351,355	37,798,823	60,722,934	(10,865,948)	-	124,126,282
Other assets, net	56,673	203,854	746,212	50	-	-	-	1,006,789
Total	69,977,876	20,330,085	31,887,921	61,618,338	146,866,935	(10,837,587)		319,843,568
Liabilities								
Due to financial institutions	4,224,854	-	1,110,555	-	-	-	-	5,335,409
Repurchase agreements sold	6,200,238	1,949,850	-	-	-	-	-	8,150,088
Due to customers	97,190,318	36,822,061	35,126,592	104,209,111	5,167,529	-	-	278,515,611
Other liabilities	988,439	248,703	-	1,067	-	-	-	1,238,209
Total	108,603,849	39,020,614	36,237,147	104,210,178	5,167,529	-	-	293,239,317
Liquidity risk at 31 December 2011	(38,625,973)	(18,690,529)	(4,349,226)	(42,591,840)	141,699,406	(10,837,587)		26,604,251
Cumulative	(38,625,973)	(57,316,502)	(61,665,728)	(104,257,568)	37,441,838	26,604,251		

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

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

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Bank Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Exposure to foreign exchange risk

The Group is exposed to currency risk through transactions in foreign currencies. As the currency in which the Group presents its consolidated financial statements is the Albanian Lek, the Group's consolidated financial statements are effected by movements in the exchange rates between the Albanian Lek and other currencies. The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by Treasury and the Middle-office.

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument 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 reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

2012	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated profit / (loss) effect	(458,571)	458,571	1,182,587	(1,182,587)
2011	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated profit / (loss) effect	(525,831)	525,831	1,416,994	(1,416,994)

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

Overall interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from the Group's trading and non-trading activities.

A summary of the Group's interest rate re-pricing analysis is as follows:

	31 December 2012					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
Assets						
Cash and cash equivalents	38,153,089	-	-	-	-	38,153,089
Restricted balances	28,243,158	-	-	-	-	28,243,158
Investments held for trading	93,717	42,238	727	8,598,590	32,545,898	41,281,170
Held-to-maturity investment securities	2,913,252	11,741,350	16,443,658	23,747,131	26,536,291	81,381,682
Loans and advances to customers, net	10,257,581	25,411,133	16,153,079	67,860,819	6,250,399	124,576,719
Income tax prepaid	186,104	-	-	-	4,086	190,190
Other assets, net	84,515	86,044	135	152	662,743	833,589
Total	79,931,416	37,280,765	32,597,599	100,206,692	65,999,417	314,659,597
Liabilities						
Due to financial institutions	823,722	1,117,390	-	-	-	1,941,112
Due to customers	97,022,918	37,890,877	40,219,988	105,151,867	4,110,177	284,395,827
Other liabilities	1,445,592	24,716	39,155	4,083	-	1,513,546
Total	99,292,232	39,032,983	40,259,143	105,155,950	4,110,177	287,850,485
Gap as at 31 December 2012	(19,360,816)	(1,752,218)	(7,661,544)	(4,949,258)	61,889,240	(1,356,292)

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	31 December 2011	
						Non-specific	Total
Assets							
Cash and cash equivalents	24,076,796	-	-	-	-	-	24,076,796
Restricted balances	25,671,451	-	-	-	-	-	25,671,451
Investments held for trading	154	183,589	351	3,422,133	35,567,460	28,361	39,202,048
Held-to-maturity investment securities	5,154,953	7,841,373	21,790,003	20,397,332	50,576,541	-	105,760,202
Loans and advances to customers, net	14,707,838	21,992,400	19,166,141	62,405,245	8,571,620	(2,716,962)	124,126,282
Other assets, net	56,673	203,854	746,212	50	-	-	1,006,789
Total	69,667,865	30,221,216	41,702,707	86,224,760	94,715,621	(2,688,601)	319,843,568
Liabilities							
Due to financial institutions	4,224,854	-	1,110,555	-	-	-	5,335,409
Repurchase agreements sold	6,200,238	1,949,850	-	-	-	-	8,150,088
Due to customers	97,190,318	36,822,061	35,126,592	104,209,111	5,167,529	-	278,515,611
Other liabilities	988,439	248,703	-	1,067	-	-	1,238,209
Total	108,603,849	39,020,615	36,237,147	104,210,178	5,167,529	-	293,239,317
Gap as at 31 December 2011	(38,935,983)	(8,799,398)	5,465,560	(17,985,418)	89,548,092	(2,688,601)	26,604,251

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

The analysis of assets and liabilities as at 31 December 2012 and 31 December 2011 by the foreign currencies in which they were denominated was as follows:

	31 December 2012				31 December 2011					
	Lek	EUR	USD	Other	Total	Lek	EUR	USD	Other	Total
Assets										
Cash and cash equivalents	5,650,912	26,383,017	1,452,042	4,667,118	38,153,089	1,650,416	18,134,089	655,624	3,636,667	24,076,796
Restricted balances	14,862,570	11,749,621	1,630,967	-	28,243,158	14,686,115	9,565,521	1,419,815	-	25,671,451
Investments held for trading	41,281,170	-	-	-	41,281,170	39,202,048	-	-	-	39,202,048
Investments held to maturity	81,381,682	-	-	-	81,381,682	105,760,202	-	-	-	105,760,202
Loans and advances to customers, net	36,391,846	72,771,569	14,998,479	414,825	124,576,719	36,424,392	73,233,659	14,011,743	456,488	124,126,282
Property and equipment, net	1,987,074	-	-	-	1,987,074	1,808,116	-	-	-	1,808,116
Intangible assets, net	1,225,926	-	-	-	1,225,926	609,060	-	-	-	609,060
Equity Investments	37,785	-	-	-	37,785	25,713	-	-	-	25,713
Goodwill	92,783	-	-	-	92,783	92,783	-	-	-	92,783
Income tax prepaid	190,190	-	-	-	190,190	-	-	-	-	-
Other assets, net	1,540,537	204,016	4,382	112	1,749,047	475,348	974,755	22,746	8,997	1,481,846
Total	184,642,475	111,108,223	18,085,870	5,082,055	318,918,623	200,734,193	101,908,024	16,109,928	4,102,152	322,854,297
Liabilities										
Due to financial institutions	32,756	1,638,571	269,471	314	1,941,112	709,542	3,870,046	491,162	264,659	5,335,409
Repurchase agreements sold	-	-	-	-	-	8,150,088	-	-	-	8,150,088
Due to customers	155,790,358	107,742,153	16,037,252	4,826,063	284,395,826	164,166,405	95,408,013	15,038,674	3,902,519	278,515,611
Income tax payable	-	-	-	-	-	125,375	-	-	-	125,375
Deferred tax liabilities	262	-	-	-	262	10,258	-	-	-	10,258
Other liabilities	1,453,566	99,985	37,500	(77,767)	1,513,284	910,931	165,522	93,371	68,385	1,238,209
Non-Controlling Interest	101,418	-	-	-	101,418	84,917	-	-	-	84,917
Shareholder's equity	30,966,721	-	-	-	30,966,721	29,394,430	-	-	-	29,394,430
Total	188,345,081	109,480,709	16,344,223	4,748,610	318,918,623	203,551,946	99,443,581	15,623,207	4,235,563	322,854,297
Net Position	(3,702,606)	1,627,514	1,741,647	333,445	-	(2,817,753)	2,464,443	486,721	(133,411)	-

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risks

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

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

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

(f) Capital management

Regulatory capital of the Bank

The Group monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23 December 1997 "On the Bank of Albania", and "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and off balance-sheet items, expressed as a percentage. The minimum required Capital Adequacy Ratio is 12%.

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

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (continued)

Risk-Weighted Assets (RWAs)

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

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

	31 December 2012	31 December 2011
Total risk weighted assets	142,953,719	143,347,914
Total risk weighted off balance exposures	2,298,775	3,236,312
Total	145,252,494	146,584,226
Regulatory capital	23,011,552	22,214,348
Capital adequacy ratio	15.84%	15.15%

The modified capital adequacy ratio is equal to the capital adequacy ratio.

Regulatory capital of Supplementary Pension Funds and Investment Funds Management Company (subsidiary of the Bank)

Based on Law no 10197 and 10198 dated 10 December 2009, supplementary pension funds and investment funds Management Companies, should, at any time, maintain a minimum capital of 15,625 thousand Lek, calculated as the net assets of the Fund in the statement of financial position. When the value of funds' net assets under administration of the management company, exceeds the amount of Lek 31,250 million, the management company should increase the capital, to the extent that increase in capital is at least equal to 0.02% of the amount by which the value of funds' net assets under administration exceed the above mentioned limit. However, it is not necessary for the capital to be increased beyond a limit of Lek 1,250,000 thousand. As at 31 December 2012 and 2011, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2012 and 2011, Raiffeisen Leasing sh.a is in compliance with legal requirements on regulatory capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

6. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Cash and cash equivalents

Cash and cash equivalents include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Investment securities

Investment securities include treasury bills, government bonds and municipality bonds. The fair value for these investment securities has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

As at 31 December 2012, the fair value of held-to-maturity investment securities is approximately Lek 81,381,682 thousand (31 December 2011: Lek 105,760,202 thousand) whilst their carrying value is Lek 81,381,682 thousand (31 December 2011: Lek 105,760,202 thousand).

