RAIFFEISEN BANK SH.A.

Independent auditor's report and
Separate financial statements
as at and for the year ended 31 December 2012

Contents

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INDEPENDENT AUDITOR'S REPORT

To the shareholder and management of Raiffeisen Bank sh.a.

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of Raiffeisen Bank sh.a., which comprise the separate statement of financial position as at December 31, 2012, and the separate statement of comprehensive income, separate statement of changes in equity and separate 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 Separate Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate 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 separate 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 separate financial statements present fairly, in all material respects, the separate 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.

Deloitte Albania sh.p.k.

Tirana, Albania
March 27, 2013

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RAIFFEISEN BANK SH.A.
Separate 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**	38,153,031	24,076,644
Restricted balances	**8**	28,243,158	25,671,451
Investments held for trading	**9.1**	41,203,461	39,158,582
Held-to-maturity investment securities	**9.2**	81,375,669	105,760,202
Loans and advances to customers, net	**10**	123,799,181	123,382,631
Investments in subsidiaries	**11.1**	201,898	201,898
Other equity investments	**11.2**	37,785	25,713
Property and equipment, net	**12.1**	1,974,928	1,797,915
Intangible assets, net	**12.2**	1,218,093	596,239
Prepaid income tax		190,106	-
Other assets, net	**13**	926,515	532,961
Total assets		**317,323,825**	**321,204,236**
Liabilities			
Due to financial institutions	**14**	823,722	4,224,854
Repurchase agreements sold	**15**	-	8,150,088
Due to customers	**16**	284,396,736	278,516,239
Income tax payable		-	15,573
Deferred tax liabilities	**17**	2,461	126,939
Other liabilities	**18**	1,432,413	975,756
Total liabilities		**286,655,332**	**292,009,449**
Equity			
Share capital	**19**	14,178,593	9,926,093
General reserve	**20**	2,800,000	6,300,000
Revaluation reserve		37,785	25,713
Retained earnings		13,652,115	12,942,981
Total equity		**30,668,493**	**29,194,787**
Total liabilities and equity		**317,323,825**	**321,204,236**

These separate 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 Management Board

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 49.

RAIFFEISEN BANK SH.A.
Separate 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	21	18,713,967	19,788,684
Interest expense	22	(8,094,627)	(7,622,980)
Net interest income		**10,619,340**	**12,165,704**
Fee and commission income	23	1,368,388	1,358,280
Fee and commission expense	24	(317,734)	(307,179)
Net fee and commission income		**1,050,654**	**1,051,101**
Net trading income	25	2,581,987	1,982,734
Net other operating expense	26	(101,724)	(100,948)
		2,480,263	**1,881,786**
Deposit insurance premium	27	(802,684)	(722,809)
Personnel expenses	28	(2,455,599)	(2,167,406)
Depreciation and amortisation	12	(559,206)	(554,346)
General and administrative expenses	29	(1,926,705)	(1,888,549)
Losses and allowances for doubtful accounts, net	10,18	(2,757,402)	(1,980,821)
		(8,501,596)	**(7,313,931)**
Profit before income tax		**5,648,661**	**7,784,660**
Income tax	30	(458,080)	(763,442)
Profit for the year		**5,190,581**	**7,021,218**
Other comprehensive income			
Fair value reserve (available for sale financial assets)			
Net change in fair value	11.2	12,072	8,476
Total comprehensive income for the year		**5,202,653**	**7,029,694**

The separate statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 49.

Separate statement of changes in equity for the year ended 31 December 2012
(amounts in LEK'000)

	Share capital	General reserves	Revaluation reserve	Retained earnings	Total
Balance as at 31 December 2010	**9,926,093**	**2,800,000**	**17,237**	**14,689,816**	**27,433,146**
Transfer of retained earnings to general reserve	-	3,500,000	-	(3,500,000)	-
Dividend Payment	-	-	-	(5,268,053)	**(5,268,053)**
Other comprehensive income (Note 11.2)	-	-	8,476	-	**8,476**
Profit for the year	-	-	-	7,021,218	**7,021,218**
Balance as at 31 December 2011	**9,926,093**	**6,300,000**	**25,713**	**12,942,981**	**29,194,787**
Capital increase	4,252,500	-	-	(4,252,500)	-
Transfer of general reserve to retained earnings	-	(3,500,000)	-	3,500,000	-
Dividend Payment	-	-	-	(3,728,947)	**(3,728,947)**
Other comprehensive income (Note 11.2)	-	-	12,072	-	**12,072**
Profit for the year	-	-	-	5,190,581	**5,190,581**
Balance as at 31 December 2012	**14,178,593**	**2,800,000**	**37,785**	**13,652,115**	**30,668,493**

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 49.

