Raiffeisen Bank Albania

Annual Report 2012

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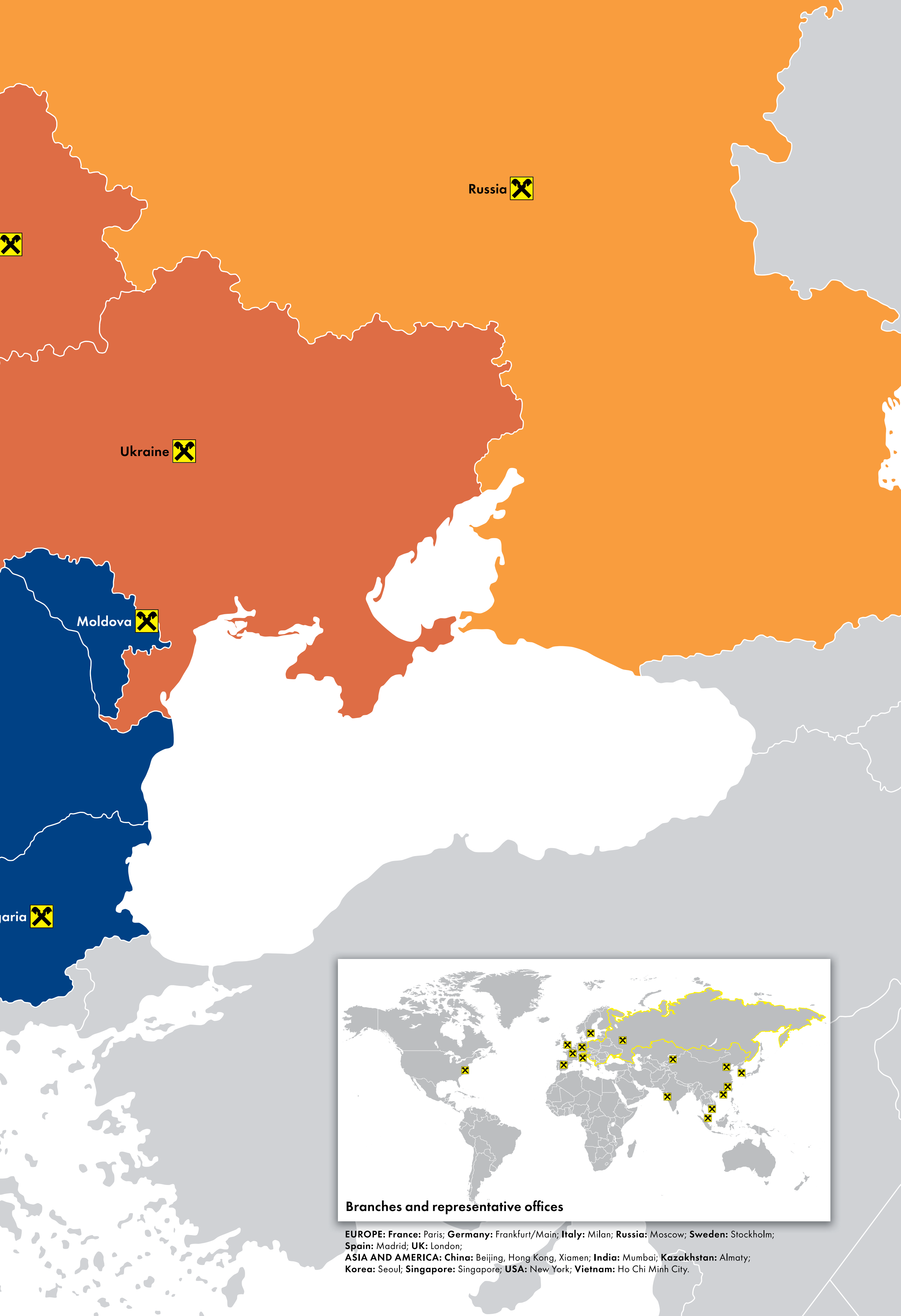
Hungary
Romania
Slovenia
Croatia
Bosnia and Herzegovina
Serbia
Kosovo
Albania
= CE
= SEE
= CIS other
= Russia



Branches and representative offices

EUROPE: France: Paris; **Germany:** Frankfurt/Main; **Italy:** Milan; **Russia:** Moscow; **Sweden:** Stockholm; **Spain:** Madrid; **UK:** London;
ASIA AND AMERICA: China: Beijing, Hong Kong, Xiamen; **India:** Mumbai; **Kazakhstan:** Almaty; **Korea:** Seoul; **Singapore:** Singapore; **USA:** New York; **Vietnam:** Ho Chi Minh City.

The members of Raiffeisen Bank SHA Management Board (from left to right):

Christian Canacaris
Chief Executive Officer

Raphaela Bischof-Rothauer
Board Member Operations & IT

Alexander Zsolnai
Vice-chairman of the Management Board

John McNaughton
Board Member Retail

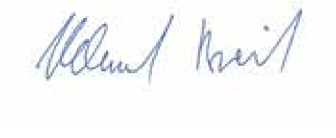
Report of the Supervisory Board

Ladies and Gentlemen,

From an overall economic perspective, 2012 was a challenging year in both the Eurozone and Central and Eastern Europe (CEE), but for completely different reasons. After the on-going sovereign debt crisis, the Eurozone slid into a deep systemic crisis. This crisis extends from political disagreements over the means to overcome debt burden to the growing social unrest in the European peripheral countries. The political elite's inability at both the national and European level to communicate their decisions to the public in a transparent and comprehensible manner also contributes to the crisis.

CEE, in part, also suffers from the consequences of the euro crisis, reflected for example in declining exports due to lower demand in the West. While countries in CEE also faced declines in real GDP growth, they were still significantly over the average of the ones recorded in the Eurozone. However, with only few exceptions the countries in the CEE region have done their homework: they are less dependent on external financing due to relatively low balance of payments deficits, their productivity has improved thanks to moderate wage increases, and, with the exception of Hungary, the region has considerably less debt than Western Europe. Moreover, the region continues to benefit from the catching-up process, which remains the engine for economic development and thus the development for entire Europe.

Despite a year dominated by renewed economic decline and tighter capital regulations, the RBI Group can be proud of posting a profit before tax of € 1.032 million. However, I have to mention the significant one of effects that were recorded in the first quarter: Among other things, we sold high-quality securities to achieve the capital ratio required by the European Banking Authority (EBA). While the sale cost us a portion of our net interest income in subsequent quarters, it also resulted in significant net proceeds. I am very pleased that we succeeded in fulfilling the higher capital ratio requirements with a core tier 1 ratio of well over 10 per cent, which makes us even more resilient to adverse economic conditions.



On behalf of the Supervisory Board
Helmut Breit, Chairman

Message from the CEO

We are pleased to announce that Raiffeisen Bank sh.a. has successfully closed the financial year 2012.

I am particularly proud of this because 2012 was a hard year with a lot of challenges. However, we met and even exceeded our profit goals, and grew and further consolidated our number one position in all key indicators with the contribution of all business segments. Now we are ready for 2013. Our readiness is based on more than half a million customers nationwide, to whom we provide a broad range of saving, loan and payment products, and who have great confidence in us.

Total deposits increased by 2 per cent to more than € 2 billion compared to 2011, thus providing us with plenty of funds to lend to the economy. Both companies and individuals showed positive signs for borrowing last year. We increased our loans to national and international corporations. Lending to large companies rose by 2 per cent to € 760 million, which is a positive sign for the country's economic development. Consequently, our total loans grew by 1 per cent to € 967 million. Our level of liquidity, as measured by the loan-to-deposit ratio, continued to be stable at 48 per cent, which means that both lending and deposits developed equally well. Our liquidity position made it possible for us to invest in treasury bills and bonds of the Albanian Government, thereby providing additional assistance to the country's economy.

Of course, risk management criteria were taken into consideration at all times and evaluated attentively in order to ensure a high quality portfolio.

We continued to be focused throughout the year on improving and expanding the range of services and products we provide to our customers. During 2012, we introduced mobile banking, which was an entirely new and innovative service for the Albanian market that was welcomed by many of our clients. Together with Internet banking, mobile banking allows our customers to have access to their accounts and order transactions 24 hours a day and seven days a week, wherever they are.

Raiffeisen Leasing continued to be the favourite choice for companies and individuals who wanted to finance machinery, equipment, freight vehicles and cars. The company ranks first in the Albanian leasing market.

Raiffeisen Invest is the first and only company in the market with a license for the marketing of investment funds, while continuing to offer companies and individual private pension fund products. We introduced two investment funds last year in euro and Lek, respectively. Both were by all means a success.

We have to face plenty of challenges in 2013 and will have to work hard to achieve our objectives. But our employees are well trained, focused and decisive for Raiffeisen Bank to remain the number one in the domestic banking sector.

On behalf of the Management Board, I would like to sincerely thank all our customers and business partners for their cooperation and support during 2012.

Christian Canacaris
Chief Executive Officer
Chairman of the Management Board

Mission

We raise banking standards and make a difference to our customers' lives by providing competitive products and top quality service.

We seek long-term customer relationships.

As a member of Raiffeisen Bank International, we cooperate closely with RBI and the other members of the Group.

We achieve sustainable and above-average return on equity.

We empower our employees to be entrepreneurial and to show initiative, and we foster their development.

Perspectives and Plans for 2013

After the challenges of 2012, Raiffeisen Bank plans to continue its development and offer more to the country's economy. Competition will remain high in 2013. We will respond by continuing to focus on close and cooperative customer relationships, and by continuing our investments in products, services and new technology.

Raiffeisen Bank in Albania will be investing into a new Core Banking System in 2013 to facilitate even faster and more efficient services that will increase customer satisfaction.

Quality of customer service in all our segments will continue to be a priority. Training and development of employees, improving efficiency, simplified processes and a more appropriate access through more convenient distribution channels will help to achieve this goal.

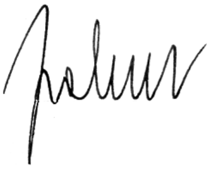
As the bank with the country's highest lending portfolio, we intend to maintain this position, placing particular emphasis on the enhancement of the quality of our loan portfolios.

Concerning the corporate business segment, we will continue to focus not just on loans, but also to provide a wide range of banking services to both the businesses and their employees. The expansion of electronic banking services will remain a priority, and we also plan to bring other new products and services on the market.

Electronic and mobile banking ensure maximum flexibility and convenience to perform banking transactions anywhere and at any time for businesses and individual clients alike. At the same time, the branch network will continue to improve due to the establishment of new standards as well as the relocation of some branches to larger and more suitable places. We also just launched e-commerce and will expand the services rendered in that field through the course of the year. This allows businesses to process credit card payments through the Internet with both Visa and MasterCard.

We would like to sincerely thank all our customers and business partners for their cooperation and support during 2012. We remain fully committed to meeting your banking requirements and providing high quality service at every meeting point that you may have with us. We will do our best to remain your first choice as a banking partner!

Christian Canacaris
Chief Executive Officer



Alexander Zsolnai
Vice-chairman of the Management Board

Raphaela Bischof
Board Member Operations & IT

John McNaughton
Board Member Retail

Report of the Management Board

Economic Developments

During 2012, Albanian economy continued to grow slowly below its potential, impacted directly from the regional economic crisis. In the third quarter the annual GDP growth reached 3 per cent impacted positively from the touristic season and the kick in of the domestic production.

The main sectors that contributed in the economic growth were those of Services, Industry and Agriculture, while continued the downward trend the construction sector.

The external demand was the key growth factor, while the domestic demand remained weak also this year conditioned by uncertainties for the outcome of the crisis in the region.

The fiscal stimulus followed a conservative trend as it was conditioned by the need to respect the budget deficit legal limit of 3 per cent and of the public debt to GDP below 60 per cent. The low level of budget incomes during the whole year impacted the decrease of capital spending with 5 per cent in overall versus the forecast.

The emigrant's remittances continued the decreasing trend of last years as the crisis in the countries of residence, mainly Greece and Italy was not overcome yet. By the end of the third quarter 2012, the emigrant's remittances dropped by 4 per cent compared to the same period last year, having as such a direct impact in the decrease of the households' consumption.