Loans and advances to customers

Loans and advances are net of allowances for impairment. The Group's loan portfolio has an estimated fair value approximately equal to its book value due to either their short term nature or underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand. The fair value of time deposits with stated maturity as at 31 December 2012 is approximately Lek 288,488,241 thousand (31 December 2011: Lek 278,534,109 thousand) whilst their carrying value is Lek 284,395,826 thousand (31 December 2011: Lek 278,515,611 thousand).

Due to banks and financial institutions

The estimated fair value of amounts due to banks and financial institutions have an estimated fair value approximately equal to their carrying amount because of either their short-term nature and underlying interest rates, which approximate market rates.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek '000, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
<i>Cash on hand</i>	2,459,612	3,202,231
Current accounts	96,952	3,785
Deposit accounts	1,300,000	-
Accrued interest in deposit account	80	-
<i>Banks</i>		
Current accounts with resident banks	58	156
Current accounts with non-resident banks	4,721,931	108,190
Deposits with resident banks	2,673,025	-
Deposits with non-resident banks	26,901,431	20,762,434
Total	38,153,089	24,076,796

Current accounts with the Bank of Albania bear no interest.

The annual interest rates on term deposits with non-resident banks as at 31 December 2012 vary from 0.05% to 0.58% (31 December 2011: 0.08% to 0.95%). The annual interest rates on term deposits with resident banks as at 31 December 2012 vary from 3.90% to 4.60% (There are no deposits with resident banks as at 31 December 2011).

8. RESTRICTED BALANCES

	31 December 2012	31 December 2011
<i>Central Bank</i>		
Statutory reserves	27,679,797	24,967,257
<i>Banks</i>		
Guarantee accounts	563,361	704,194
Total	28,243,158	25,671,451

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account. Based on Central Bank regulations an amount up to 40% of the obligatory reserve may be used in daily operations.

Interest on obligatory reserve in Central Bank is calculated as follows:

- Lek balances: 70% of the repurchase agreements rate: 2.8% per annum as of 31 December 2012 (31 December 2011: 3.50% per annum);
- EUR balances: 0% per annum as of 31 December 2012 (31 December 2011: 0% per annum); and
- USD balances: 0% per annum as of 31 December 2012 (31 December 2011: 0% per annum).

As per Bank of Albania regulation, the Bank can hold its obligatory reserve as Cash on custody. This type of reserve earns no interest. The Bank has transferred all the reserve in Lek in Cash in custody on 24 March 2012. There is no interest on obligatory reserves in the Central Bank.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012 (amounts in Lek '000, unless otherwise stated)

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

Securities held for trading comprise treasury bills and bonds of Albanian Government bonds as follows:

	31 December 2012	31 December 2011
Treasury bills	358,760	395,779
Government Bonds	<u>40,922,410</u>	<u>38,806,269</u>
Total	<u>41,281,170</u>	<u>39,202,048</u>

Treasury bills as at 31 December 2012 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 6.35% to 7.37% per annum (31 December 2011: from 6.74% to 7.73%).

Government Bonds as at 31 December 2012 represent 2-year, 3-year, 5-year and 7-year bonds denominated in Lek issued by the Government of Albania with coupon rates ranging from 7.56% to 11.00% per annum (31 December 2011: from 7.60% to 11.00%).

9.2 Held-to-maturity investment securities

The held-to-maturity investment securities comprise treasury bills and bonds of Albanian Government as follows:

	31 December 2012	31 December 2011
Treasury Bills (9.2.1)	17,926,923	31,244,414
Government Bonds (9.2.2)	<u>63,454,759</u>	<u>74,515,788</u>
Total	<u>81,381,682</u>	<u>105,760,202</u>

As at 31 December 2012 treasury bills were not pledged as security for the repurchase agreements portfolio (2011: Lek 8,150,088 thousand) (refer to note 16).

9.2.1 Treasury Bills

Treasury bills as at 31 December 2012 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 4.99% to 7.10% per annum (31 December 2011: from 5.48% to 8.55%).

	31 December 2012	31 December 2011
Nominal value of treasury bills	18,630,597	32,284,819
Unamortised discount	<u>(703,674)</u>	<u>(1,040,405)</u>
Total	<u>17,926,923</u>	<u>31,244,414</u>

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

9. INVESTMENT IN SECURITIES (CONTINUED)

9.2.2 Government Bonds

Government Bonds as at 31 December 2012 represent 2-year, 3-year, 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 7.38% to 11.00% per annum (31 December 2011: from 7.38% to 11.00%).