(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	**5,648,661**	**7,784,660**
Non-cash items in the separate statement of comprehensive income		
Depreciation and amortisation	559,206	554,346
Fixed assets written off	3,356	31,841
Net impairment loss on financial assets	2,757,402	1,980,821
Increase in interest receivable	(29,350)	(255,123)
Revaluation effect of cash and cash equivalents	(53,986)	(18,328)
Decrease in interest payable	724,100	548,784
Change for provision for other debtors	(10,559)	(11,227)
	9,598,830	**10,615,774**
Increase in restricted balances	(2,572,661)	(2,372,510)
Increase in loans and advances to customers	(3,162,052)	(27,538,598)
Decrease in reverse REPO	(8,169,197)	(164,355)
Increase in trading securities	(2,044,880)	(598,795)
Increase in other assets	(581,690)	(228,181)
(Decrease)/increase in due to financial institutions	(3,391,366)	1,448,962
Increase in due to customers	5,165,740	41,442,281
Increase /(decrease) in other liabilities	655,355	(275,400)
Operating cash flows after changes in working capital	**(4,501,921)**	**22,329,178**
Corporate income tax paid	(788,240)	(841,103)
Net cash (used in)/generated from operating activities	**(5,290,161)**	**21,488,075**
Cash flows from investing activities		
Purchases of property and equipment	(624,001)	(723,373)
Purchases of intangible assets	(737,428)	(420,462)
Net proceeds from purchase and redemption of securities held to maturity	24,402,938	(10,271,799)
Net cash generated from/(used in) investing activities	**23,041,509**	**(11,415,634)**
Cash flows from financing activities		
Dividends paid	(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	**14,022,401**	**4,804,388**
Cash and cash equivalents at the beginning of the year	**24,076,644**	**19,253,928**
Effect of exchange rate changes on the balance of cash held in foreign currencies	53,986	18,328
Cash and cash equivalents at the end of the year (Note 7)	**38,153,031**	**24,076,644**

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 49.

(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 Court of Tirana District. The sole shareholder of the Bank was the Ministry of Finance with a paid up capital of LEK 700 million, which consisted 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 Bank to Raiffeisen Zentralbank Osterreich Aktiengesellshafft (RZB AG).

On 21 July 2004, RZG 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 2011.

On 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 bought 100% of the issued and outstanding shares of "Instituti Amerikan i Pensioneve Private Suplementare të Shqipërisë-American Pension Fund of Albania" Sh.a. On 23 April 2009, the name was changed to "Instituti Privat i Pensioneve Suplementare Raiffeisen – Raiffeisen Pensions" Sh.a.

Further 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.".

On 30 November 2011, the General Assembly of sole Shareholder approved change of subsidiary name from "Shoqëria Administruese e Fondeve të Pensionit Raiffeisen – Raiffeisen Pension Funds Management Company sh.a." to Raiffeisen Invest – "Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të investimeve Kolektive". The change was approved by the Albanian Financial Supervisory Authority as at 31 December 2011 and it was registered in the National Registration Center as at 13 January 2012.

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

1. INTRODUCTION (CONTINUED)

Directors and Management as of 31 December 2012 and 2011 (continued)

Management Board

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The separate 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 separate 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 separate financial statements are presented in Albanian LEK ("LEK"), which is the Bank'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 separate 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 separate 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 separate financial statements.

(a) Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. Control exists when the Bank 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.

A parent need not present consolidated financial statements if the parent is itself a wholly-owned subsidiary and the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards. The Bank prepares separate financial statements and consolidated financial statements in accordance with IFRS. Interests in subsidiaries are accounted for at cost in the separate financial statements. The consolidated financial statements prepared in accordance with IFRS will be published at the same date as the separate financial statements.

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

The applicable official Bank rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2012 and 31 December 2011 were as below:

	31 December 2012		**31 December 2011**	
	Period end	*Average*	*Year end*	*Average*
United States dollar (USD)	105.85	108.20	107.54	100.94
European Union currency unit (EUR)	139.59	139.04	138.93	140.50

(c) Interest

Interest income and expense are recognised as profit or loss in the separate 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. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

Interest income and expense presented as profit or loss in the separate statement of comprehensive income include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(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, placement fees, are recognised as the related services are performed.

Other fees and commission expense relates 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Operating lease payments 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 Bank 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 Bank 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.

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

- *Termination benefits*

Termination benefits are recognised as an expense when the Bank 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 Bank 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 separate 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.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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 recognised for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realised.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities

i Recognition

The Bank 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 Bank becomes a party to the contractual provisions of the instrument.

ii Derecognition

The Bank 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 Bank is recognised as a separate asset or liability.

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

The Bank enters into transactions whereby it transfers assets recognised on its separate 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 separate 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 Bank 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 Bank 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 Bank 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.

Determination of fair value is further detailed in Note 4 to the separate financial statements "Use of estimates and judgements".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities (continued)

v ***Offsetting***

Financial assets and liabilities are set off and the net amount presented in the separate statement of financial position when, and only when, the Bank 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 Bank's trading activity.

vi ***Identification and measurement of impairment***

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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 Bank 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.

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

In assessing collective impairment the Bank 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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Bank in the management of its short-term commitments.

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

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank 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 separate 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 profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(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 separate 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 Bank 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 Bank does not intend to sell immediately or in the near term.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investment securities (continued)

i Held-to-maturity

Held-to-maturity investments are assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated 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 Bank 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 Bank 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.

(o) 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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 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.

(p) Intangible assets

Intangible assets acquired by the Bank 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 separate statement of comprehensive income as an expense as incurred.

(q) Repossessed property

In certain circumstances, property blocked in favour of the Bank is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of auction value and fair value less costs to sell, and is recognised in the separate statement of financial position under 'Other assets'. Management intention on repossessed properties is to sale as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(r) Deposits and other financial liabilities

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

When the Bank 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 Bank's separate financial statements.

The Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of non-financial assets

The carrying amounts of the Bank'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.

(t) Provisions

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

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.

(u) 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 Bank's accounting policies.

3. SIGNIFICANT ACCOUNTIG POLICIES (CONTINUED)

(v) Standards and Interpretations in issue not yet adopted

At the date of authorisation of these separate 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 separate statement of comprehensive income, rather than within profit or loss.

- **IFRS 10 "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),

- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013),

- **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,

- **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),

3. SIGNIFICANT ACCOUNTIG POLICIES (CONTINUED)

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

- **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).

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

(w) Comparability

All amounts are reported or disclosed with comparative information.