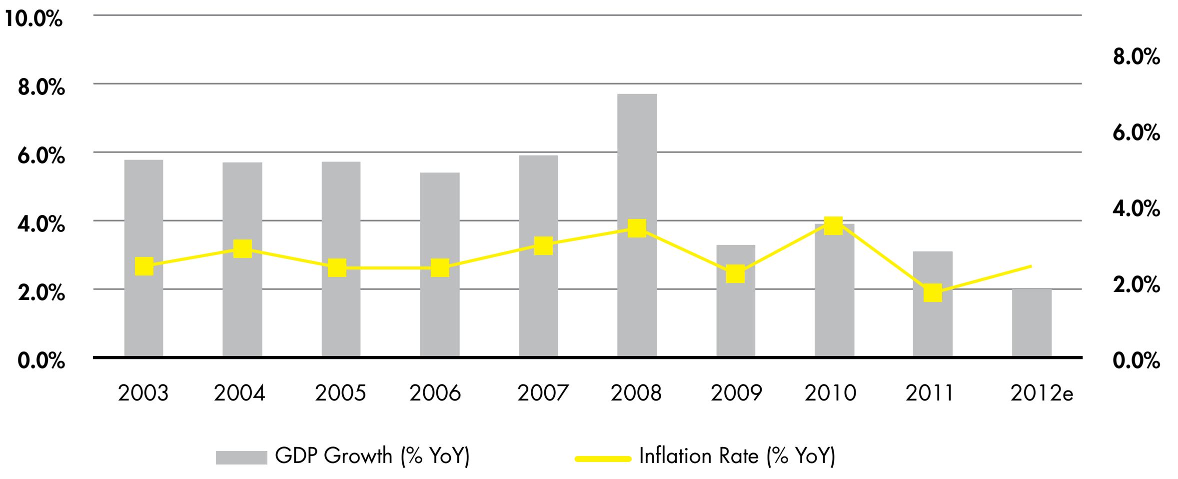
On the positive side, the Foreign Direct Investment (FDI) level remained at positive growth level in the first nine months of the year, increasing by 21 per cent year on year. During 2013 it is expected that the FDI level is likely to grow mainly in the second half of the year after the outcome of the general election is completed.

Although the trade deficit continued to improve by the end of 2012 by 9 per cent as the import levels were outperformed by the export, the growth levels of Albanian exports slowed down by 8 per cent in 2012 compared to 22 per cent in 2011. Albania managed to diversify also the trading partners during the last years, increasing the exports presence in markets such as China, Germany and Spain reducing thus the negative effects of the crisis in the traditional trading partners such as Greece and Italy.

The relaxed monetary policy continued also in 2012, reducing the financing cost in three occasions in the last year and hitting the lowest historical level of 4 per cent by the end of 2012.
This relaxed policy was helped also from low level inflator pressures during the whole year. The average inflation rate for the year was at 2 per cent being within the 2 – 4 per cent target range.

Local currency fluctuations in the domestic FX market have been moderate during 2012 impacted mainly from seasonal factors and also the dynamics in the international markets.
In average the local currency was appreciated by 0.9 points toward Euro, however being still one of the stable currencies in the region in relative terms.

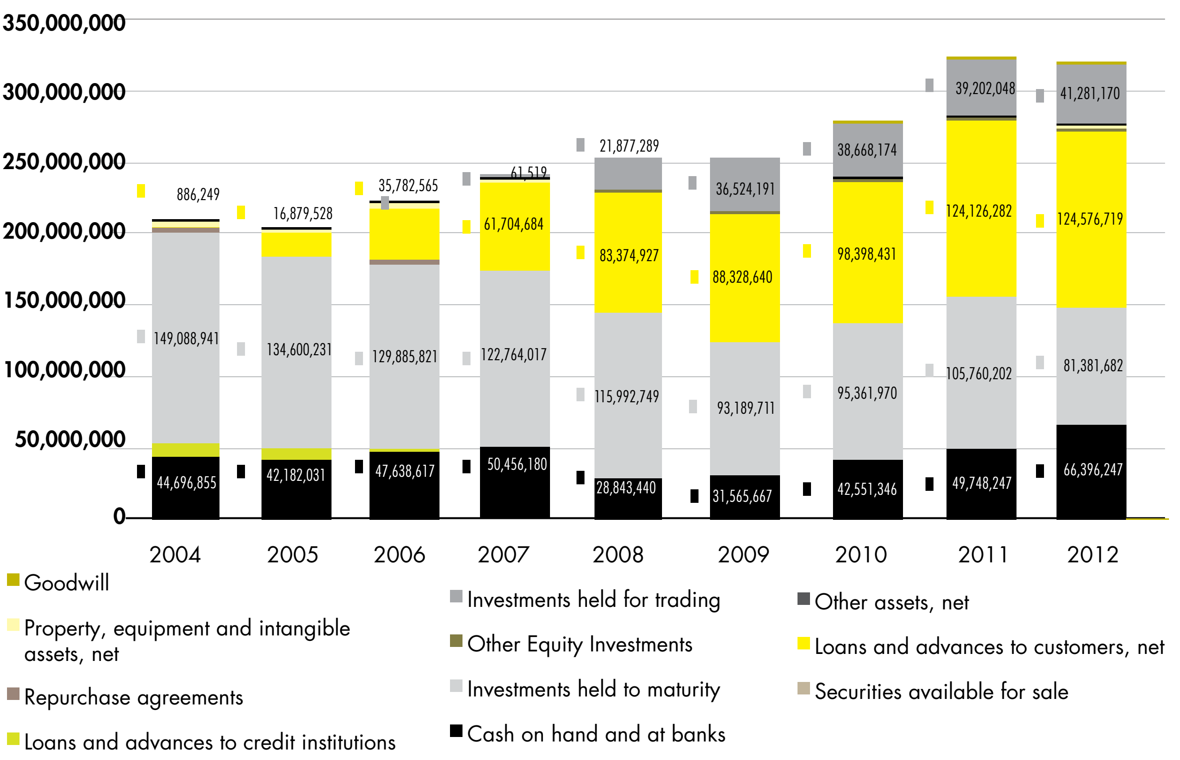
Real GDP Growth
(% YoY)



Financial Results

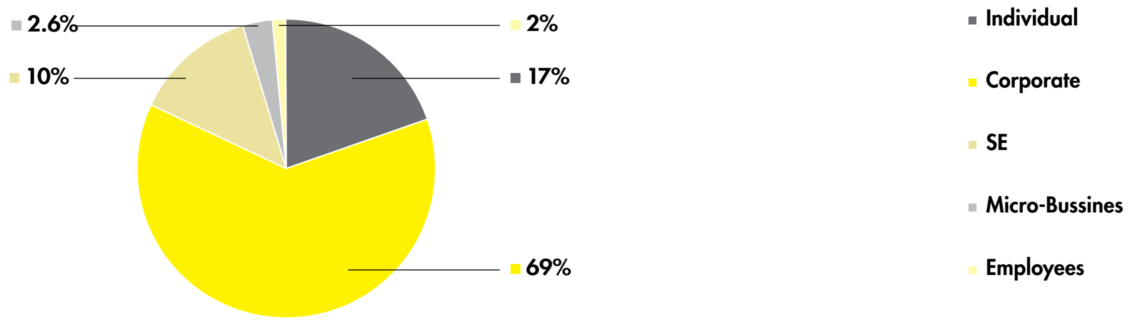
Total assets at the end of 2012 were ALL 318,919 million (2011: ALL 322,854 million). In 2012 the loan book at the end of 2012 represented 39 per cent (2011: 38 per cent) of the Bank's total assets. The investments in securities still have the greatest portion of the Bank's total assets representing nearly 38 per cent of it in 2012 (2011: 45 per cent).

Structure of Balance Sheet Assets
(in '000 LEK)



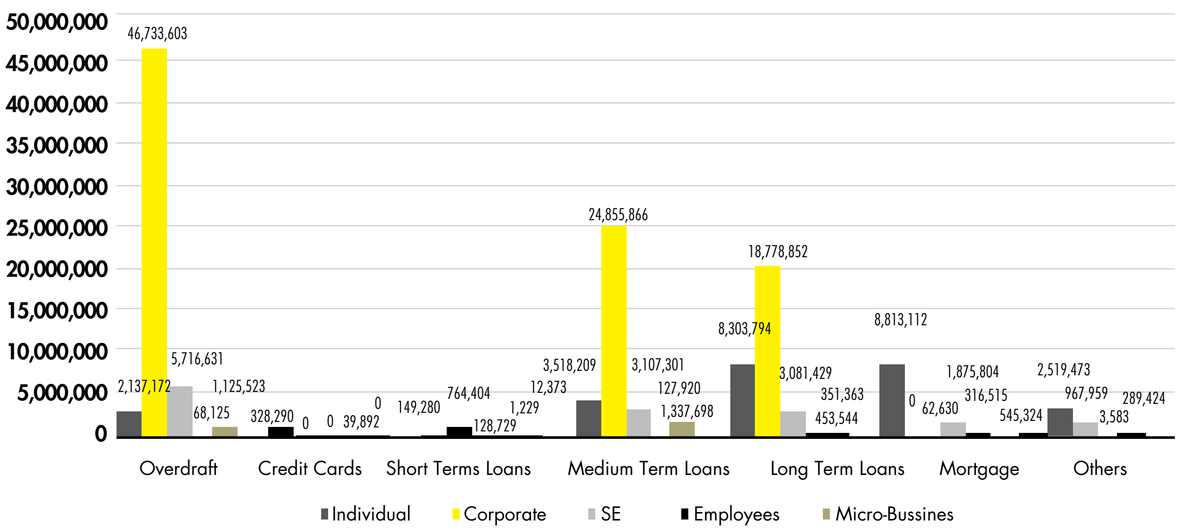
Total gross loans and advances to customers at year end 2012 totalled ALL 135,995 million (2011: ALL 134,992 million) representing 1 per cent increase in lending over the year. Corporate Sector in percentage terms is 69 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 93,379 million (2011: ALL 88,574 million). The SE recorded a 15 per cent decrease and Micro Business recorded a 24 per cent decrease in its outstanding loan book amounting to ALL 3,511 million (2011: ALL 4,593 million).

Structure of Loans to Customers



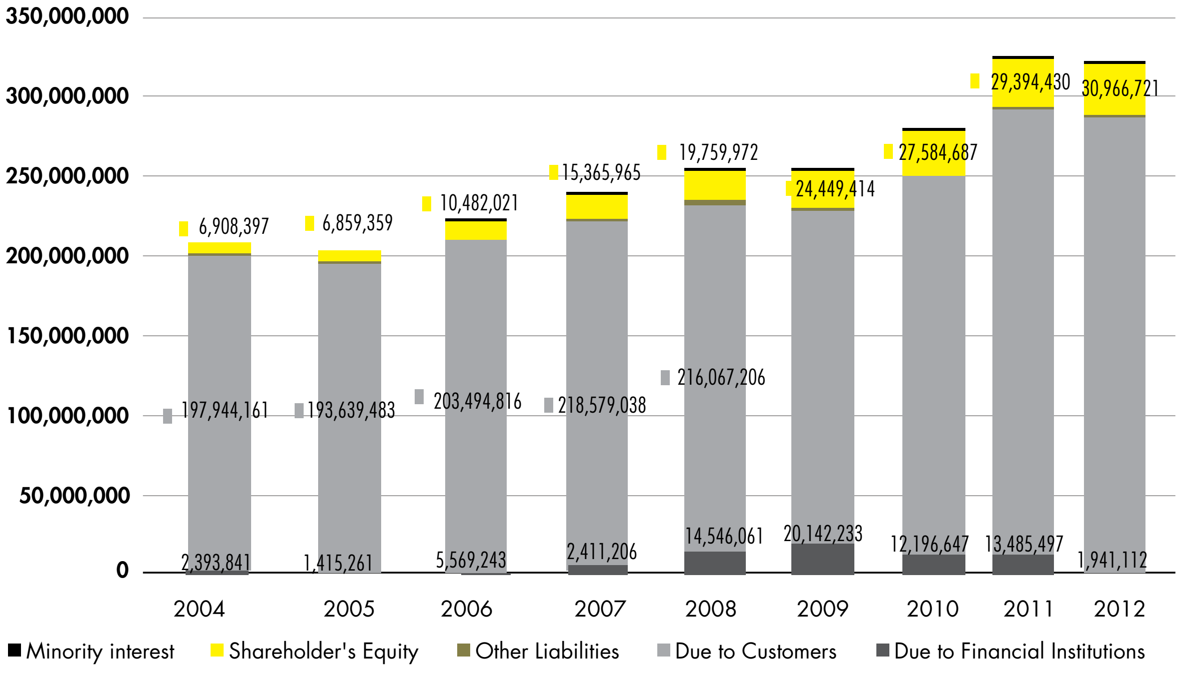
In 2012 the lending product portfolio was mainly a combination of medium term loans of 24 per cent (2011: 24 per cent) and overdrafts of 41 per cent (2011: 42 per cent). The long term loans represent 23 per cent of the Bank's loan portfolio in 2012 (2011: 23 per cent).