	31 December 2012	31 December 2011
Nominal value of bonds	62,048,971	72,791,688
Unamortised discount	13,656	20,655
Accrued interest	1,392,132	1,703,445
Total	63,454,759	74,515,788

10. LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2012	31 December 2011
Loans and advances to customers	135,995,090	134,992,230
Allowance for loan loss impairment	(11,418,371)	(10,865,948)
Net carrying amount	124,576,719	124,126,282

Movements in net allowance for loan loss impairment are as follows:

	2012	2011
Balance at the beginning of the year	10,865,948	9,278,314
Loan provision expense of the period	2,931,156	1,988,176
Reversal of provision	(110,261)	(60,870)
Usage	(2,268,472)	(339,672)
Balance at the end of the year	11,418,371	10,865,948

The interest rates of loans and advances to customers vary from 2.34% to 10.22% p.a. in foreign currencies and from 7.12% to 19.36% p.a. in Lek (31 December 2011: from 3.34% to 11.37% p.a. in foreign currencies and from 8.18% to 18.18% p.a. in Lek).

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, NET

	31 December 2012	31 December 2011
Property and equipment	1,987,074	1,808,116
Intangible assets	1,225,926	609,060
Total	3,213,000	2,417,176

There are no assets pledged as collateral as at 31 December 2012 (2011: none).

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek '000, unless otherwise stated)

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Cost	Software	Licenses	Land and buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Balance at 1 January 2011	646,059	268,750	1,130,917	1,850,534	292,248	137,512	533,078	4,859,098
Additions	399,770	24,249	-	295,032	47,930	301,034	79,565	1,147,580
Disposals	(17,390)	-	(12,770)	(67,035)	(93,591)	(5)	(33,345)	(224,136)
Transfer from work in progress	-	-	105,396	70,884	76,474	(282,724)	29,970	-
Balance at 31 December 2011	1,028,439	292,999	1,223,543	2,149,415	323,061	155,817	609,268	5,782,542
Balance at 1 January 2012	1,028,439	292,999	1,223,543	2,149,415	323,061	155,817	609,268	5,782,542
Additions	693,349	45,218	423	237,921	42,322	311,932	40,476	1,371,641
Disposals	-	-	(316)	(155,975)	(3,740)	-	(52,152)	(212,183)
Transfer from work in progress	-	-	142,539	75,579	6,918	(242,815)	17,779	-
Balance at 31 December 2012	1,721,788	338,217	1,366,189	2,306,940	368,561	224,934	615,371	6,942,000
Accumulated Depreciation and Amortisation								
Balance at 1 January 2011	(437,128)	(181,093)	(338,844)	(1,489,509)	(206,797)	-	(343,352)	(2,996,723)
Charge for the period	(57,962)	(47,426)	(85,662)	(230,922)	(53,344)	-	(85,622)	(560,938)
Disposals	11,229	-	297	66,651	86,473	-	27,645	192,295
Balance at 31 December 2011	(483,861)	(228,519)	(424,209)	(1,653,780)	(173,668)	-	(401,329)	(3,365,366)
Balance at 1 January 2012	(483,861)	(228,519)	(424,209)	(1,653,780)	(173,668)	-	(401,329)	(3,365,366)
Charge for the period	(77,778)	(43,921)	(91,343)	(219,975)	(55,383)	-	(84,062)	(572,462)
Disposals	-	-	316	155,230	3,739	-	49,543	208,828
Transfer from work in progress	-	-	-	(47)	-	-	47	-
Balance at 31 December 2012	(561,639)	(272,440)	(515,236)	(1,718,572)	(225,312)	-	(435,801)	(3,729,000)
Carrying amount								
As at 1 January 2011	208,932	87,656	792,072	361,025	85,450	137,512	189,728	1,862,375
As at 31 December 2011	544,579	64,480	799,334	495,636	149,393	155,817	207,939	2,417,176
As at 31 December 2012	1,160,149	65,777	850,953	588,368	143,249	224,934	179,570	3,213,000

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

12. EQUITY INVESTMENTS

The Group owns 2,355 shares in Visa Inc. with a total value of Lek 37,785 thousand (2011: Lek 25,713 thousand).

13. GOODWILL

During the year 2008, Raiffeisen Bank has purchased 100% of the shares of the American Supplementary Private Pension Institute of Albania, in amount of Lek 109,648 thousand. The purchase has been approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2011, registered on the Albanian National Register on 23 April 2011 and now it is known as Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. (“Raiffeisen INVEST”). Raiffeisen INVEST has a paid in capital of Lek 90 million. The Group has calculated goodwill on acquisition date as the excess of the cost of the business combination over the identified net assets of the acquired entity, resulting in amount of Lek 92,783 thousand. The identified net assets of the acquired entity at acquisition date approximate their fair value amounting Lek 16,865 thousand.

Goodwill has been tested for impairment as required by IAS 36 “Impairment of Assets”. The recoverable value of the subsidiary (the cash generating unit to which goodwill has been allocated) as at 31 December 2012, is not higher than book value and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income.