4. USE OF ESTIMATES AND JUDGMENTS

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

These disclosures supplement the commentary on financial risk management (see note 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 Bank measures fair values using Level 2 of the fair value hierarchy that reflects the significance of the inputs used in making the measurements, which is explained as follow:

- 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 financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values 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.

5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Bank 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 Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Asset and Liability Committee (ALCO) and Credit Committees, which are responsible for developing and monitoring Bank 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 Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, 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 Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank 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 Bank 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 Bank. The management of the Bank 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. Based on this, management 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 Bank responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank 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.

Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- 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 Bank'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 Bank in the management of credit risk.

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

(amounts in LEK'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(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: B+	41,203,461	39,158,582	81,375,669	105,760,202
Carrying amount	**41,203,461**	**39,158,582**	**81,375,669**	**105,760,202**

(ii) Loans and advances to customers, net

	Loans and advances to customers	
	2012	**2011**
Individually impaired		
Grade 5: Impaired	13,107,954	12,535,035
Gross amount	**13,107,954**	**12,535,035**
Allowance for impairment	(9,456,258)	(9,209,827)
Carrying amount (A)	**3,651,696**	**3,325,208**
Portfolio based allowance for losses		
Enterprises		
Grade 1	177,674	285,548
Grade 1.5	3,443,980	8,424,113
Grade 2	6,112,322	8,609,376
Grade 2.5	9,851,366	9,555,576
Grade 3	8,636,692	7,334,757
Grade 3.5	42,086,153	29,399,873
Grade 4	6,761,407	19,298,172
Grade 4.5	13,388,500	10,688,252
Grade 5 (unrated)	9,150,497	4,934,531
	99,608,591	**98,530,198**
Private individuals	22,330,645	23,073,086
Gross amount	**121,939,236**	**121,603,284**
Allowance for impairment	(1,791,751)	(1,545,861)
Carrying amount (B)	**120,147,485**	**120,057,423**
Past due but not impaired comprises:		
30-60 days:	2,173,336	8,571,029
60-180 days:	2,924,330	5,002,898
Carrying amount	**5,097,666**	**13,573,927**
Total carrying amount (A+B)	**123,799,181**	**123,382,631**

(amounts in LEK'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Loans and advances to customers, net (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 0.5 to 5 in the Bank'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 Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

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 Bank 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 Bank 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 groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when 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		
Individually impaired		
Grade 5: Impaired	13,107,954	3,651,696
Total	**13,107,954**	**3,651,696**
31 December 2011		
Individually impaired		
Grade 5: Impaired	12,535,035	3,325,208
Total	**12,535,035**	**3,325,208**

(amounts in LEK'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Loans and advances to customers, net (continued)

The Bank 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	Total
Property	2,807,142	34,200,201	37,007,343
Pledge	867,218	10,553,040	11,420,258
Cash	38	2,189,118	2,189,156
Guarantee	40,312	5,151,018	5,191,330
Total	**3,714,710**	**52,093,377**	**55,808,087**

The collateral pledged against individually impaired loans as at 31 December 2011 was LEK 3,325,208 thousand.

Exposure to sovereign debt of selected Eurozone countries

During the year ended 31 December 2012 significant concerns emerged over sovereign credit risk in some Eurozone countries. The Bank managed its exposure to the affected Eurozone markets very closely during the year, adjusting the relevant limits where necessary. As a result, the overall quality of the sovereign debt portfolio remains strong.

Settlement risk

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

For certain types of transactions the Bank 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 Bank Risk Management Division.

(amounts in LEK '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The Bank 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**	**49,865,134**	**5,716,631**	**1,125,523**	**68,125**	**58,912,585**
Credit Card	**328,290**	-	-	-	**39,892**	**368,182**
Loans						
Short term	149,280	764,403	128,729	12,373	1,229	**1,056,014**
Medium term	3,518,209	24,855,867	3,107,301	1,337,698	127,920	**32,946,995**
Long term	8,303,794	18,778,853	3,081,429	453,544	351,363	**30,968,983**
minus Administrative Fee	(169,236)	(273,474)	(53,282)	(23,971)	-	**(519,963)**
	11,802,047	**44,125,649**	**6,264,177**	**1,779,644**	**480,512**	**64,452,029**
Mortgage	**8,813,112**	-	**62,630**	**316,515**	**1,875,804**	**11,068,061**
Other	**143,886**	**51,200**	**16,297**	**33,718**	**1,231**	**246,332**
TOTAL	**23,224,507**	**94,041,983**	**12,059,735**	**3,255,400**	**2,465,564**	**135,047,189**

31 December 2011

	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	**2,642,980**	**49,080,099**	**6,770,969**	**1,620,777**	**61,162**	**60,175,987**
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	**7,818,370**	-	-	**363,262**	**1,294,814**	**9,476,446**
Other	**97,688**	**165,009**	**15,061**	**22,289**	**573**	**300,620**
TOTAL	**24,169,152**	**89,595,362**	**14,044,115**	**4,349,220**	**1,980,466**	**134,138,315**

(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	128,267,156	27,679,797	41,203,461	81,375,669
North America	-	-	-	-
Europe	6,780,033	563,361	-	-
Total	**135,047,189**	**28,243,158**	**41,203,461**	**81,375,669**

Carrying amount at 31 December 2011	Loans and advances to customers	Restricted balances	Investments held for trading	Held-to-maturity investments
Albania	127,387,963	24,967,257	39,158,582	105,760,202
North America	-	-	-	-
Europe	6,750,355	704,194	-	-
Total	**134,138,318**	**25,671,451**	**39,158,582**	**105,760,202**

(c) Liquidity risk

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

Management of liquidity risk

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

Treasury Department 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 Department 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 Bank. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury Department 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.