Loans for the year end 2012
(in '000 LEK)



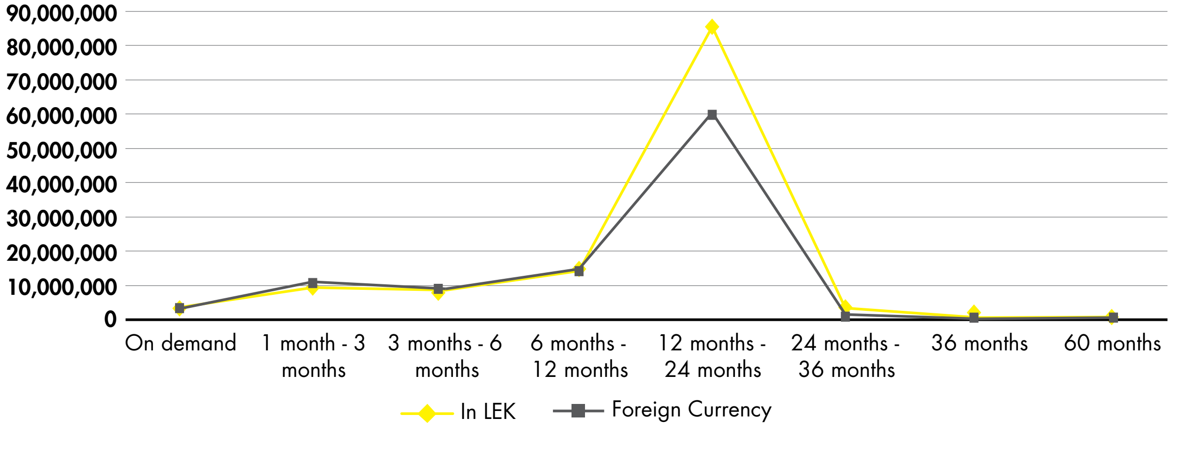
The total liabilities at the end of 2012 were ALL 318,919 million (2011: ALL 322,854 million). In 2012, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 89 per cent (2011: 86 per cent) of the Bank's total liabilities.

Structure of Balance-Sheet Liabilities
(in '000 LEK)



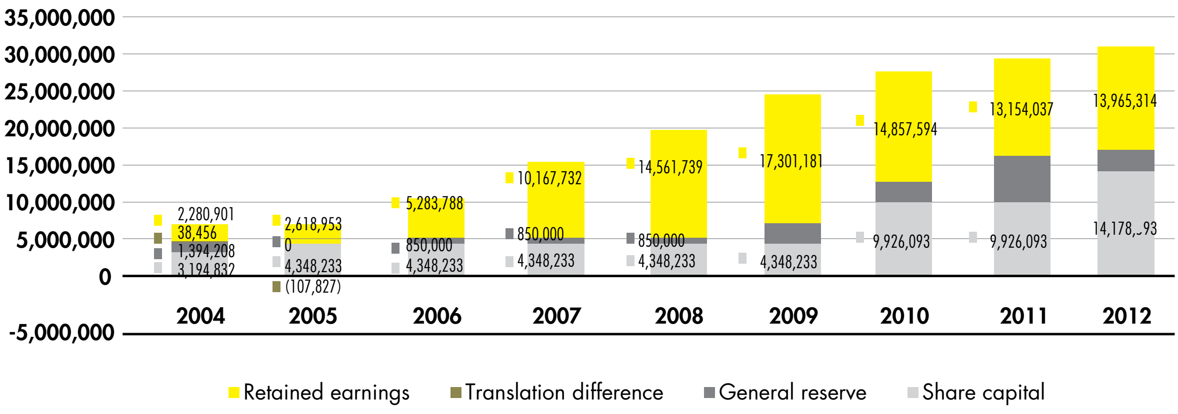
Like in 2011, the profile of customer deposits in 2012 shows a movement away from shorter term deposits. In order to take advantage of higher rates available the customers are extending their deposits in longer maturities. Total customer deposits at the end of 2012 were ALL 226,994 million (2011: ALL 223,977 million).

Deposits Structure
(in '000 LEK)



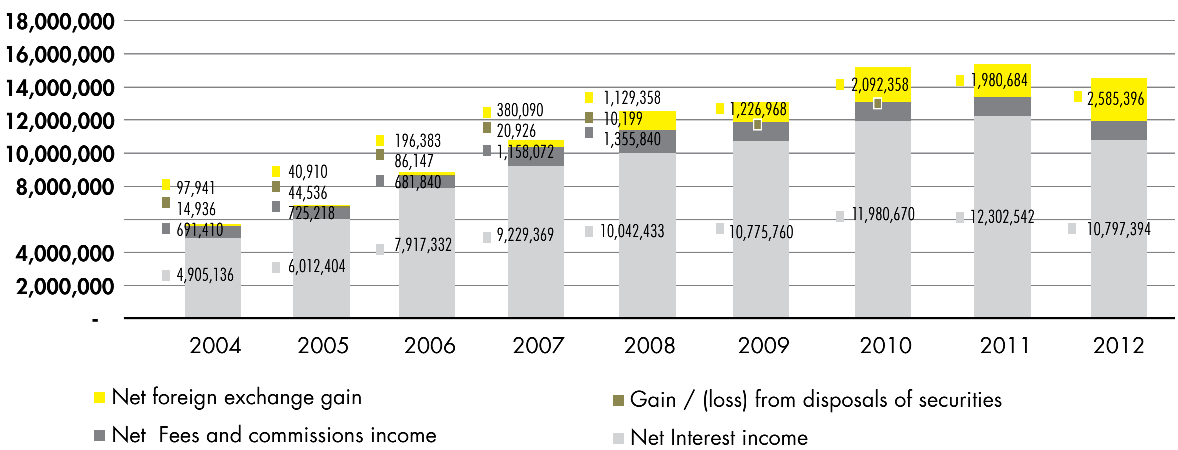
2012 showed a 25 per cent decrease in net profit after tax over 2011 to ALL 5,306 million (2011: ALL 7,085 million) changing the Bank's return on equity ratio from 28 per cent in 2011 to 20 per cent in 2012. Dividend declared and paid in 2012 is ALL 3,729 million (2011: ALL 5,268 million).

Structure of Shareholder's Equity
(në '000 LEK)



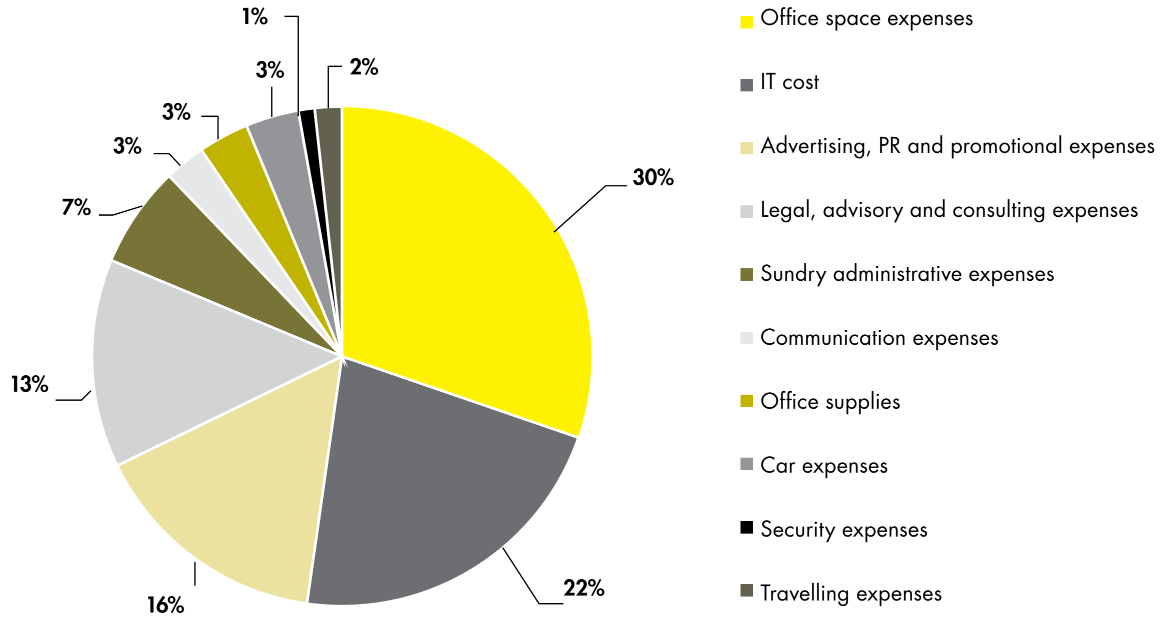
The Bank's net interest income decreased by 14 per cent or ALL 12,302 million in 2011 to ALL 10,797 million in 2012. This decrease together with the decrease in the Bank's total balance sheet, which came to 1 per cent, decline the net interest margin (calculated in relation to average balance sheet – total) by 73 basis points from 4 per cent in 2011 to 3 per cent in 2012.

Net Income
(in '000 LEK)

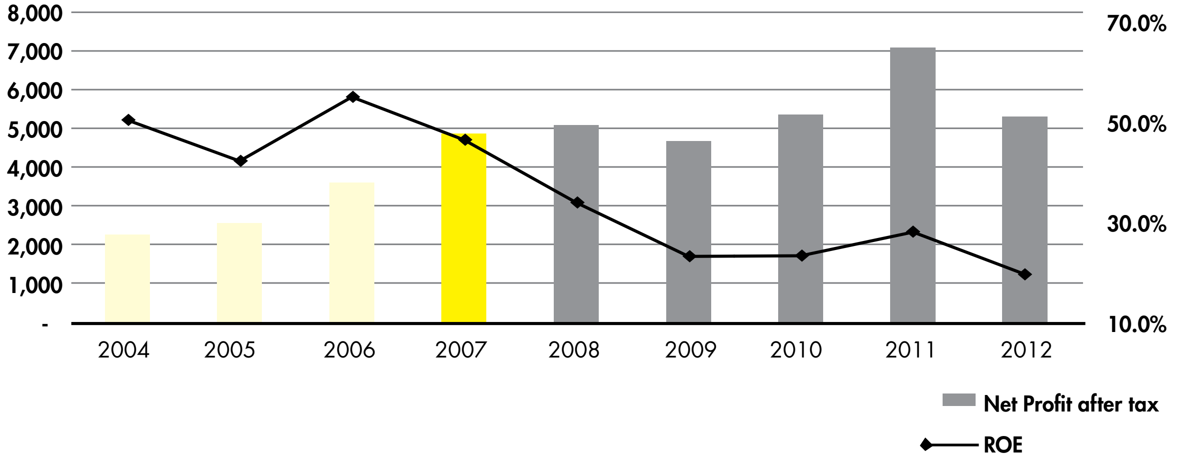


Total general administrative expenses during 2012 were ALL 1,968 million (2011: ALL 1,911 million). The Bank's operating efficiency – the cost/income ratio changed– from 35 per cent to 41 per cent.
The staff expenses increased by 14 per cent or ALL 2,520 million in 2012 to ALL 2,220 million in 2011.