14. OTHER ASSETS, NET

	31 December 2012	31 December 2011
Inventories	845,049	377,085
VAT receivable	660,544	740,240
Sundry debtors, net	116,465	122,542
Prepaid expenses and accruals	115,932	185,493
Money gram	11,057	56,486
Total	1,749,047	1,481,846

Sundry debtors, net are comprised as follows:

	31 December 2012	31 December 2011
Sundry debtors	128,048	136,096
Provisions for losses from other debtors	(11,583)	(13,554)
Total Sundry debtors, net	116,465	122,542

There is no movement in the provisions for sundry debtors as at 31 December 2012 and 2011, except of the effect of changes in the exchange rates.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

15. DUE TO FINANCIAL INSTITUTIONS

	31 December 2012	31 December 2011
Current accounts		
Resident banks and financial institutions	138,380	29,503
Non-resident banks and financial institutions	424,202	153,137
	<u>562,582</u>	<u>182,640</u>
Deposits		
Resident banks and financial institutions	1,378,530	4,889,503
Non-resident banks and financial institutions	-	263,266
	<u>-</u>	<u>263,266</u>
Total	<u>1,941,112</u>	<u>5,335,409</u>

The annual interest rates for borrowed funds from financial institutions varied from 0.10% to 5.05% during the year ended 31 December 2012 (2011: 0.25% to 4.7%).

16. REPURCHASE AGREEMENTS SOLD

There are no repurchase agreements as at 31 December 2012 (31 December 2011: totalling Lek 8,150,088 thousand relate to repurchase agreements with Bank of Albania with maturities from 28 to 91 days. They bear interest 4.75% to 5.44%. Treasury bills with a carrying amount of Lek 8,150,088 thousand as of 31 December 2011 were pledged as security for these repurchase agreements (see Note 9.2).

17. DUE TO CUSTOMERS

	31 December 2012	31 December 2011
Deposits	231,275,045	228,085,196
Current accounts	49,394,687	47,525,416
Other accounts	3,726,094	2,904,999
	<u>3,726,094</u>	<u>2,904,999</u>
Total	<u>284,395,826</u>	<u>278,515,611</u>

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2012 were as follows:

(in %)	Lek	USD	EUR
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.25-7.00	0.10-4.20	0.10-4.70
Time deposits – 3 month	3.10-4.50	0.70-2.45	1.00-2.45
Time deposits – 6 month	3.20-5.10	1.10-2.85	1.10-2.85
Time deposits – 9 month	3.35-5.40	1.30-3.15	1.30-3.15
Time deposits – 12 month	3.80-6.40	1.60-3.55	1.70-3.55
Time deposits – 24 month	3.85-6.70	1.65-3.60	1.75-3.60
Time deposits – 36 month	3.95-6.90	1.70-3.65	1.80-3.65
Time deposits – 60 month	4.15-7.00	1.75-3.70	1.85-3.70

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek '000, unless otherwise stated)

17. DUE TO CUSTOMERS (CONTINUED)

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

	31 December 2012			31 December 2011		
	Lek	Foreign currency	Total	Lek	Foreign currency	Total
Current accounts	24,676,497	24,718,190	49,394,687	24,248,734	23,276,682	47,525,416
Deposits						
On demand	3,597,584	3,190,206	6,787,790	3,621,670	3,417,656	7,039,326
1 month - 3 months	9,446,451	11,015,498	20,461,949	7,512,089	9,603,786	17,115,875
3 months - 6 months	8,604,049	8,979,692	17,583,741	10,075,884	14,056,827	24,132,711
6 months - 12 months	14,195,086	14,881,820	29,076,906	17,780,752	12,501,673	30,282,425
12 months - 24 months	85,570,120	60,372,685	145,942,805	90,200,929	44,940,364	135,141,293
24 months - 36 months	3,365,933	1,485,379	4,851,312	4,212,036	1,192,579	5,404,615
36 months	608,475	257,137	865,612	679,639	256,923	936,562
60 months	852,829	571,041	1,423,870	841,540	3,082,538	3,924,078
Accrued interest on deposits	3,030,592	1,250,467	4,281,059	3,326,752	781,560	4,108,312
	129,271,119	102,003,925	231,275,044	138,251,291	89,833,906	228,085,197
Other accounts						
Guarantee deposits	1,091,399	1,871,210	2,962,609	1,084,002	1,226,522	2,310,524
Dormant customer accounts	122,308	10,225	132,533	122,414	9,897	132,311
Other	629,033	1,920	630,953	459,964	2,199	462,163
	1,842,740	1,883,355	3,726,095	1,666,380	1,238,618	2,904,998
Total	155,790,356	128,605,470	284,395,826	164,166,405	114,349,206	278,515,611

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

18. DEFERRED TAX LIABILITIES

The movement in the deferred income tax account is as follows:

	2012	2011
Balance at the beginning of the year	(125,375)	(134,597)
Deferred tax benefit relating to the origination and reversal of temporary differences (note 33)	125,113	9,222
Balance at the end of the year	(262)	(125,375)

Movements in temporary differences during the year are recognised in the consolidated statement of comprehensive income.