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

Residual contractual maturities of financial assets and liabilities

							31 December 2012
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	38,153,031	-	-	-	-	-	38,153,031
Restricted balances	28,243,158	-	-	-	-	-	28,243,158
Investments held for trading	93,717	41,801	727	8,583,105	32,484,111	-	41,203,461
Held-to-maturity investment securities	2,913,252	11,741,350	16,443,657	23,747,131	26,530,279	-	81,375,669
Loans and advances to customers, net	11,094,664	12,141,707	13,734,234	37,897,725	60,178,860	(11,248,009)	123,799,181
Income tax prepaid	190,106	-	-	-	-	-	190,106
Other assets, net	11,057	-	-	-	-	-	11,057
Total	**80,698,985**	**23,924,858**	**30,178,618**	**70,227,961**	**119,193,250**	**(11,248,009)**	**312,975,663**
Liabilities							
Due to financial institutions	823,722	-	-	-	-	-	823,722
Due to customers	97,023,828	37,890,877	40,219,988	105,151,866	4,110,177	-	284,396,736
Other liabilities	1,432,413	-	-	-	-	-	1,432,413
Total	**99,279,963**	**37,890,877**	**40,219,988**	**105,151,866**	**4,110,177**	**-**	**286,652,871**
Liquidity risk at 31 December 2012	**(18,580,978)**	**(13,966,019)**	**(10,041,370)**	**(34,923,905)**	**115,083,073**	**(11,248,009)**	**26,322,792**
Cumulative	**(18,580,978)**	**(32,546,997)**	**(42,588,367)**	**(77,512,272)**	**37,570,801**	**26,322,792**	

(amounts in LEK'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

							31 December 2011
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	24,076,644	-	-	-	-	-	24,076,644
Restricted balances	25,671,451	-	-	-	-	-	25,671,451
Investments held for trading	154	183,589	351	3,407,028	35,567,460	-	39,158,582
Held-to-maturity investment securities	5,154,953	7,841,373	21,790,003	20,397,333	50,576,540	-	105,760,202
Loans and advances to customers, net	14,828,725	11,723,022	9,016,510	40,802,127	57,767,935	(10,755,688)	123,382,631
Other assets, net	56,486	-	-	-	-	-	56,486
Total	**69,788,413**	**19,747,984**	**30,806,864**	**64,606,488**	**143,911,935**	**(10,755,688)**	**318,105,996**
Liabilities							
Due to financial institutions	4,224,854	-	-	-	-	-	4,224,854
Repurchase agreements sold	6,200,238	1,949,850	-	-	-	-	8,150,088
Due to customers	97,190,945	36,822,061	35,126,592	104,209,112	5,167,529	-	278,516,239
Income tax payable	-	15,573	-	-	-	-	15,573
Other liabilities	975,756	-	-	-	-	-	975,756
Total	**108,591,793**	**38,787,484**	**35,126,592**	**104,209,112**	**5,167,529**	**-**	**291,882,510**
Liquidity risk at 31 December 2011	**(38,803,380)**	**(19,039,500)**	**(4,319,728)**	**(39,602,624)**	**138,744,406**	**(10,755,688)**	**26,223,486**
Cumulative	**(38,803,380)**	**(57,842,880)**	**(62,162,608)**	**(101,765,232)**	**36,979,174**	**26,223,486**	

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks

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 Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

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

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Exposure to foreign exchange risk

The Bank is exposed to currency risk through transactions in foreign currencies. As the currency in which the Bank presents it separate financial statements is the Albanian LEK, the Bank's separate 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.

(amounts in LEK'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

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 Bank'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 Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

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	(63,709)	63,709	94,589	(94,589)

2011	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp Decrease
Estimated (Loss) profit effect	2,971	(2,865)	4,352	(4,487)

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 Bank's trading and non-trading activities.

(amounts in LEK'000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

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

							31 December 2012
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	38,153,031	-	-	-	-	-	38,153,031
Restricted balances	28,243,158	-	-	-	-	-	28,243,158
Investments held for trading	93,717	41,801	727	8,583,105	32,484,111	-	41,203,461
Held-to-maturity investment securities	2,913,252	11,741,350	16,443,657	23,747,131	26,530,279	-	81,375,669
Loans and advances to customers, net	10,221,411	24,862,306	18,990,243	67,272,085	3,809,428	(1,356,292)	123,799,181
Other assets, net	11,057	-	-	-	-	-	11,057
Total	**79,635,626**	**36,645,457**	**35,434,627**	**99,602,321**	**62,823,818**	**(1,356,292)**	**312,785,557**
Liabilities							
Due to financial institutions	823,722	-	-	-	-	-	823,722
Due to customers	97,023,827	37,890,877	40,219,988	105,151,867	4,110,177	-	284,396,736
Other liabilities	1,432,413	-	-	-	-	-	1,432,413
Total	**99,279,962**	**37,890,877**	**40,219,988**	**105,151,867**	**4,110,177**	**-**	**286,652,871**
Gap at 31 December 2012	**(19,644,336)**	**(1,245,420)**	**(4,785,361)**	**(5,549,546)**	**58,713,641**	**(1,356,292)**	**26,132,686**