General Administrative Expenses



Profit & ROE
(in '000,000 ALL)



Segment Reports

Corporate and SE products Division

Cash Management Products

Cash Management Products Unit has continuously worked for the optimization of Cash Management solutions and in the same time for offering attractive Cash Management Products both for Domestic and International Small Businesses and Corporate Customers.

During 2012, we have improved our products and service with the aim to provide a full range of innovative products related to liquidity management and delivering packages according to business specific needs.

Starting from October 2012, Raiffeisen Bank Albania is officially a Standardised Corporate Environment (SCORE) member. This create a great opportunity especially for International Customers to exchange SWIFT messages through the direct interaction with our Bank, aiming payment initiation and account statements collection in a centralized way.

Project Finance

Project Financing Unit has completed several projects during 2012, offering to corporate clients a professional solution that fits their needs for financing. We have strengthened collaboration with other financial institutions who find in Raiffeisen Bank an outstanding financing partner.
Focused on the successful completion of each of our projects, the main qualities that distinguish us are: creativity, competence and market awareness.

Trade Finance Products

Raiffeisen Bank Sh.a offers advisory service to its customers, in order to enable them to properly use the Trade Finance Transactions to reduce the risk of trading relations with relevant international and domestic partners. We support our customers in performing these transactions timely and with high quality through a dedicated team established in the Corporate and SE Products Division since 2010. The establishment of this structure within the Corporate and SE Area, which stands very close to our customers, has contributed in a further increase of our business from year to year.

Raiffeisen Bank Albania has successfully launched Factoring and presented to the target group customers during a special event organized in cooperation with Raiffeisen Bank International during November 2012. This product targets businesses and aims to extend and intensify the relationship with existing and new potential customer, expand the product range and create positive odds of exploiting new cross selling opportunities.
In addition by performing Factoring activity within the Bank through utilizing existing expertise and support of RBI, well balanced structures and distribution channels and by making use of Bank liquidity sources, we do create a competitive advantage, in comparison to other competitors.

Corporate and Small Businesses Development

The main objective of the Unit Corporate and Small Business Development for the year 2012 has been improvement of the services offered to Corporate and Small business in Albania by the staff allocated in Raiffeisen Bank branches. The presence of dedicated staff in the main Branches where this target group of customers is allocated has increased significantly the efficiency of products and services offered.
In addition, the Unit has successfully managed Corporate and Small Businesses complains toward the bank, through investigation, coordination, communication with Branches and other departments leading in improvement of products, services and internal processes.

Customer Segment Development

Mass Private Individuals Customers

The Customer Relations Management (CRM) program and systems were strengthened, as demonstrated by results in 2012. 35 per cent more customers were targeted through different channels of communication aiming at offering products and services in accordance with the customer needs identified through our new Customer Life Cycle (CLC) approach.

158 different CRM programs were conducted during 2012 (plus 108 per cent versus 2011). Approximately 390,000 customers were targeted during 2012 delivering very good results , especially for the renewed term deposit campaign, credit card sales, E-banking channels, payments and transactions , to name a few.

Successful automation of CRM programs and campaigns during 2012 will have a big impact on the number and higher quality of CRM programs and campaigns in 2013. During 2012, a new strategic approach to customer base development was initiated. It focuses business development with the customer first, in a holistic, customer-needs driven way. First step was the launch of the new account packages reflecting the evolving needs of the customer during their life cycle, increasing customers' satisfaction and loyalty over a long relationship. The goal is to create a lifelong relationship with each customer, offering them different products and services as their live evolve and needs change over time.

High interest was noted from customers with sales of these packages at levels twice our forecast during 2012. Within a short period of time there was increased interest by clients in use of the debit card, payments and electronic channels usage. This shows Raiffeisen is on the right path and we will strengthen the momentum in 2013.

The very important group of salary depositors continued to be served with high dedication and quality. Customer product usage increased by 7 per cent. During 2013, Raiffeisen will continue to focus on this very important customer segment, even expanding its already strong market position.

Premium Segment

During 2012 a new model composed of two tiers was introduced in Premium Segment which assures the highest standard of banking service to the most valuable customers of the bank. Premium Club and Premium Classic assure high levels of services in all our branches while providing a unique banking service in 16 branches with special Premium Relationship Managers.

Premium Segment has a customer base of 34,242 from which almost 12 per cent belong to the top category of our Retail customer base, "Premium CLUB".

The dedicated sales force of 20 Premium Relationship Managers is located in 15 strategic branches. These specially trained managers provide unparalleled personalised banking and financial advisory services.

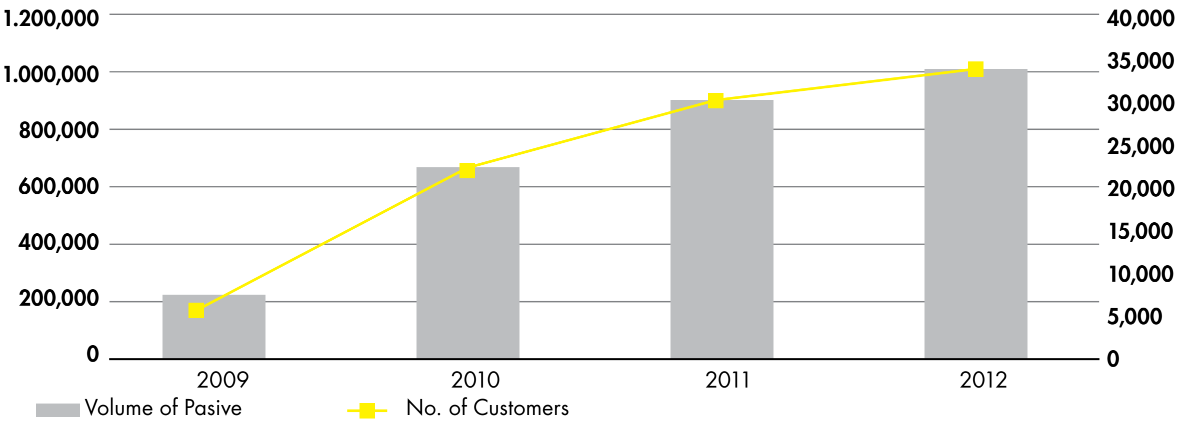
For all Premium Banking clients, the best in class products and a very attractive package provides the most extensive benefits in Albanian banking.

No other bank offers a level of service such as Raiffeisen Bank Premium Banking, which gives Raiffeisen Bank a key competitive advantage in attracting, retaining and increasing services used by affluent customers.

The Premium banking portfolio grew strongly during the year 2012, with liabilities of € 1,036 billion and Assets of € 26 Million.

We will continue focusing during 2013 on strengthening the relationship with our premium customers by offering attractive, competitive and high service standards.

Total Liabilities and Number of Customers



Micro Segment

The priority of Raiffeisen Bank during 2012 has been the support of Micro businesses in their day to day activity by fulfilling their immediate needs and offering a strong partnership in their future needs.

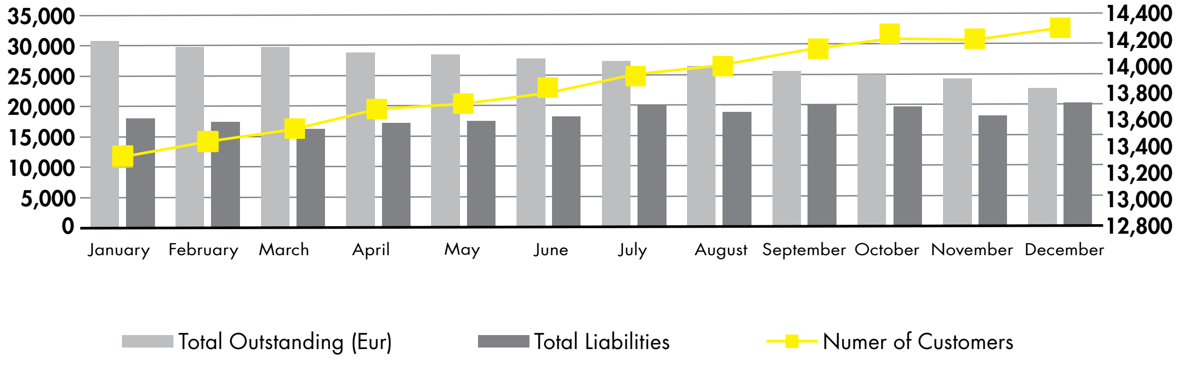
We continued to invest in the development of our human resources dedicated to servicing this customers' segment.

During 2012 Micro Segment has been focused mainly in customer primary relation management and portfolio quality. The new approach was reflected in new structures, organization, new focuses, strategies and a lot of efforts from the sales team. The year ended with a Micro portfolio of Assets € 22.8 million and Liabilities € 20.5 million. Our Micro customer base exceeded 14,000 customers.

In terms of serving our customer's day to day needs, they continue to be served not only from all branches of the network but also from our dedicated staff of 30 Micro Account Managers located in 30 branches. Micro Account Managers are well trained to offer counselling in financial services relevant for these small business owners.

In 2013, the micro business segment will continue to focus on strengthening primary relationships with customers, increase market share and offer attractive and competitive products.

Total Outstanding, Liability Vol. and Number of Clients,
January - December 2012



Product Management Division

Loans

The loan market for individual customers still has significant long term growth potential, but has slowed in its development in 2012. Raiffeisen Bank has continued to capture a significant portion of the market demand for new volumes by focusing entirely on the needs and requests of its customers, especially in unsecured loans. Raiffeisen continues to be a leader in Retail banking, with strong market position in consumer loans achieved through superior distribution and products.

Deposits

2012 was an important year for banking as deposits grew, and stability was achieved following the European financial crisis. Retail deposits grew significantly in 2012 as we focused on transparency, greater convenience and competitive pricing to achieve € 90 million volume growth and maintain over 30 per cent market share on Individual (PI) liabilities.

The new, state-of-the-art deposit systems platform allowed us to introduce market leading flexibility and enhanced options for our savings customers. This includes monthly, quarterly, semi-annual and annual interest payment choices, auto renewal, options to reinvest earned interest or interest payment to third parties. Clients can choose the specific maturity date of their deposit, access their funds any time needed and there are no commissions or hidden fees. And to further meet our customer's desire for new ways to grow their wealth, we now offer mutual fund investment opportunities through Raiffeisen Invest asset Management Company. We are the only bank to offers such flexible options in the Albanian market.

With the deposit base strong, the on-going goal is to balance market share with optimal liquidity needs of the Bank as well as to maintain reasonable margins in the face of sometimes aggressive pricing tactics by some competitors.

Payments and Transfers

During 2012 the number of Payments and Transfers made by Individual, Premium and Micro customers increased by 21 per cent versus the previous year, while the commissions generated from these services increased by 13 per cent. More attractive pricing and promotional activities led to this strong growth. Payments and Transfers still represent significant growth opportunity which Raiffeisen will achieve through continued market development.

Card Business and Electronic Banking Division

A modern and Innovative Bank

Credit Cards

During 2012, the Credit Card product continued to grow in number of new cards issued and also as a total portfolio. At the end of the year Raiffeisen Bank had about 40 per cent of the market share for the product having an outstanding position amongst the competitors. In parallel there was a significant increase in the transactions' volume performed with these cards. This achievement was enabled through the launch of cash back usage campaigns during the months of July, August and September. These campaigns were very successful not only in terms of usage increase but also as a step forward in cardholders' education for POS usage. In 2013, Raiffeisen Bank will continue to significantly increase the credit card product as well as promote their usage in POS terminals.

Debit cards

Raiffeisen Bank continued to be a leader in the market during 2012 having the highest number of debit cards in Albania with a market share of about 30 per cent. During this year, 36,000 new debit cards were issued. Also the number of transactions performed with these cards in ATMs and POS terminals increased. Debit cards usage campaign launched during summer for one of the biggest malls in the country was a special incentive for the education of the cardholders towards POS usage.