Deferred tax has been calculated based on the enacted tax rate for 2012 of 10% (2011: 10%). As at 31 December 2012 and 31 December 2011 deferred tax assets and liabilities have been recognised for the following items:

	31 December 2012	31 December 2011
<i>Deferred tax asset</i>		
Accelerated depreciation	82,047	76,564
Deferred lease disbursement fees	181	1,383
Other assets recognised as expenses	-	181
	82,228	78,128
<i>Deferred tax liability</i>		
Allowance for impairment losses	(82,490)	(203,503)
	(82,490)	(203,503)
Net deferred tax liabilities	(262)	(125,375)

19. OTHER LIABILITIES

	31 December 2012	31 December 2011
Other creditors	581,584	376,955
Accrued expenses	333,083	338,454
Due to employees	276,084	221,155
Withholding tax payable	123,350	107,343
Provision for contingent liabilities	77,137	80,530
Deferred income	46,186	51,301
Due to social insurance	29,840	29,597
Provision for litigation	23,190	31,778
Other liabilities	15,555	1,096
Due to third parties	7,275	-
Total	1,513,284	1,238,209

Included in "Accrued expenses" is an amount of Lek 200,671 thousand (2011: Lek 180,702 thousand) of accrued deposit insurance premium payable for customers' deposits. Included in "Other creditors" there is an amount of LEK 342,431 thousand (2011: LEK 71 thousand) of suppliers unpaid invoices.

Other liabilities as at 31 December 2012 comprise Group's suspense accounts. Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

19. OTHER LIABILITIES (CONTINUED)

The movements in the provision for litigation are as follows:

	2012	2011
Balance at the beginning of the year	31,778	43,005
Provision expense for the year	11,184	-
Reversal of provision for the year	(19,772)	(11,227)
Balance at the end of the year	23,190	31,778

20. SHARE CAPITAL

The Bank's capital is equal to Lek 14,178,593 thousand compounded by 7,000 shares of nominal value 2,025,513 Lek each. (2011: Lek 9,926,093 thousand compounded by 7,000 shares of nominal value Lek 1,418,013). During 2012 the Bank increased its subscribed capital with an amount equal to Lek 4,252,500 thousand. Based on the decisions of the sole Shareholder, made on 29 March 2012 and on 15 April 2012, this capital increase was performed through retained earnings.

21. GENERAL RESERVE

In June 2006, the Group created a general reserve of Lek 850 million based on the decision of the Group's sole shareholder dated 17 May 2006. The general reserve was created from the distribution of net profit after tax and before dividends of fiscal year 2005 in accordance with the law No. 7638, dated 19 November 1992, "On commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999.

In June 2010, the Group created an additional general reserve of Lek 1,950 million based on the decision of the Group's sole shareholder dated 9 June 2010. The general reserve was created from the distribution of net profit after tax and before dividends of fiscal year 2009 in accordance with the law No. 9901, dated April 14, 2008, "On commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999.

In May 2011, the Group created other reserve of Lek 3,500 million based on the decision of the Bank's sole shareholder dated 19 May 2011. The general reserve was created from the distribution of net profit after tax of fiscal year 2010 in accordance with the law No. 9901, dated 14 April 2008, "On commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999. In July 2012, the Group decreased the general reserve by Lek 3,500,000 thousand based on the decision of the Bank's sole shareholder dated 19 May 2012.

On June 2010 and 2011 the General Assembly of the Sole Shareholder of Raiffeisen INVEST, decided to distribute the net profit of 2009 and 2010 by creating a legal reserve in the amount of Lek 1 million and transferring the remaining balance to cover accumulated losses. On 30 June 2012 the General Assembly of the Sole Shareholder of the Company, decided to distribute the net profit of 2011 by increasing the legal reserve by an amount of 11,000 Lek and transferring the remaining balance to cover accumulated losses.

Also, on 30 May 2011, Raiffeisen Leasing, based on the decision of the Company's sole shareholder, created an additional reserve of Lek 12,3 million. The legal reserve was created from the distribution of net profit after tax of fiscal year 2010. On 17 May 2012, the shareholders decided to approve the transfer to "Legal Reserve" the amount of Lek 8.5 million by appropriation of retained earnings.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

22. SINCE ACQUISITION RESERVES OF THE SUBSIDIARY

On 17 May 2012, Raiffeisen Bank Sh.a. and Raiffeisen Leasing International GmbH, as shareholders of Raiffeisen Leasing sh.a. decided to increase the share capital of Raiffeisen Leasing sh.a. by distribution of retained earnings with an amount of Lek 55 million. In 30 May 2011 the capital of the subsidiary was increased by Lek 83 million. Since acquisition reserves of the subsidiary represents the excess of the Bank's shares in the subscribed share capital of Raiffeisen Leasing sh.a. amounting to Lek 198 million as at 31 December 2012 (2011: Lek 156 million) over the cost of the investment.