(amounts in LEK '000, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

							31 December 2011
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	24,076,644	-	-	-	-	-	24,076,644
Restricted balances	25,671,451	-	-	-	-	-	25,671,451
Investments held for trading	155	183,589	351	3,407,027	35,567,460	-	39,158,582
Held-to-maturity investment securities	5,154,954	7,841,373	21,790,003	20,397,332	50,576,540	-	105,760,202
Loans and advances to customers, net	14,518,714	21,614,152	18,831,296	65,408,549	5,616,620	(2,606,700)	123,382,631
Other assets, net	56,486	-	-	-	-	-	56,486
Total	**69,478,404**	**29,639,114**	**40,621,650**	**89,212,908**	**91,760,620**	**(2,606,700)**	**318,105,996**
Liabilities							
Due to financial institutions	4,224,854	-	-	-	-	-	4,224,854
Repurchase agreements sold	6,200,238	1,949,850	-	-	-	-	8,150,088
Due to customers	97,190,945	36,822,061	35,126,592	104,209,112	5,167,529	-	278,516,239
Other liabilities	975,756	-	-	-	-	-	975,756
Total	**108,591,793**	**38,771,911**	**35,126,592**	**104,209,112**	**5,167,529**	**-**	**291,866,937**
Gap at 31 December 2011	**(39,113,389)**	**(9,132,797)**	**5,495,058**	**(14,996,204)**	**86,593,091**	**(2,606,700)**	**26,239,059**

(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	5,650,854	26,383,017	1,452,042	4,667,118	**38,153,031**	1,650,264	18,134,089	655,624	3,636,667	**24,076,644**
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	41,203,461	-	-	-	**41,203,461**	39,158,582	-	-	-	**39,158,582**
Investments held to maturity	81,375,669	-	-	-	**81,375,669**	105,760,202	-	-	-	**105,760,202**
Loans and advances to customers	36,818,869	71,567,008	14,998,479	414,825	**123,799,181**	36,966,967	71,947,432	14,011,743	456,489	**123,382,631**
Property and equipment, net	1,974,928	-	-	-	**1,974,928**	1,797,915	-	-	-	**1,797,915**
Intangible assets, net	1,218,093	-	-	-	**1,218,093**	596,239	-	-	-	**596,239**
Equity Investments	239,683	-	-	-	**239,683**	227,611	-	-	-	**227,611**
Income tax prepaid	190,106	-	-	-	**190,106**	-	-	-	-	-
Other assets, net	863,220	58,800	4,383	112	**926,515**	444,984	56,236	22,746	8,995	**532,961**
Total	**184,397,453**	**109,758,446**	**18,085,871**	**5,082,055**	**317,323,825**	**201,288,879**	**99,703,278**	**16,109,928**	**4,102,151**	**321,204,236**
Liabilities										
Due to financial institutions	32,756	521,181	269,471	314	**823,722**	709,542	2,759,491	491,162	264,659	**4,224,854**
Repurchase agreements sold	-	-	-	-	-	8,150,088	-	-	-	**8,150,088**
Due to customers	155,791,701	107,741,720	16,037,252	4,826,063	**284,396,736**	164,167,032	95,408,013	15,038,674	3,902,520	**278,516,239**
Income tax payable	-	-	-	-	-	15,573	-	-	-	**15,573**
Deferred tax liabilities	2,461	-	-	-	**2,461**	126,939	-	-	-	**126,939**
Other liabilities	1,400,720	71,960	37,500	(77,767)	**1,432,413**	870,221	(56,221)	93,371	68,385	**975,756**
Equity	26,480,793	4,187,700	-	-	**30,668,493**	29,194,787	-	-	-	**29,194,787**
Total	**183,708,431**	**112,522,561**	**16,344,223**	**4,748,610**	**317,323,825**	**203,234,182**	**98,111,283**	**15,623,207**	**4,235,564**	**321,204,236**
Net Position	**689,022**	**(2,764,115)**	**1,741,648**	**333,445**	-	**(1,945,303)**	**1,591,995**	**486,721**	**(133,413)**	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk

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

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

The 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 Bank 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 Bank.

(f) Capital management

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to 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%.

(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 national 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	138,836,194	144,886,824
Total risk weighted off balance exposures	2,298,384	3,236,312
Total	**141,134,578**	**148,123,136**
Regulatory capital	23,011,552	22,214,348
Capital adequacy ratio	16.30%	15.00%

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

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

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

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 these balances 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 and government 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 81,375,669 thousand (31 December 2011: LEK 105,760,202 thousand) and their carrying value is LEK 81,375,669 thousand (31 December 2011: LEK 105,760,202 thousand).

Loans and advances to customers

Loans and advances are net of allowances for impairment. The Bank'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 288,489,150 thousand (31 December 2011: LEK 278,534,736 thousand) whilst their carrying value is LEK 284,396,736 thousand (31 December 2011: LEK 278,516,238 thousand).

Due to banks and financial institutions

The estimated fair value of loans and advances 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.

(amounts in LEK'000, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash on hand	2,459,612	3,202,230
Central Bank		
Current accounts	96,952	3,785
Deposits	1,300,000	-
Accrued interest on deposit account	80	-
Banks		
Current accounts with resident banks	-	4
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	20,762,435
Total	**38,153,031**	**24,076,644**

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
Central Bank		
Obligatory reserves	27,679,797	24,967,257
Banks		
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 May 2012. There is no interest on obligatory reserves in the Central Bank.

(amounts in LEK'000, unless otherwise stated)

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

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

	31 December 2012	31 December 2011
Government Bonds	40,859,101	38,764,749
Treasury bills	344,360	393,833
Total	**41,203,461**	**39,158,582**

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
Government Bonds (note 9.2.1)	63,448,747	74,515,788
Treasury bills (note 9.2.2)	17,926,922	31,244,414
Total	**81,375,669**	**105,760,202**

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 15).