POS Network

In 2012 Raiffeisen Bank further developed its POS network all over the country continuing to build and have the largest POS Network in the banking market. Merchant Acquiring offers to the cardholders the possibility to use their debit and credit cards, Visa, Visa Electron, MasterCard and Maestro brands, to perform purchases at Points of Sale and also Cash Advance transactions at branches. 1,440 POS terminals were installed by the end of the year 2012, 25 of them at branches offering Cash Advance service (Cash Advance at branches offers to the cardholders the possibility to withdraw money through the POS terminal). Our POS network is extended in more than 35 cities offering this service to 70 different merchant categories including hotels, travel agencies, shops, restaurants, petrol stations, hypermarkets and the largest and newest shopping malls in the country. During 2012 the Bank continued to increase the performance of this network in terms of transactions and volumes by focusing on merchants' needs and requests and also by keeping pace with market's developments and technological requirements.

E-Commerce

In 2012 the Bank launched a new service for cards' acceptance through the internet: E-Commerce. Raiffeisen Bank is the first bank in our market to offer Internet Acquiring in Albania. Internet Acquiring offers the businesses a possibility to sell their products and services through the internet so the cardholders can enter business' official website and buy desired products/services by using their cards. Raiffeisen Bank offers this service through 3-D Secure Technology - the most advanced standard of payment security.

ATM Network

During 2012 Raiffeisen Bank maintained its role of leader in the Albanian banking market with a total of 197 ATM's, a considerable difference with the other nearest competitors. Types of cards accepted are VISA, VISA Electron, PLUS, MasterCard, Maestro and Cirrus with no limitations for any country or bank. Euro dispense service was offered by 30 ATM's all over the country, with a special focus on in the touristic areas, shopping malls and populated areas . Raiffeisen Bank ATM Network is certified as fully EMV Chip capable for Visa and MasterCard brands, providing a great advantage by offering the cardholders the highest levels of transactions' security. During the year, Raiffeisen Bank implemented other security features in the ATM Network including PIN Shields for PIN protection, integrated cameras etc. During 2012 the Bank increased the variety of functionalities offered in the ATM Network by offering Mini Statement. This new functionality offers to Raiffeisen Bank's Visa Electron cardholders the possibility to be informed through the ATM on the last ten transactions of their current account linked with the debit card.

Electronic Banking

Being the leading bank in Albania, Raiffeisen Bank has continued its role in transforming the market and making it easier for Albanians to access banking services.

Mobile Banking service launched by the end of 2011, achieved a large base of customers in 2012, by reaching almost 10,000 users in only one year. This new way of Banking through mobile phones, enabled customers to check their accounts, deposits, cards, loans, or perform utility payments via their mobile phone. Considering the massive penetration of mobile phones in the country and our well-designed and advanced Mobile Banking solution we expected the service to further grow in both terms of customers and usage.

Internet Banking platform - that provides 24/7 information on account balances, account transactions, and allows different types of payments - has been growing on a regular base during 2012. Customers have continued taking advantage of this easy and comfortable way of banking leading it's usage at very satisfactory levels. During 2012 also some upgrades started to be implemented in order to make it a more user-friendly and convenient electronic banking solution.

With the quick growth in the number of mobile phone subscribers and the evolution in banking technology the interest in banking through mobile phones keeps on rising at our Bank. This led to a new and advanced electronic solution developed during 2012 using mobile phones as an alternative channel of payments. Mobile Payments solution final scope will be to offer consumers a free, convenient and easy way of paying their bills through their mobile phones.

Call Center

Call Centre has two main activity streams, handling of inbound queries and providing outbound telemarketing and informing campaigns.

There are eight agents in the incoming team who offer 24/7 service, providing information on bank products and services as per customers' needs. Incoming call team supports the customers' queries assisting them in addition on Cards services and Electronic Banking.

The Outbound team of six agents has contacted on regular basis selected customers through phone calls and SMSs with tailored offers as part of the bank's Customer Relationship Management (CRM) program. 136 campaigns have been performed during 2012, with 151,000 targeted customers in total. 67 per cent were telemarketing campaigns with the purpose of increasing penetration of bank products and services, 22 per cent of them were informing campaigns with focus on increasing of usage of bank products and services, while 11 per cent of targeted customers are contacted from Outbound Unit for Voice of Customer questionnaires on different topics related to customers' satisfaction on products features or service quality.

Distribution Channels

2012 was a year of focusing mainly on improving the overall quality of the service delivered in our branches and the effectiveness of our network. We maintained our strong leadership position as the largest bank in Albania with 103 locations serving the entire geography of our country. After much attention given to Tirana in improving facilities of our network, 2012 saw significant investments made in Elbasan and Gjirokastra in order to improve the banking experience for our customers and also confirm our commitment to support all areas of Albania.

Much focus was given in the continued development of our front line resources in order to improve their capacity to better assess and respond to our customers' needs. One specific area of development was the introduction of financial advice in the field of Investment Funds, a new financial product introduced in February 2012. Our personal bankers remain versatile in handling both customer non-cash transactions and also in assisting them with their more complex financial needs. Significant time was invested to train our branch personnel on both technical and sales skills. Our customer centric approach has proven successful as confirmed by our service quality index which has been constantly improving throughout 2012.

On the branch efficiency front, new financial monitoring tools were introduced to better assess the productivity and efficiency of our branches. Managers are now capable to better understand the dynamics of their branches and propose changes to improve their efficiency and the quality of the service provided to customers.
Regarding Micro, efforts were mainly deployed to improve portfolio management by our account managers. Better understanding our Micro customers' needs and challenges and pro-actively acting on them is already resulting in an improved portfolio quality. We remain committed to supporting the important segment of small businesses in Albania.

Our alternative sales channels continued to actively support our branch network. Direct Sales Agents and Retail Sales Finance Representatives delivered their best performance ever in loan volumes and other banking products. They remain dedicated to complement our branch network by identifying, qualifying and pre-selling existing customers and prospects in the key product and service areas of Retail.

In conclusion, 2012 was about strengthening the skills and competencies of our branch staff in order to provide more adequate financial advices and solutions to our customer base.


Fitoni çdo sfidë!
2012

Treasury and Investment Banking

Fixed Income

During 2012, RBAL was still the main investor in the government securities market. Due to the new EU regulation in place, especially for capital adequacy and risk weighted assets targets, RBAL decreased the exposure in government papers, declining mainly the participation in the treasury bills primary market. Although we decreased the short term investments, we continued to be focused on long-term securities and our market share was 51 per cent of the bond market in the country.

Throughout the year, we had a well-structured portfolio, which was composed of securities investments as hold to maturity and held for trading portfolio. Our long-term investments in Treasury bonds were 85 per cent of our securities portfolio. End of December our securities trading portfolio in local currency reached approximately € 295 million.

Although it was a difficult year, the fixed income unit performance was quite successful during 2012. We managed to be very active with banks and financial institutions in the secondary market. The portfolio management and new investments produced a high level of trading book result.

Our goal was to increase and diversify the investment alternatives and opportunities for our clients offering them treasury securities of different maturities. Consequently, it is worth underlining that we are proud because we are major contributors in the secondary market of treasury bills and bonds by trading them at all our branches across the country. During 2012 the volume and transactions number of treasury bonds traded in secondary market was more than tripled comparing to previous year.

Raiffeisen Bank was the main investor in the new investment fund "Raiffeisen Prestige" launched on February 2012. We contributed in the success of this fund by investing with government papers, mainly treasury bonds and by giving our support and consulting to Raiffeisen Invest Company to achieve the highest return from the investment portfolio.

We continued to accomplish the role of the custodian of securities issued by the government of Albania, enabling foreign and domestic investors to participate in our securities market. Custody service and other new services to be provided in a near future are part of our efforts and challenges for further development of the financial domestic market

Money Market

Money Market Unit, as an important part of the Dealing Room has deeply contributed in the short term liquidity management of the bank. Even during this year, this unit has performed a high number of transactions in the local as well as in the international market, by further developing the inter-bank activity. The Money Market unit has done its maximal efforts to fulfil short term liquidity needs observing Central Banks' regulations, as well as other local and foreign regulatory requirements. The daily work was performed by closely collaborating with other units within Treasury and intradepartmental sections as well, in way to timely respond to different needs, changes and challenging of the markets and of course by maximizing profit and minimizing risk.

Our Money Market unit is an active and necessary part of a still developing local market, especially with daily quotations supporting the TRIBID/TRIBOR publications. These quotations are very important aspect of the local market development, reflecting its activity and TRIBID/TRIBOR are also a relevant issue in forecasting and interpreting market situations.

The Money Market unit will continue to give its contribution, in way to further impact in development of the market, instruments and investment possibilities in short term.

Foreign exchange

Even the year 2012 has been associated with difficult situations in the economies of some European countries, which have led to a great fluctuation exchange rates in international mark. European economic crises especially in our neighbor country Greece, has been also reflected in Albanian market by reducing significantly the Albanian business financial activities

In Albanian market the European currency has been more stable comparing to US dollar which has been characterized by big movement reflecting the USD trend in international market.
Foreign exchange unit gave its maximum support in this turmoil market by maintaining a small spread in the bid / ask and quoting at very competitive prices in the interbank market and with customers.

This year was also a very successful one for Foreign Exchange Unit, which could carefully manage the bank's foreign currency positions through analyzing warily the different situations that affected the financial markets and it closed the year with high outcomes.

Volumes of foreign exchange transactions were enhanced compared to 2011, by running at € 250 million per month, where Euro/USD operations comprised the most part, while operations in the local and foreign interbank market amounted to more than 200 million per month

Treasury Sales

Treasury Sales Unit managed to retain its position in the market during 2011 as well, serving to Raiffeisen Bank clients at any time.

Thanks to the preferential terms offered to all business segments, this unit played a key role in exploring the opportunities and providing solutions to customers about FX products and interest rates. Besides increasing the profits and responding to the customers' needs, another fundamental objective of this unit was the further strengthening of relations with the client as a very important factor during financial crises.

In spite of an awkward financial situation in the international stage during this year, the Sales Unit of the Treasury Department managed to realize its targets due to its strong relations with the dealing room and other business divisions of the bank.

Corporate Social Responsibility

Corporate Social Responsibility continues to be an important part of the policies and the business philosophy of Raiffeisen Bank. Taking into consideration also its position in the market as the biggest bank in Albania, Raiffeisen Bank continues its support towards community through the sponsorship of numerous projects all over the country, projects that have impact in the social life, in education, health and sport.

One of the main projects supported by Raiffeisen Bank and that had a great impact in the social life of the country, was the climbing of Everest Mountain by the first Albanian team ever. This was an initiative of a group of alpinists, who decided to climb the world's highest peak, Everest Mountain. The climbing with success was an achievement for the Albanian alpinism and a special pride for Albania, being that this year was celebrating the 100th anniversary of its Independence.

As part of its social responsibility, Raiffeisen Bank has continued its contribution for the second year in a row in supporting the summer camps organized by Terre des Hommes in Albania. The summer camps established in Elbasan, Pogradec, Korcë, Vlorë, Fier and Saranda, had a positive impact in the life of the children that participated there, contributing in this way in their education and entertainment as well as in the improvement of their life in general.

Other social projects supported by Raiffeisen Bank have been activity organized for orphan children on the occasion of end-year feasts or the donations of books for "Zyber Hallulli" orphanage in Tirana.

Following its sponsorship policy focused mainly on the education sector, Raiffeisen Bank has given its contribution in several projects in this field. A special focus on this regard has been the donation of computers for several schools, the reconstruction of the school yards, different activities organized in schools, etc. In addition, in the framework of the collaboration with the Municipalities, the bank has supported the establishment of the game corners in the main squares of the cities of Lezha, Delvina, Cërrik, etc.

Raiffeisen Bank has continued its support also for the health sector like the donation of medical equipment for Korça hospital or the reconstruction of the Health Center in Fushë Kruja.

Another focus remains the improvement of community's life through the support of environmental projects. In this framework, Raiffeisen Bank has continued to support the project for coast cleaning initiated and organized by "The Forum of Free Thinking". During these actions have been cleaned the coasts of Orikum and Velipoja, where the staff of Raiffeisen was also involved voluntarily. The contribution is extended further in this field with the increase of green areas through planting of trees or green parks in the cities of Rrëshen Berat, Kuçova, etc.

Raiffeisen Bank in Albania, besides offering the banking products and services, remains always committed to contribute and support projects for the community and the improvement of its life as part of its social responsibility.