23. NON-CONTROLLING INTEREST

Based on the decision of the Group's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen Leasing International Gesellschaft m.b.H, the Group has incorporated a leasing company in the Republic of Albania in the form of a joint stock company to provide leasing in accordance with the applicable Albanian legislation on Financial Leasing. The Group participates with a share of 75%. The remaining share of 25% is owned by Raiffeisen Leasing International Gesellschaft m.b.H.

	Raiffeisen -Leasing International Gesellschaft m.b.H.	
	2012	2011
% of holding	25%	25%
Capital	65,880	52,008
Current year profit	16,500	15,962
Legal reserve	5,201	3,075
Accumulated profit	13,837	13,872
Non-controlling interest, net value	101,418	84,917

24. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Loans and advances to customers	11,396,953	10,679,349
Investment securities	7,123,016	8,596,747
Bank deposits	414,414	699,526
Reverse repurchase agreement bought	1,196	370
Total	18,935,579	19,975,992

25. INTEREST EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Customers	8,029,359	7,098,295
Reverse repurchase agreement	42,724	448,053
Banks	66,102	127,102
Total	8,138,185	7,673,450

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

26. FEE AND COMMISSION INCOME

Fees and commissions received were composed as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Funds transfers	914,540	853,175
Lending activities	233,135	241,877
Other banking services	352,910	310,648
Total	1,500,585	1,405,700

27. FEE AND COMMISSION EXPENSE

Fees and commissions paid were composed as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Payments transfer business	252,992	245,371
Loan and guarantee business	7,841	6,115
Other banking services	57,551	55,734
Total	318,384	307,220

28. NET TRADING INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Income from transactions with securities	2,041,350	1,742,357
Loss from capital revaluation	(64,800)	-
Foreign exchange gains	608,846	238,327
Total	2,585,396	1,980,684

29. NET OTHER OPERATING INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Other revenue	42,244	81,127
Other expenses	(143,991)	(182,961)
Total	(101,747)	(101,834)

In "Other revenues" there is included income from collateral gained amounting to LEK 25,176 thousand (2011: LEK 13,138 thousand). "Other expenses" represent withholding tax amounting to LEK 34,154 thousand (2011: LEK 26,144 thousand) and Penalties and Fees amounting to LEK 3,086 thousand (2011: LEK 99,638 thousand).

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012
(amounts in Lek'000, unless otherwise stated)

30. DEPOSIT INSURANCE PREMIUM

Legislation from 18 October 2002, determined that banks should pay a deposit insurance premium. This premium is based on the rate of 0.5% per annum, payable quarterly and is calculated as a percentage of the daily average deposit balances up to Lek 2,500,000 (2011: Lek 2,500,000) for individuals for the period from October to December of the previous calendar year.

31. PERSONNEL EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	2,197,205	1,926,041
Social insurance	253,176	232,810
Personnel training	34,856	47,779
Other personnel costs	35,231	12,941
Total	2,520,468	2,219,571

32. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Office space expenses	595,875	551,228
IT cost	432,406	516,441
Advertising, PR and promotional expenses	306,055	324,672
Legal, advisory and consulting expenses	265,626	115,341
Sundry administrative expenses	129,112	145,543
Car expenses	67,703	49,331
Office supplies	64,303	84,357
Communication expenses	52,097	68,020
Travelling expenses	34,409	32,700
Security expenses	20,661	23,650
Total	1,968,247	1,911,283

Consultancy and legal fees include charges for management fees totalling Lek 148,629 thousand in 2012 (2011: Lek 7,641 thousand).

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

33. INCOME TAX

Income tax in Albania is assessed at the rate of 10% (2011: 10%) of taxable income:

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax	596,134	780,430
Deferred taxes (note 18)	(125,113)	(9,222)
Total	471,021	771,208

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	Effective Tax rate	Year ended 31 December 2012	Effective Tax rate	2011
Profit before taxes		5,776,688		7,856,490
Prima facie tax calculated at 10% (2011: 10%)	10.00%	577,669	10.00%	785,649
Non tax deductible expenses	0.60%	34,908	(0.09%)	(6,930)
Not recognised temporary differences	(0.38%)	(21,291)	(0.10%)	(7,511)
Tax expense/income for former periods	(2.08%)	(120,265)	-	-
Income tax expense	8.15%	471,021	9.82%	771,208