9.2.1 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	62,042,972	72,791,688
Unamortised premium	13,656	20,655
Accrued interest	1,392,119	1,703,445
Total	**63,448,747**	**74,515,788**

(amounts in LEK'000, unless otherwise stated)

9. INVESTMENT IN SECURITIES (CONTINUED)

9.2 Held-to-maturity investment securities (continued)

9.2.2 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	18,630,596	32,284,819
Unamortised discount	(703,674)	(1,040,405)
Total	**17,926,922**	**31,244,414**

10. LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2012	31 December 2011
Loans and advances to customers	135,047,189	134,138,318
Allowance for loan loss impairment	(11,248,008)	(10,755,687)
Net carrying amount	**123,799,181**	**123,382,631**

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

	2012	2011
Balance at the beginning of the year	10,755,687	9,195,068
Allowance for loan loss impairment	2,760,794	1,900,292
Loans written off	(2,268,473)	(339,673)
Balance at the end of the year	**11,248,008**	**10,755,687**

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).

(amounts in LEK'000, unless otherwise stated)

11. EQUITY INVESTMENTS

11.1 Investments in subsidiaries

Based on the decision of the Bank's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen - Leasing International Gesellschaft m.b.H, the Bank has incorporated a leasing company in the Republic of Albania in the form of a joint stock company to exercise leasing activity as provided by the applicable Albanian legislation on Financial Leasing.

The leasing company is named Raiffeisen Leasing sh.a. On 25 August 2011 there was approved the increase of Share capital 2011 from LEK 123,000,000 to LEK 208,031,014, capital increase through retained earnings equal to LEK 85,031,014. On 17 May 2012 there was approved the increase of share capital from LEK 208,031,014 to LEK 263,520,134, capital increase through retained earnings equal to LEK 55,489,120.

As at 31 December 2010 the Bank participates with a share of 75% for an amount of EUR 750 thousand (equivalent of LEK 92,250 thousand). The remaining share of 25% of the paid-in capital of Raiffeisen Leasing sh.a. is owned by Raiffeisen Leasing International Gesellschaft m.b.H. On 25 August 2011, after the increase of share capital of Raiffeisen Leasing sh.a. through retained earnings, the Bank's participation in capital is equal to LEK 156 million. After the increase in 2012 the Bank's shares in the subscribed share capital of Raiffeisen Leasing sh.a. amount to LEK 198 million. Increase in share capital through retained earnings has no effect in the investments in subsidiaries balance as at year end.

The 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 2009, registered on the Albanian National Register on 23 April 2009 and it was further known as Instituti Privat i Pensioneve Suplementare Raiffeisen - Raiffeisen Pensions sh.a. Instituti Privat i Pensioneve Suplementare Raiffeisen - Raiffeisen Pensions sh.a. has a paid in capital of LEK 90 million.

Further 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.

On 30 November 2011 the General Assembly of Shareholders approved the change of subsidiary's name from Shoqëria Administruese e Fondeve të Pensionit Raiffeisen – Raiffeisen Pension Funds Management Company sh.a. to Raiffeisen Invest – Shoqëri Administruese e Fondeve të Pensionit dhe Sipermarrjeve te investimeve Kolektive sh,a,. Change was approved by the Albanian Financial Supervisory Authority as at 31 December 2011 and it was registered in the National Registration Center as at 13 January 2012.

11.2 Other equity investments

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

12. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, NET

	31 December 2012	31 December 2011
Property and equipment, net (note 12.1)	1,974,928	1,797,915
Intangible assets, net (note 12.2)	1,218,093	596,239
Total	**3,193,021**	**2,394,154**

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

(amounts in LEK'000, unless otherwise stated)

12. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, NET (CONTINUED)

12.1 Property and equipment, net

Movements in property and equipment for the year ended 31 December 2012 and 2011 are detailed as follows:

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
Balance at 1 January 2011	1,130,917	1,845,079	275,632	137,512	531,978	3,921,118
Additions	-	294,844	47,931	301,033	79,565	723,373
Disposals	(12,770)	(67,035)	(93,591)	(5)	(33,345)	(206,746)
Transfer from work in progress	105,395	70,884	76,474	(282,723)	29,970	-
Balance at 31 December 2011	**1,223,542**	**2,143,772**	**306,446**	**155,817**	**608,168**	**4,437,745**
Balance at 1 January 2012	1,223,542	2,143,772	306,446	155,817	608,168	4,437,745
Additions	423	235,969	35,327	311,932	40,350	624,001
Disposals	(316)	(155,976)	(1,710)	-	(52,152)	(210,154)
Transfer from work in progress	142,540	75,499	6,916	(242,815)	17,860	-
Balance at 31 December 2012	**1,366,189**	**2,299,264**	**346,979**	**224,934**	**614,226**	**4,851,592**
Accumulated Depreciation						
Balance at 1 January 2011	(338,844)	(1,486,445)	(199,897)	-	(342,842)	(2,368,028)
Charge for the period	(85,662)	(230,291)	(51,401)	-	(85,514)	(452,868)
Disposals	297	66,651	86,473	-	27,645	181,066
Balance at 31 December 2011	**(424,209)**	**(1,650,085)**	**(164,825)**	**-**	**(400,711)**	**(2,639,830)**
Balance at 1 January 2012	(424,209)	(1,650,085)	(164,825)	-	(400,711)	(2,639,830)
Charge for the period	(91,343)	(218,706)	(49,860)	-	(83,723)	(443,632)
Disposals	316	155,230	1,710	-	49,542	206,798
Balance at 31 December 2012	**(515,236)**	**(1,713,561)**	**(212,975)**	**-**	**(434,892)**	**(2,876,664)**
Carrying amount						
As at 1 January 2011	**792,073**	**358,634**	**75,735**	**137,512**	**189,136**	**1,553,090**
As at 31 December 2011	**799,333**	**493,687**	**141,621**	**155,817**	**207,457**	**1,797,915**
As at 31 December 2012	**850,953**	**585,703**	**134,004**	**224,934**	**179,334**	**1,974,928**