Human Resources & Training

Raiffeisen Bank Sh.a maintained its leading position as the biggest employer in Albania even during 2012, by focusing on staff motivation and satisfaction by offering/creating a promising work environment, competitive financial packages and effective training program.

Statistics

2012 HR & Training figures:

- Total number of employees – 1,458
- Female employees – 74%
- Male employees – 26%
- Average age – 35.13
- Total number of training days – 4,551
- Over 980 bank employees have attended at least one training session
- Number of training days per employee – 3.25
- The total budget spent on training & development activity – € 244,526

Training and Development

Training and development constitute a strategic tool that helps achieve organization's business goals and targets. Training and development is the process of acquiring or transferring of KSA-s (knowledge, skills and qualifications), needed to perform a specific activity or task; therefore, benefits of employees and employers from training and development are of a strategic nature, thus of a broader scope.
In order to meet the current and future business challenges, Training and Development undertakes a series of educational actions, which range from training the staff to perform their daily tasks and knowledge exchange in order to improve business perspective and customer service.
Training and Development activities were focused on the following:

- **Orientation Training for New Hires**

All the new hires attended Orientation Training Package, which is highly important as they are introduced to the bank mission, corporate values, its objectives and policies. During this training stage, employees receive general information on a wide range of bank products, services and policies. Dedicated training packages are provided to specific business segments.

- **Improvement of Customer Service Quality and Sales Skills**

In order to remain competitive and succeed in the market, it is important to have a long term relation with customers. Well- trained employees will make the customers feel good about sustaining their relationship with the company. During 2012, the bank invested in providing training and knowledge refreshment seminars to our employees in front office in order to support the positive achievements of every campaign launched from the bank.

- **Management Trainings**

Leadership development and management education is crucial in producing real results for an organization. Learning and Development coordinates educational offerings with the bank's strategic objectives so that the training initiatives support company' goals.
In 2012, several management and leadership training programs were held for managers in Head Office and in the Branches.

- **eLearning courses**

E-Learning platform has been used heavily and effectively during 2012. RBAL eLearning Team has developed different online modules and tests for knowledge assessment.
The eLearning approach is very helpful in reaching large training audiences easily and at any time and with low costs.

Internship Program

During 2012 we continued the internship program, both for head office and network units. This program was successfully used to hire new staff by selecting the most talented and motivated people from different universities. Through this program students have the opportunity to become acquainted with the spirit and culture of a multinational company.

Also, in 2012, the initiative of FASTIP program has been widely implemented not only providing support to 4 students each year who are studying in "Banking Management" branch but also involving them in the daily banking activity in order the studies and practice to be perfectly aligned.

Performance Management

Through this important process we aim to link individual employee objectives with the organization's mission and strategic plans. RBAL HR policies aim to reinforce a culture that promotes high performance. Our focus is creating / having a clear policy based on the objectives, results behaviours and actions. Parts of the process are defining development plans, coaching, mentoring, feedback and assessment.

We also aim to encourage, promote the best employees, motivate and recognize the best performers; identify trainings based on development needs.

It is the second year that "Reward and Recognition" program is in place by promoting the best performers of the bank. This is done to create an organizational culture that fosters incentives.

Talent Management

The purpose of this program is the retaining and development of high-potential employees. In 2012, we continued to identify highly talented employees and conceived Individual Development Plans as part of the special talent management programs provided by the Bank.

Independent Auditor's Report

RAIFFEISEN BANK SH.A.

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Raiffeisen Bank Sh.a:

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte.

Deloitte Albania shpk

March 27, 2013
Tirana, Albania

Consolidated statement of financial position as at 31 December 2012

(amounts in Lek'000)

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

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

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 49 to 94.

Consolidated statement of comprehensive income for the year ended 31 December 2012

(amounts in Lek'000)

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

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 49 to 94.

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

	Attributable to equity holders of the Bank							
	Share capital	**General reserves**	**Revaluation reserve**	**Since acquisition reserves of the subsidiary**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 31 December 2010	**9,926,093**	**2,801,000**	**17,237**	**-**	**14,840,357**	**27,584,687**	**68,955**	**27,653,642**
Transfer of retained earnings in general reserve	-	3,513,300	-	-	(3,513,300)	**-**	-	**-**
Dividend payment	-	-	-	-	(5,268,053)	**(5,268,053)**	-	**(5,268,053)**
Since acquisition reserves of the subsidiary	-	-	-	63,773	(63,773)	**-**	-	**-**
Net profit for the year	-	-	-	-	7,069,320	**7,069,320**	15,962	**7,085,282**
Other comprehensive income (Note 12)	-	-	8,476	-	-	**8,476**	-	**8,476**
Balance as at 31 December 2011	**9,926,093**	**6,314,300**	**25,713**	**63,773**	**13,064,551**	**29,394,430**	**84,917**	**29,479,347**
Capital increase	4,252,500	-	-	-	(4,252,500)	**-**	-	**-**
Transfer of general reserve in retained earnings	-	(3,491,486)	-	-	3,491,486	**-**	-	**-**
Dividend payment	-	-	-	-	(3,728,947)	**(3,728,947)**	-	**(3,728,947)**
Since acquisition reserves of the subsidiary	-	-	-	41,617	(41,617)	**-**	-	**-**
Net profit for the year	-	-	-	-	5,289,166	**5,289,166**	16,501	**5,305,667**
Other comprehensive income (Note 12)	-	-	12,073	-	-	**12,073**	-	**12,073**
Balance as at 31 December 2012	**14,178,593**	**2,822,814**	**37,786**	**105,390**	**13,822,139**	**30,966,722**	**101,418**	**31,068,140**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 49 to 94.

Consolidated statement of cash flows for the year ended 31 December 2012

(amounts in Lek'000)

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

The consolidated statement of cash flow is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 49 to 94.

1. INTRODUCTION

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

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

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

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

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

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

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

Directors and Management as of 31 December 2012 and 2011

Board of Directors (Supervisory Board)	
Helmut Breit	Chairman
Heinz Hodl	Member
Peter Lennkh	Member
Ferenc Berszan	Member
Andreas Engels	Member
Audit Committee	
Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Mitter	Member
Management Board	
Christian Canacaris	Chief Executive Officer
Alexander Zsolnai	Vice-chairman of the Management Board
John McNaughton	Member
Raphaela Bischof-Rothauer	Member

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of consolidation

(i) Business combinations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(i) Business combinations (continued)

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

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

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

(ii) Subsidiaries

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

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

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest

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

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

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

(d) Fees and commission

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

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

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

e) Net trading income

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

(f) Operating lease and other operating expenses

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

The operating expenses are recognized when incurred.

(g) Employee benefits

- Defined contribution plans

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

- Paid annual leave

The Group recognizes 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

- Short-term benefits (continued)

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

- Termination benefits

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

(h) Income tax expense

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

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

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

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

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

(i) Financial assets and liabilities

i Recognition

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

ii Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities (continued)

ii Derecognition (continued)

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

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

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.
In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

iii Amortised cost measurement

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

iv Fair value measurement

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

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

v Offsetting

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

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

vi Identification and measurement of impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities (continued)

vi Identification and measurement of impairment (continued)

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

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

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

vii Designation at fair value through profit or loss

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

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

(j) Cash and cash equivalents

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

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

(k) Trading assets and liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Non-trading derivatives

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

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

(m) Loans and advances

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

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

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

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

(n) Finance Leasing

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

i Held-to-maturity

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

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

ii Fair value through profit or loss

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

iii Available-for-sale

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

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

(p) Property and equipment

i Recognition and measurement

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

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

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

ii Subsequent costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Property and equipment (continued)

iii Depreciation

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

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

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

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

(q) Intangible assets

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

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

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

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

(r) Voluntary pension fund and Investment Funds

- Raiffeisen INVEST acts as a Management Company for the following Defined Contribution Funds:
- The Defined Contribution Fund “Raiffeisen Voluntary Pension Fund” which was approved by the Albanian Financial Supervisory Authority on October 18, 2010;
- “Raiffeisen Prestige” which was approved by the Albanian Financial Supervisory Authority on December 13, 2011;
- “Raiffeisen Invest Euro Investment Fund” which was approved by the Albanian Financial Supervisory Authority on September 26, 2012.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Deposits and other financial liabilities

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

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

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

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

(u) Impairment of non-financial assets

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

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

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

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

(v) Provisions

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

(x) Standards and interpretations effective in the current period

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Standards and Interpretations in issue not yet adopted

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** - Mandatory Effective Date and Transition Disclosures, published by IASB on 16 December 2012. Amendments defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" -** Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" -** Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 1 "Presentation of financial statements" -** Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 19 "Employee Benefits" - I**mprovements 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 Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Except as described above relating to IFRS 9, the Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

4. USE OF ESTIMATES AND JUDGMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.
These disclosures supplement the commentary on financial risk management (note 5).

Key sources of estimation uncertainty

Allowances for credit losses

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

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

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Determining fair values

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

- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

5. FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

Risk management framework

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

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

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

Current developments

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

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

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

Management of credit risk

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

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

(i) Investment securities

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Loans and advances to customers

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Impaired loans and securities

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write-off policy

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. 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.

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

Minimum lease payments receivable

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

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

Settlement risk

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

						31 December 2012
	Individual	Corporate	SME	Micro - Business	Employees	Total
Overdraft	**2,137,172**	**46,733,603**	**5,716,631**	**1,125,523**	**68,125**	**55,781,054**
Credit Card	328,290	-	-	-	39,892	**368,182**
Loans						
Short term	149,280	764,404	128,729	12,373	1,229	**1,056,015**
Medium term	3,518,209	24,855,866	3,107,301	1,337,698	127,920	**32,946,994**
Long term	8,303,794	18,778,852	3,081,429	453,544	351,364	**30,968,983**
minus Administrative fee	(169,236)	(273,473)	(53,282)	(23,971)	-	**(519,962)**
	11,802,047	**44,125,649**	**6,264,177**	**1,779,644**	**480,513**	**64,452,030**
Mortgage	**8,813,112**	**-**	**62,630**	**316,515**	**1,875,804**	**11,068,061**
Other	**545,324**	**2,519,473**	**967,959**	**289,424**	**3,583**	**4,325,763**
Total (Note 10)	**23,625,945**	**93,378,725**	**13,011,397**	**3,511,106**	**2,467,917**	**135,995,090**

						31 December 2011
	Individual	Corporate	SME	Micro - Business	Employees	Total
Overdraft	**2,642,981**	**45,407,105**	**6,770,969**	**1,620,777**	**61,162**	**56,502,994**
Credit Card	**228,592**	**-**	**-**	**-**	**31,427**	**260,019**
Loans						
Short term	138,979	327,478	183,357	42,942	1,971	**694,727**
Medium term	3,823,889	22,859,189	3,677,216	1,933,416	160,827	**32,454,537**
Long term	9,603,044	17,415,120	3,460,370	408,470	429,692	**31,316,696**
minus Administrative fee	(184,390)	(251,533)	(62,858)	(41,936)	-	**(540,717)**
	13,381,522	**40,350,254**	**7,258,085**	**2,342,892**	**592,490**	**63,925,243**
Mortgage	**7,818,371**	**-**	**-**	**363,262**	**1,294,814**	**9,476,447**
Other	**479,391**	**2,817,067**	**1,259,795**	**266,074**	**5,200**	**4,827,527**
Total (Note 10)	**24,550,857**	**88,574,426**	**15,288,849**	**4,593,005**	**1,985,093**	**134,992,230**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

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

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

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

Residual contractual maturities of financial assets and liabilities

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

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

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

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

Management of market risks

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

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

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

Exposure to foreign exchange risk

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

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

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

2012	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
	increase	decrease	increase	decrease
Estimated profit / (loss) effect	(458,571)	458,571	1,182,587	(1,182,587)

2011	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
	increase	decrease	increase	decrease
Estimatedprofit / (loss) effect	(525,831)	525,831	1,416,994	(1,416,994)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

Overall interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from the Group's trading and non-trading activities.
A summary of the Group's interest rate re-pricing analysis is as follows:

							31 December 2012
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 yea	Non-specific	Total
Assets							
Cash and cash equivalents	38,153,089	-	-	-	-	-	**38,153,089**
Restricted balances	28,243,158	-	-	-	-	-	**28,243,158**
Investments held for trading	93,717	42,238	727	8,598,590	32,545,898	-	**41,281,170**
Held-to-maturity investment securities	2,913,252	11,741,350	16,443,658	23,747,131	26,536,291	-	**81,381,682**
Loans and advances to customers, net	10,257,581	25,411,133	16,153,079	67,860,819	6,250,399	(1,356,292)	**124,576,719**
Income tax prepaid	186,104	-	-	-	4,086	-	**190,190**
Other assets, net	84,515	86,044	135	152	662,743	-	**833,589**
Total	**79,931,416**	**37,280,765**	**32,597,599**	**100,206,692**	**65,999,417**	**(1,356,292)**	**314,659,597**
Liabilities							
Due to financial institutions	823,722	1,117,390	-	-	-	-	**1,941,112**
Due to customers	97,022,918	37,890,877	40,219,988	105,151,867	4,110,177	-	**284,395,827**
Other liabilities	1,445,592	24,716	39,155	4,083	-	-	**1,513,546**
Total	**99,292,232**	**39,032,983**	**40,259,143**	**105,155,950**	**4,110,177**	**-**	**287,850,485**
Gap as at 31 December 2012	**(19,360,816)**	**(1,752,218)**	**(7,661,544)**	**(4,949,258)**	**61,889,240**	**(1,356,292)**	**26,809,112**

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

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

	31 December 2012					31 December 2011				
	Lek	EUR	USD	Other	Total	Lek	EUR	USD	Other	Total
Assets										
Cash and cash equivalents	5,650,912	26,383,017	1,452,042	4,667,118	**38,153,089**	1,650,416	18,134,089	655,624	3,636,667	**24,076,796**
Restricted balances	14,862,570	11,749,621	1,630,967	-	**28,243,158**	14,686,115	9,565,521	1,419,815	-	**25,671,451**
Investments held for trading	41,281,170	-	-	-	**41,281,170**	39,202,048	-	-	-	**39,202,048**
Investments held to maturity	81,381,682	-	-	-	**81,381,682**	105,760,202	-	-	-	**105,760,202**
Loans and advances to customers, net	36,391,846	72,771,569	14,998,479	414,825	**124,576,719**	36,424,392	73,233,659	14,011,743	456,488	**124,126,282**
Property and equipment, net	1,987,074	-	-	-	**1,987,074**	1,808,116	-	-	-	**1,808,116**
Intangible assets, net	1,225,926	-	-	-	**1,225,926**	609,060	-	-	-	**609,060**
Equity Investments	37,785	-	-	-	**37,785**	25,713	-	-	-	**25,713**
Goodwill	92,783	-	-	-	**92,783**	92,783	-	-	-	**92,783**
Income tax prepaid	190,190	-	-	-	**190,190**					
Other assets, net	1,540,537	204,016	4,382	112	**1,749,047**	475,348	974,755	22,746	8,995	**1,481,846**
Total	**184,642,475**	**111,108,223**	**18,085,870**	**5,082,055**	**318,918,623**	**200,734,193**	**101,908,024**	**16,109,928**	**4,102,152**	**322,854,297**
Liabilities										
Due to financial institutions	32,756	1,638,571	269,471	314	**1,941,112**	709,542	3,870,046	491,162	264,659	**5,335,409**
Repurchase agreements sold	-	-	-	-	**-**	8,150,088	-	-	-	**8,150,088**
Due to customers	155,790,358	107,742,153	16,037,252	4,826,063	**284,395,826**	164,166,405	95,408,013	15,038,674	3,902,519	**278,515,611**
Income tax payable	-	-	-	-	**-**	125,375	-	-	-	**125,375**
Deferred tax liabilities	262	-	-	-	**262**	10,258	-	-	-	**10,258**
Other liabilities	1,453,566	99,985	37,500	(77,767)	**1,513,284**	910,931	165,522	93,371	68,385	**1,238,209**
Non-Controlling Interest	101,418	-	-	-	**101,418**	84,917	-	-	-	**84,917**
Shareholder's equity	30,966,721	-	-	-	**30,966,721**	29,394,430	-	-	-	**29,394,430**
Total	**188,345,081**	**109,480,709**	**16,344,223**	**4,748,610**	**318,918,623**	**203,551,946**	**99,443,581**	**15,623,207**	**4,235,563**	**322,854,297**
Net Position	**(3,702,606)**	**1,627,514**	**1,741,647**	**333,445**	**-**	**(2,817,753)**	**2,464,443**	**486,721**	**(133,411)**	**-**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risks

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

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

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

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

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

(f) Capital management

Regulatory capital of the Bank

The 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%.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (continued)

Risk-Weighted Assets (RWAs)

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

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

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

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

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

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

Regulatory capital of Leasing Company (subsidiary of the Bank)

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

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

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

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

6. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Cash and cash equivalents

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

Investment securities

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

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

Loans and advances to customers

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

Due to customers

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

Due to banks and financial institutions

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

7. CASH AND CASH EQUIVALENTS

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

Current accounts with the Bank of Albania bear no interest.

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

8. RESTRICTED BALANCES

	31 December 2012	31 December 2011
Central Bank		
Statutory 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 March 2012. There is no interest on obligatory reserves in the Central Bank.

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

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

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

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

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

9.2 Held-to-maturity investment securities

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

	31 December 2012	31 December 2011
Treasury Bills (9.2.1)	17,926,923	31,244,414
Government Bonds (9.2.2)	63,454,759	74,515,788
Total	**81,381,682**	**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 16).

9.2.1 Treasury Bills

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

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

9.2.2 Government Bonds

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

9. INVESTMENT IN SECURITIES (CONTINUED)

9.2.2 Government Bonds (continued)

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

10. LOANS AND ADVANCES TO CUSTOMERS, NET

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

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

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

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

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, NET

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

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

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

	Software	Licenses	Land and buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost								
Balance at 1 January 2011	646,059	268,750	1,130,917	1,850,534	292,248	137,512	533,078	**4,859,098**
Additions	399,770	24,249	-	295,032	47,930	301,034	79,565	**1,147,580**
Disposals	(17,390)	-	(12,770)	(67,035)	(93,591)	(5)	(33,345)	**(224,136)**
Transfer from work in progress	-	-	105,396	70,884	76,474	(282,724)	29,970	**-**
Balance at 31 December 2011	**1,028,439**	**292,999**	**1,223,543**	**2,149,415**	**323,061**	**155,817**	**609,268**	**5,782,542**
Balance at 1 January 2012	1,028,439	292,999	1,223,543	2,149,415	323,061	155,817	609,268	**5,782,542**
Additions	693,349	45,218	423	237,921	42,322	311,932	40,476	**1,371,641**
Disposals	-	-	(316)	(155,975)	(3,740)	-	-52,152	**-212,183**
Transfer from work in progress	-	-	142,539	75,579	6,918	-242,815	17,779	**0**
Balance at 31 December 2012	**1,721,788**	**338,217**	**1,366,189**	**2,306,940**	**368,561**	**224,934**	**615,371**	**6,942,000**
Accumulated Depreciation and Amortisation								
Balance at 1 January 2011	(437,128)	(181,093)	(338,844)	(1,489,509)	(206,797)	-	(343,352)	**(2,996,723)**
Charge for the period	(57,962)	(47,426)	(85,662)	(230,922)	(53,344)	-	(85,622)	**(560,938)**
Disposals	11,229	-	297	66,651	86,473	-	27,645	**192,295**
Balance at 31 December 2011	**(483,861)**	**(228,519)**	**(424,209)**	**(1,653,780)**	**(173,668)**	**-**	**(401,329)**	**(3,365,366)**
Balance at 1 January 2012	(483,861)	(228,519)	(424,209)	(1,653,780)	(173,668)	-	(401,329)	**(3,365,366)**
Charge for the period	(77,778)	(43,921)	(91,343)	(219,975)	(55,383)	-	(84,062)	**(572,462)**
Disposals	-	-	316	155,230	3,739	-	49,543	**208,828**
Transfer from work in progress	-	-	-	(47)	-	-	47	**-**
Balance at 31 December 2012	**(561,639)**	**(272,440)**	**(515,236)**	**(1,718,572)**	**(225,312)**	**-**	**(435,801)**	**(3,729,000)**
Carrying amount								
As at 1 January 2011	**208,932**	**87,656**	**792,072**	**361,025**	**85,450**	**137,512**	**189,728**	**1,862,375**
As at 31 December 2011	**544,579**	**64,480**	**799,334**	**495,636**	**149,393**	**155,817**	**207,939**	**2,417,176**
As at 31 December 2012	**1,160,149**	**65,777**	**850,953**	**588,368**	**143,249**	**224,934**	**179,570**	**3,213,000**

12. EQUITY INVESTMENTS

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

13. GOODWILL

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

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

14. OTHER ASSETS, NET

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

Sundry debtors, net are comprised as follows:

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

There is no movement in the provisions for sundry debtors as at 31 December 2012 and 2011.

15. DUE TO FINANCIAL INSTITUTIONS

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

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

16. REPURCHASE AGREEMENTS SOLD

The 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).

17. DUE TO CUSTOMERS

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

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

17. DUE TO CUSTOMERS (CONTINUED)

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

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

18. DEFERRED TAX LIABILITIES

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

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

Movements in temporary differences during the year are recognised in the consolidated statement of comprehensive income.
Deferred tax has been calculated based on the enacted tax rate for 2012 of 10% (2011: 10%). As at 31 December 2012 and 31 December 2011 deferred tax assets and liabilities have been recognised for the following items:

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

19. OTHER LIABILITIES

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

19. OTHER LIABILITIES (CONTINUED)

Included in "Accrued expenses" is an amount of Lek 200,671 thousand (2011: Lek 180,702 thousand) of accrued deposit insurance premium payable for customers' deposits. Included in "Other creditors" there is an amount of LEK 342,431 thousand (2011: LEK 71 thousand) of suppliers unpaid invoices.
Other liabilities as at 31 December 2012 comprise Group's suspense accounts. Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items.

The movements in the provision for litigation are as follows:

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

20. SHARE CAPITAL

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

21. GENERAL RESERVE

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

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

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

On June 2010 and 2011 the General Assembly of the Sole Shareholder of Raiffeisen INVEST, decided to distribute the net profit of 2009 and 2010 by creating a legal reserve in the amount of Lek 1 million and transferring the remaining balance to cover accumulated losses. On 30 June 2012 the General Assembly of the Sole Shareholder of the Company, decided to distribute the net profit of 2011 by increasing the legal reserve by an amount of 11,000 Lek and transferring the remaining balance to cover accumulated losses. Also, on 30 May 2011, Raiffeisen Leasing, based on the decision of the Company's sole shareholder, created an additional reserve of Lek 12.3 million. The legal reserve was created from the distribution of net profit after tax of fiscal year 2010. On 17 May 2012, the shareholders decided to approve the transfer to "Legal Reserve" the amount of Lek 8.8 million by appropriation of retained earnings.

22. SINCE ACQUISITION RESERVES OF THE SUBSIDIARY

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

23. NON-CONTROLLING INTEREST

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

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

24. INTEREST INCOME

Interest income by category is as follows:

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

25. INTEREST EXPENSE

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

26. FEE AND COMMISSION INCOME

Fees and commissions received were composed as follows:

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

27. FEE AND COMMISSION EXPENSE

Fees and commissions paid were composed as follows:

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

28. NET TRADING INCOME

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

29. NET OTHER OPERATING INCOME

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

In "Other expenses" there are included expenses from sale of fixed assets amounting to Lek 1,653 thousand (2011: income from sale amounting Lek 36,525 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).

30. DEPOSIT INSURANCE PREMIUM

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

31. PERSONNEL EXPENSES

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

32. GENERAL AND ADMINISTRATIVE EXPENSES

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

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

33. INCOME TAX

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

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

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

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

34. CONTINGENCIES AND COMMITMENTS

	31 December 2012		31 December 2011	
	Lek	Foreign currency	Total	Total
Contingent liabilities				
Bank Guarantees issued	380,500	7,063,231	7,443,731	7,662,754
Letters of Credit	120,000	4,274,759	4,394,759	3,329,215
Unused credit lines	3,513,000	3,485,171	6,998,171	7,925,807
Litigation	23,190	-	23,190	31,778
Total	**4,036,690**	**14,823,161**	**18,859,851**	**18,949,554**
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.