34. CONTINGENCIES AND COMMITMENTS

	Lek	31 December 2012 Foreign currency	Total	31 December 2011 Total
<i>Contingent liabilities</i>				
Bank Guarantees issued	380,500	7,063,231	7,443,731	7,662,754
Letters of Credit	120,000	4,274,759	4,394,759	3,329,215
Unused credit lines	3,513,000	3,485,171	6,998,171	7,925,807
Litigation	23,190	-	23,190	31,778
Total	4,036,690	14,823,161	18,859,851	18,949,554
<i>Contingent assets</i>				
Bank Guarantees received	103,326	583,194	686,520	442,367
Operating lease commitments	116,194	872,216	988,410	1,193,377
Total	219,520	1,455,410	1,674,930	1,635,744

Most of the above bank guarantees and letters of credit are for periods of less than one year and are collateralized by customer escrow deposits.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

34. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Litigation

As at 31 December 2012 the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's Management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2012 and at 31 December 2011.

Lease commitments

The Group has entered into non-cancelable lease commitments for the Head Office and the branches. Such commitments as at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Not later than 1 year	392,330	379,649
Later than 1 year and not later than 5 years	558,225	762,742
Later than 5 years	37,855	50,986
Total	988,410	1,193,377

35. RELATED PARTIES

Parent and ultimate controlling party and fellow subsidiaries

The Group has a related party relationship with Raiffeisen Bank International AG, Raiffeisen Zentralbank Osterreich Aktiengesellschaft (RZB AG), Raiffeisen SEE Region Holding GmbH, and with follow subsidiaries.

The aggregate value of transactions and outstanding balances relating to these entities were as follows:

	31 December 2012	31 December 2011
Amounts due from:		
Raiffeisen Bank International AG	18,898,394	14,170,288
Raiffeisen Bank Kosovo	13,923	635
Tatra Banka	4,930	-
Assets total	18,917,247	14,170,923
Amounts due to:		
Raiffeisen Bank International AG	(658)	(377,850)
Raiffeisen Bank Kosovo	(218)	(10,578)
Tatra Banka	(397,498)	-
Raiffeisen Banka d.d., 2000 Maribor (SLO)	(1,927)	-
Liabilities total	(400,301)	(388,428)

The aggregate value of the contingent liabilities of the Group to these entities as at 31 December 2012 was Lek 3,977,700 thousand (31 December 2011: Lek 908,110 thousand) and represents Bank Guarantees and Letters of Credit.

RAIFFEISEN BANK SH.A.

Notes to the consolidated financial statements for the year ended 31 December 2012

(amounts in Lek'000, unless otherwise stated)

35. RELATED PARTIES (CONTINUED)

	Year ended 31 December 2012	Year ended 31 December 2011
Net interest income		
Raiffeisen Bank International AG	21,490	57,426
Raiffeisen Bank Kosovo	-	(28)
Raiffeisenbank Austria d.d., 10 000 Zagreb (HR)	37	-
Raiffeisen Banka d.d., 2000 Maribor (SLO)	(2,460)	-
Net fee and commission expense		
RZB AG		
Raiffeisen Bank International AG	(18,739)	(17,299)
Raiffeisen Bank d.d. Bosna i Hercegovina	-	1,001
Tatra Banka	(13,097)	(17,559)
Ukrainian Processing Center	(51,070)	(53,098)
Regional Card Processing Centre, s.r.o	(54,811)	(68,771)
Purchase of assets and operating expenses		
RZB AG	-	(150)
Raiffeisen Bank International AG	(308,453)	(225,006)
Tatra Banka	-	(1,925)
RSC Raiffeisen Daten Service Center GmbH	(278)	(304)
Centralised Raiffeisen International Services & Payments S.R.L.	(34,434)	(20,847)
Raiffeisen Bank Kosovo	(665)	-
Raiffeisen Leasing International G. m.b.H	(1,393)	(1,405)
Transactions, net	(463,873)	(347,965)

Administrators

The aggregate value of transactions and outstanding balances relating to the Administrators were as follows:

	2012	2011
Statement of financial position		
Amounts due from administrators	108,438	103,782
Amounts due to administrators	(50,989)	(54,070)
Net balances due from administrators	57,449	49,712
Statement of comprehensive income		
Wages, salaries and bonuses	(225,305)	(197,991)
Total	(225,305)	(197,991)

Subsidiary

The Bank holds 75% of the shares of Raiffeisen Leasing sh.a. Consequently, the Bank consolidates this entity. The Bank holds 100% of the shares of Raiffeisen INVEST. Consequently, the Bank consolidates this entity.

36. EVENTS AFTER THE REPORTING PERIOD

There are no other significant events after the reporting period that may require adjustment or disclosure in the consolidated financial statements.