(amounts in LEK '000, unless otherwise stated)

12. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, NET (CONTINUED)

12.2 Intangible assets, net

	Software	Licences	Total
Cost			
Balance at 1 January 2011	638,155	256,744	894,899
Additions	396,784	23,678	420,462
Disposals	(17,390)	-	(17,390)
Balance at 31 December 2011	**1,017,549**	**280,422**	**1,297,971**
Balance at 1 January 2012	1,017,549	280,422	1,297,971
Additions	692,210	45,218	737,428
Balance at 31 December 2012	**1,709,759**	**325,640**	**2,035,399**
Accumulated amortisation			
Balance at 1 January 2011	(436,619)	(174,864)	(611,483)
Charge for the period	(55,555)	(45,923)	(101,478)
Disposals	11,229	-	11,229
Balance at 31 December 2011	**(480,945)**	**(220,787)**	**(701,732)**
Balance at 1 January 2012	(480,945)	(220,787)	(701,732)
Charge for the period	(75,396)	(40,178)	(115,574)
Balance at 31 December 2012	**(556,341)**	**(260,965)**	**(817,306)**
Carrying amount			
As at 1 January 2011	**201,536**	**81,880**	**283,416**
As at 31 December 2011	**536,604**	**59,635**	**596,239**
As at 31 December 2012	**1,153,418**	**64,675**	**1,218,093**

(amounts in LEK'000, unless otherwise stated)

13. OTHER ASSETS, NET

	31 December 2012	31 December 2011
Inventories	806,755	372,141
Prepaid expenses and accruals	86,452	49,965
Sundry debtors, net	22,251	54,369
Money gram	11,057	56,485
Total	**926,515**	**532,961**

As at 31 December 2012 the Bank's repossessed collateral amounts to LEK 806,755 thousand. Collateral possessed is composed of land and building amounting in LEK 175,633, buildings amounting in LEK 330,595 thousand, fields amounting in LEK 300,527 thousand, which the Bank is in the process of selling. Considering general economic environment the selling process is expected to be longer than one year. Due to this the possessed collaterals were recorded under inventory at last auction value (representing the Bank's best estimate of the amounts recoverable from these collaterals).

Sundry debtors, net are comprised as follows:

	31 December 2012	31 December 2011
Sundry debtors	33,835	67,923
Provisions for losses from other debtors	(11,584)	(13,554)
Total Sundry debtors, net	**22,251**	**54,369**

Movements in the provisions for sundry debtors are as follows:

	2012	2011
Balance at the beginning of the year	13,554	13,554
Foreign exchange effect	(1,970)	-
Balance at the end of the year	**11,584**	**13,554**

(amounts in LEK'000, unless otherwise stated)

14. 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
	562,582	**182,640**
Deposits		
Resident banks and financial institutions	261,140	3,778,948
Non-resident banks and financial institutions	-	263,266
Total	**823,722**	**4,224,854**

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%).

15. REPURCHASE AGREEMENTS SOLD

There is 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).

16. DUE TO CUSTOMERS

	31 December 2012	31 December 2011
Current accounts	49,396,029	47,526,044
Deposits	231,275,045	228,085,196
Other accounts	3,725,662	2,904,999
Total	**284,396,736**	**278,516,239**

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

(amounts in LEK'000, unless otherwise stated)

16. DUE TO CUSTOMERS (CONTINUED)

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

		31 December 2012			31 December 2011	
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Current accounts	**24,677,839**	**24,718,190**	**49,396,029**	**24,249,361**	**23,276,682**	**47,526,043**
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	9,446,450	11,015,498	20,461,948	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	14,195,087	14,881,820	29,076,907	17,780,752	12,501,673	30,282,425
12 months - 24 months	85,570,120	60,372,686	145,942,806	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	781,561	4,108,313
	129,271,119	**102,003,926**	**231,275,045**	**138,251,291**	**89,833,907**	**228,085,198**
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	9,792	132,100	122,414	9,897	132,311
Other	629,033	1,920	630,953	459,964	2,199	462,163
	1,842,740	**1,882,922**	**3,725,662**	**1,666,380**	**1,238,618**	**2,904,998**
Total	**155,791,698**	**128,605,038**	**284,396,736**	**164,167,032**	**114,349,207**	**278,516,239**

(amounts in LEK '000, unless otherwise stated)

17. DEFERRED TAX LIABILITIES

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

	31 December 2012	31 December 2011
Balance at the beginning of the year	126,939	136,161
Deferred tax benefit relating to the origination and reversal of temporary differences (note 30)	(124,478)	(9,222)
Balance at the end of the year	**2,461**	**126,939**

Movements in temporary differences during the year are recognised as profit or loss in the separate 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
Deferred tax asset		
Accelerated depreciation	(81,412)	(76,564)
Deferred tax liability		
Allowance for impairment losses	83,873	203,503
Net deferred tax liabilities	**2,461**	**126,939**

18. OTHER LIABILITIES

	31 December 2012	31 December 2011
Other creditors	529,500	135,252
Accrued expenses	324,635	330,184
Due to employees	276,083	221,154
Withholding Tax payable	123,122	107,112
Provision for Contingent Liabilities	77,137	80,530
Deferred income	34,246	39,723
Due to Social Insurance	29,454	28,925
Provision for risk and expenses	23,190	31,778
Suspense accounts	15,046	1,090
VAT payable	-	8
Total	**1,432,413**	**975,756**

Included in "Accrued expenses" there 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.

Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items. Provision for contingent liabilities represents impairment of irrevocable commitments and contingencies.