Litigation

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

Lease commitments

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

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

35. RELATED PARTIES

Parent and ultimate controlling party and fellow subsidiaries

The Group has a related party relationship with Raiffeisen Bank International AG, Raiffeisen Zentralbank Osterreich Aktiengesellshafft (RZB AG), and with follow subsidiaries.

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

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

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

35. RELATED PARTIES (CONTINUED)

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

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

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

Subsidiary

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

36. EVENTS AFTER THE REPORTING PERIOD

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

Raiffeisen Leasing

2012 has been another successful year for Raiffeisen Leasing. Even though a difficult year, we met and surpassed our goals regarding profit, cost to income and we continue to be the number one leasing company in the country with more than 40 per cent market share.
We have increased our shared capital by 27 per cent during 2012

2012 was a year of challenges for the Albanian automotive market, which marked a fall of more than 30 per cent for the new vehicles. The economic crisis in the neighbouring countries and the Albanian legislation, favours the importing of second hand cars, which reflects in the performance of new vehicle market. Even though we are trying to adjust our sale strategy to better reflects this part of the business.

The main focus has been and will continue to be on the portfolio quality, which eventually has brought an improvement of these indicators. The establishment of the early working sign, collection, Work Out unit and the increase of activity has produces some very good results in monitoring and collection process.

Another pillar was the expansion of our customer base, which rose by 5 per cent compare to 2011. All leasing products were offered to business segments, both corporate and medium sized businesses, while individuals used these leasing products mainly for personal cars. Another initiative that was under taken during this year, with the aim increasing of our private individual base, was including of the leasing product on the retail Paga+ packages, which is starting to show results.
Our portfolio includes various leasing products starting from vehicles up to heavy machineries, new equipment and technology lines. We also intend to finance construction machineries, despite the fact that this industry was confronted with a lot of difficulties last year. Consequently, very few applications were presented from this sector asking for investments in the production of new tools and machineries. However, a very good part of our portfolio is concentrated in this particular segment, where Raiffeisen Leasing is the incompatible leader.

Part of our activity is also vehicles remarketing and resale. We are also positioned in the ranks of experts concerning establishment of standards in the resale market due to procedures we have implemented. However, the company used the know-how and experience of Raiffeisen Leasing International and other leasing companies operating in the region, concerning its products, financial leasing services and marketing. Moreover, the company has full access to the large network of international suppliers of heavy tonnage vehicles, machinery and equipment, with which the Raiffeisen Group keeps stable relations, in order that the existing and prospective customers of the company benefit and realize their plans for investment.

Qualified employees in the company are the main pillars for the sustainable development of Raiffeisen Leasing. The management would like to thank them for their work performance in the interest of the company and business partners.

Raiffeisen Leasing publishes a wide range of printed and electronic materials on its website: **www.raiffeisen-leasing.al.** During 2012, Raiffeisen Leasing has launched marketing campaigns, mainly basing on policies and marketing activities of local concessionaires as our key business partners

Raiffeisen Leasing A.C was established in April 2006 and was registered in Commercial Register upon Tirana Law Court decision, number 35733, dated 15/05/2006. Its shareholders are Raiffeisen Bank AC with 75 per cent of shares and Raiffeisen Leasing International GmbH with 25 per cent of shares

Directors and management as of 31 December 2012

Board of Directors (Supervisory Board)

Dieter Scheidl	Chairman
Alketa Gjocaj	Member
Elona Koci	Member

Management Board

Ankleida Shehu	General Manager
Merita Bejtja	Managing Director for Back-Office

Prospects for 2013

2013 is going to be a challenging year, but we will continue to focus on our customer and our staff. The company has been a leader in the leasing market for many years mainly due to many years of experience, strong capacities to evaluate different classes of assets and a high responsibility in carrying out its duties as a business partner. Our mission to keep Raiffeisen Leasing in the position of the leader in financial leasing market in Albania will still persist. This mission will be realized through offering a complete package of leasing products, fully meeting the customers' needs and contributing to the development of Albanian economy by financing new and modern technologies, machineries and equipment. We hope to realize our target by relying on the comprehensive network of Raiffeisen Bank and also on the long experience we have gained in the market.

Raiffeisen Leasing AC future priorities will be perfection of the service quality and acceleration of processing and approval procedures

Intensive marketing and sales activity, either in a direct or indirect way, will be e significant support for the realization of our targets

About Raiffeisen Invest A.C

Raiffeisen Invest Sh.a is a Management Company for Collective Investment Undertakings (investment funds) and Voluntary Pension Funds, licensed by the Albanian Financial Supervising Authority (AFSA). It is the first and currently the only Asset Management Company licensed by the AFSA to manage investment funds.
Our mission is to be Albania's premier fund management company by offering our clients superior management of their assets, excellent customer service, and an investment process that is guided by high integrity, professionalism and transparency.

Raiffeisen Invest sh.a currently manages two investment funds, Raiffeisen Prestige (in local currency) and Raiffeisen Invest Euro (in foreign currency), and one voluntary pension fund, Raiffeisen Pension.
2012 was an excellent year for Raiffeisen Invest, especially in the investment fund area. Despite the fact that investment funds represented a completely new way of investing for the Albanian public, both funds were received very well by the mass investor. Our investment funds offered the investors an opportunity to invest their savings both in Lek and Euro in a profitable manner, but also to diversify their investments outside the spectrum of banking products. In less than a full year of activity, the combined size of our assets under management for the two investment funds reached the equivalent of € 115 million, and the number of clients exceeded 10,800. Both figures indicate the mass appeal that our investment funds carry, which can easily be attributed to the satisfactory net return of the funds, the low fees and the full liquidity feature that the customers could take advantage of at any given time.

Raiffeisen Invest operates in a domestic financial market, which is primarily focused on banking rather than investment products and services. Currently, Raiffeisen Invest is the only management company that manages both pension funds and collective investment undertakings. The lack of competition on the investment fund side reflects the stage of sophistication of the domestic market, which despite featuring a fairly well-developed banking sector is yet to see a major push towards non-traditional financial products and services. Nevertheless, the Albanian investors have embraced the value proposition offered by Raiffeisen Invest, which has delivered on its promise to generate a very competitive rate of return while ensuring unmatched liquidity, and a prudent approach in terms of investment risk.

During 2012 Raiffeisen Invest adopted an investment policy which sought to provide the investor with capital growth and income by investing assets in a manner that was consistent with this objective and preservation of liquidity. The composition of our investment portfolios reflected market developments translated in selection of financial instruments that were best suited to meet the investments policy goals. Our funds invested in various financial instruments in Albanian Lek and in Euro, in the Albanian market and international markets. Prestige Fund and Pension Fund invest in the domestic market, in Albanian Government securities denominated in Lek, whereas the Euro Fund invests in a mix of domestic and international securities denominated in Euro.

At the end of 2012, the annualized net rate of return for our three funds was as follows:

- Prestige Fund: 7.4%
- Euro Fund: 4.1%
- Pension Fund: 8.6%

Three major reasons that made 2012 such a successful year have to do with the great support of the shareholder; the quality of management; and the excellent sales force. Our shareholder, Raiffeisen Bank is the leading bank in the country and its brand power has benefited Raiffeisen Invest tremendously, as well as the continuous support of the leadership of Raiffeisen Bank for all aspects of our business. Raiffeisen Invest features a Management Board and Management team that include very experienced and knowledgeable professionals, who understand the investment funds business very well and are able to guide the company in the right direction. Our products are sold throughout the country in all Raiffeisen Bank branches. Such a powerful distribution channel is a major reason for our success. The national presence of Raiffeisen Bank and the expertise of its bankers ensure that customers are provided with the right financial advice and excellent customer service.

2013 Outlook

2013 will likely be another challenging year for the Albanian financial market, due to internal and external economic downturn. Furthermore competition in the asset management business is likely to emerge at some point during the year. Nonetheless, Raiffeisen Invest will continue to pursue an aggressive growth strategy during the year with the ultimate goal of achieving the desired financial performance of the company. This means increasing the number of investment funds under management; diversifying the product line; increasing the number of customers and size of assets under management, and making continuous progress in terms of organizational enhancement

We will seek to exploit opportunities to grow our business relying on on-going healthy demand for our investment funds, and potential additional business as a result of additional funds to be opened in the future. The main focus for 2013 will be on expanding and diversifying our product line, and offering the Albanian investor the opportunity to invest in the European financial markets through new funds.

Raiffeisen Bank International at a glance

A leading bank in Central and Eastern Europe, including Austria

Raiffeisen Bank Albania is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For more than 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Over time, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also boasts a comprehensive product offering. At the end of 2012 around 57,000 staff served approximately 14.1 million customers in around 3.100 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world's financial centres and operates branches and representative offices in Asia. All in all, RBI employs about 60,000 staff and has total assets of around € 136 billion.

RBI operates subsidiary banks in the following CEE markets:

• Albania	Raiffeisen Bank Sh.a.
• Belarus	Priorbank JSC
• Bosnia and Herzegovina	Raiffeisen Bank d.d. Bosna i Hercegovina
• Bulgaria	Raiffeisenbank (Bulgaria) EAD
• Croatia	Raiffeisenbank Austria d.d.
• Czech Republic	Raiffeisenbank a.s.
• Hungary	Raiffeisen Bank Zrt.
• Kosovo	Raiffeisen Bank Kosovo J.S.C.
• Poland	Raiffeisen Bank Polska S.A.
• Romania	Raiffeisen Bank S.A.
• Russia	ZAO Raiffeisenbank
• Serbia	Raiffeisen banka a.d.
• Slovakia	Tatra banka, a.s.
• Slovenia	Raiffeisen Banka d.d.
• Ukraine	Raiffeisen Bank Aval JSC

As the parent company of these banks, RBI's shareholding in them is at or near to 100 per cent in most cases.

RBI's development

RBI was established in October 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB). RBI's position as one of the leading banks in CEE (including Austria) was further reinforced by the merger. RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI's shares are in free float.

RZB was formed in 1927 as "Genossenschaftliche Zentralbank" (GZB). Raiffeisen gained its first foothold in Central and Eastern Europe back in 1987, when it established its first subsidiary bank in Hungary. Other own subsidiaries have since been established; from 2000 onwards, Raiffeisen's expansion in the CEE countries has mainly been achieved by acquiring existing banks, which are combined into a holding company that from 2003 until October 2010 operated under the name Raiffeisen International. Raiffeisen International listed on the stock exchange in April 2005 in order to finance its future growth as efficiently as possible. RBI was subsequently established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB.

For more information please refer to **www.rbinternational.com** and **www.rzb.at.**

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Raiffeisen Glossary

Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market. In CEE, RBI operates as a universal bank through a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. At the end of 2012 around 57,000 staff served approximately 14.1 million customers in around 3,100 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. Moreover, RBI is represented in the world's financial centres and operates branches and representative offices in Asia. All in all, RBI employs about 60,000 staff and has total assets of approximately € 136 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB is the majority shareholder holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI's shares are in free float. With its long-term "A" (S&P, Fitch) and "A2" (Moody's) ratings, RBI is also a regular issuer of debt securities.

RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group centre for the entire RZB Group, including RBI. RZB functions as the key link between the Austrian Raiffeisen Banking Group and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

RZB Group

The Group owned and steered by RZB. Raiffeisen Bank International is the Group's largest unit.

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria's largest banking group by total assets. As per year-end 2011, RBG's consolidated balance-sheet total amounted to more than € 269.6 billion. It represents about a quarter of all banking business in Austria and comprises the country's largest banking network with more than 2,200 business outlets and 25,000 employees. RBG consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB also acts as the link between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as general service retail banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 90 per cent of RZB's ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer Friedrich Wilhelm Raiffeisen (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen's fundamental principle of self-help, the promotion of their members' interests is a key objective of their business policies.