(amounts in LEK'000, unless otherwise stated)

18. OTHER LIABILITIES (CONTINUED)

The movements in the provisions for litigations are as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the year	31,778	43,005
Reversal of provisions for the year	(8,588)	(11,227)
Balance at the end of the year	**23,190**	**31,778**

19. 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 of Lek 1,418,013 each). 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.

20. GENERAL RESERVE

As at 31 December 2012 general reserve was equal to LEK 2,800,000 thousand (2011: LEK 6,300,000 thousand). In July 2012, the Bank decreased the general reserve by LEK 3,500,000 thousand based on the decision of the Bank's sole shareholder dated 19 May 2012. The general reserve has been created from the distribution of net profit after tax 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.

21. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Loans and advances to customers	11,180,126	10,518,113
Investment securities	7,118,233	8,570,676
Bank deposits	414,412	699,526
Reverse repurchase agreement bought	1,196	369
Total	**18,713,967**	**19,788,684**

22. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Customers	(8,029,358)	(7,098,295)
Repurchase agreement sold	(42,724)	(448,053)
Banks	(22,545)	(76,632)
Total	**(8,094,627)**	**(7,622,980)**

(amounts in LEK'000, unless otherwise stated)

23. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Funds transfers	914,517	853,007
Lending activities	233,135	241,877
Other banking services	220,736	263,396
Total	**1,368,388**	**1,358,280**

24. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Payments transfer business	(252,973)	(262,889)
Loan and guarantee business	(7,841)	(6,115)
Other banking services	(56,920)	(38,175)
Total	**(317,734)**	**(307,179)**

25. NET TRADING INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Income from transactions with securities	2,038,736	1,742,660
Income from capital revaluation	(64,800)	-
Foreign exchange gains	608,051	240,074
Total	**2,581,987**	**1,982,734**

26. NET OTHER OPERATING EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Other revenue	41,469	81,114
Other expenses	(143,193)	(182,062)
Total	**(101,724)**	**(100,948)**

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).

27. DEPOSIT INSURANCE PREMIUM

Legislation from 18 October 2002, determined that the 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.

(amounts in LEK'000, unless otherwise stated)

28. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	(2,137,947)	(1,878,575)
Social insurance	(249,065)	(229,033)
Personnel training	(34,062)	(47,382)
Other personnel costs	(34,525)	(12,416)
Total	**(2,455,599)**	**(2,167,406)**

29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended 31 December 2012 and 2011 comprise the following expenses:

	Year ended 31 December 2012	Year ended 31 December 2011
Office space expenses	(595,876)	(551,228)
IT cost	(429,521)	(510,205)
Advertising, PR and promotional expenses	(300,625)	(320,464)
Legal, advisory and consulting expenses	(261,407)	(110,454)
Sundry administrative expenses	(109,833)	(141,471)
Car expenses	(63,266)	(49,331)
Office supplies	(62,806)	(83,816)
Communication expenses	(49,369)	(65,895)
Travelling expenses	(33,341)	(32,035)
Security expenses	(20,661)	(23,650)
Total	**(1,926,705)**	**(1,888,549)**

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

30. 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	582,558	772,664
Deferred tax benefit (note 17)	(124,478)	(9,222)
Total	**458,080**	**763,442**

(amounts in LEK'000, unless otherwise stated)

30. INCOME TAX (CONTINUED)

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

	Year ended 31 December			
	Effective tax rate	**2012**	**Effective tax rate**	**2011**
Profit before taxes		5,648,660		7,784,660
Prima facie tax calculated at 10%	10%	564,866	10%	778,466
Non tax deductible expenses at 10%	0.604%	34,134	(0.097%)	(7,512)
Tax savings by tax-exempted income at 10%	(0.377%)	(21,290)	(0.096%)	(7,512)
Tax expense/income for former periods	(2.118%)	(119,630)	-	-
Income tax expense	8.110%	**458,080**	9.807%	**763,442**

31. CONTINGENCIES AND COMMITMENTS

	31 December 2012			31 December 2011
	LEK	**Foreign currency**	**Total**	**Total**
Contingent liabilities				
Bank Guarantees issued	380,500	7,063,231	7,443,731	7,662,753
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**	**18,949,553**
Contingent assets				
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.

Operating lease commitments

The Bank has entered into non-cancellable operating 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**

Litigation

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

(amounts in Lek'000, unless otherwise stated)

32. RELATED PARTIES

The Bank has a related party relationship with Raiffeisen International AG, Raiffeisen Zentralbank Osterreich Aktiengesellshafft (RZB AG), with fellow subsidiaries and its subsidiaries, and with its directors and executive officers. The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	31 December 2012	31 December 2011
Amounts due from		
Affiliated companies	22,048,778	17,843,916
Key management personnel	108,438	103,782
Assets total	**22,157,216**	**17,947,698**
Amounts due to		
Affiliated companies	401,644	388,428
Key management personnel	50,989	54,070
Liabilities total	**452,633**	**442,498**

	Year ended 31 December 2012	Year ended 31 December 2011
Net Interest income		
Affiliated companies	184,195	221,742
Net Fee and Commission expense		
Affiliated companies	(136,955)	(153,995)
Administrative expenses		
Affiliated companies	(369,215)	(248,233)
Wages, salaries and bonuses		
Key management personnel	(206,294)	(180,405)
Total	**(528,269)**	**(360,891)**

The aggregate value of the contingent liabilities of the Bank to the affiliated companies as at 31 December 2012 was LEK 5,011,624 thousand (31 December 2011: LEK 1,400,961 thousand) and represents Bank Guarantees, Letters of Credit and Commitments.

33. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting date that may require adjustment or disclosure in the separate financial statements.