Raiffeisen Bank Albania

Annual Report 2013

WEL

Raiffeisen BANK
Fitoni çdo sfidë

Corporate Social Responsibility is very important for Raiffeisen Bank. It is part of the corporate culture therefore the bank through sponsorship has supported a large number of projects, which aim the improvement of the social, health and environmental conditions of the community in Albania. The projects supported by Raiffeisen Bank during 2013 have been diverse and always in accordance with its sponsorship policy.

Përgjegjësia Sociale është shumë e rëndësishme për Raiffeisen Bank. Ajo është pjesë e kulturës së korporatës prandaj dhe Banka nëpërmjet sponsorizimeve ka mbështetur një numër të madh projektesh, të cilat synojnë përmirësimin e kushteve sociale, shëndetësore dhe mjedisore të komunitetit në Shqipëri. Projektet e mbështetura nga Raiffeisen Bank gjatë vitit 2013 kanë qenë të larmishme dhe gjithmonë në përputhje me politikën e sponsorizimeve të saj.

COME

Raiffeisen Bank Albania

Annual Report 2013

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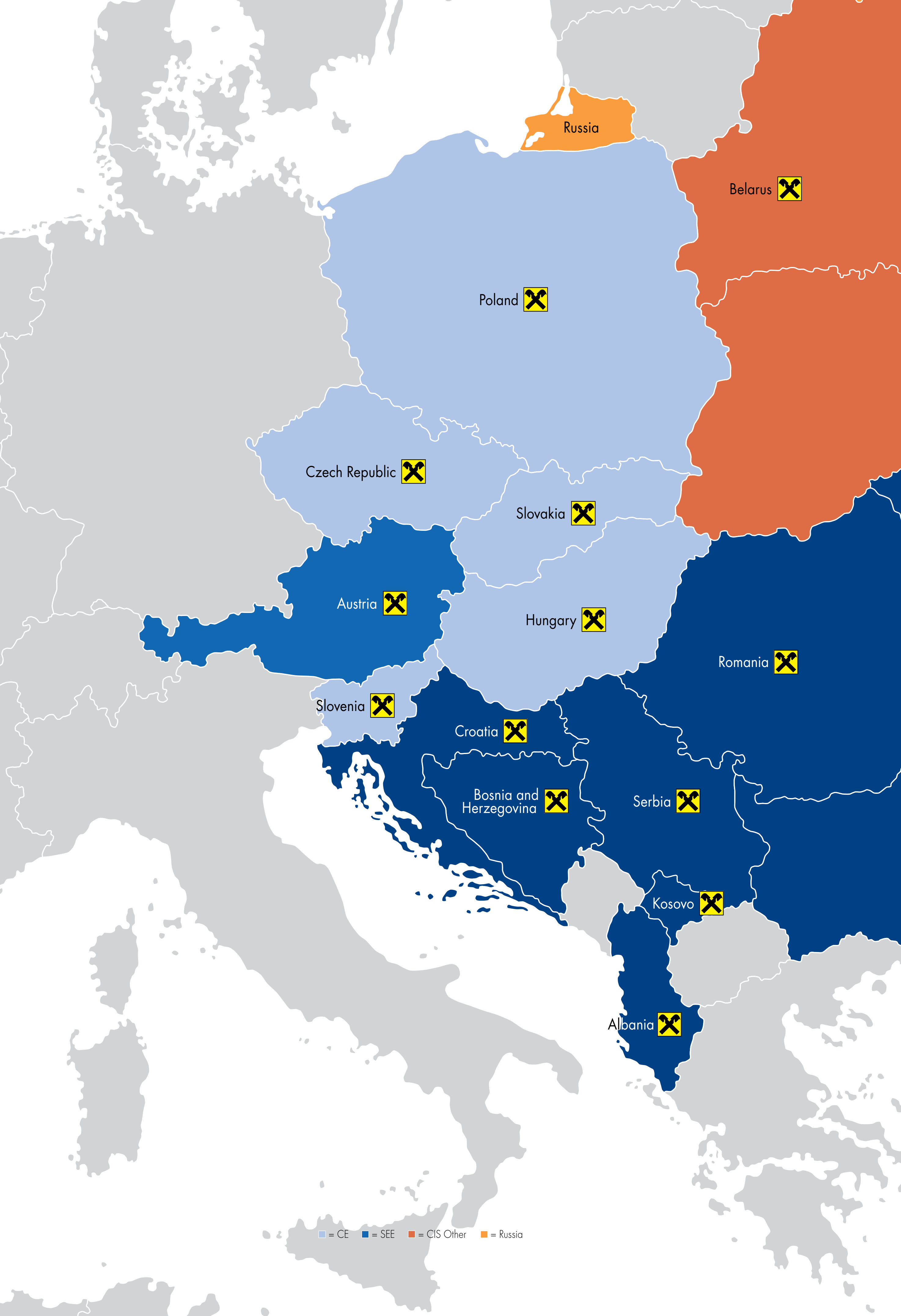
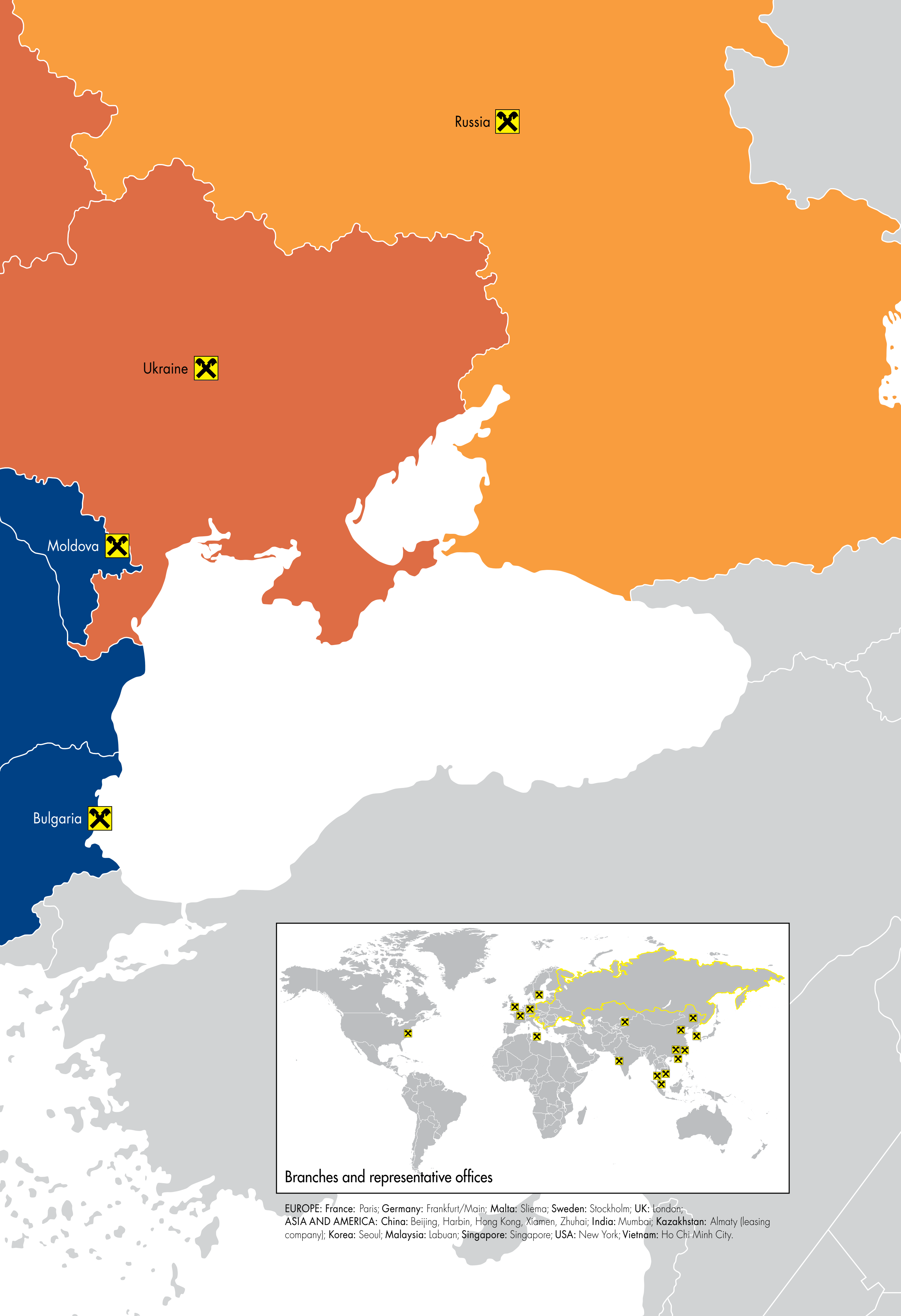

Russia
Belarus
Poland
Czech Republic
Slovakia
Austria
Hungary
Romania
Slovenia
Croatia
Bosnia and Herzegovina
Serbia
Kosovo
Albania
= CE
= SEE
= CIS Other
= Russia



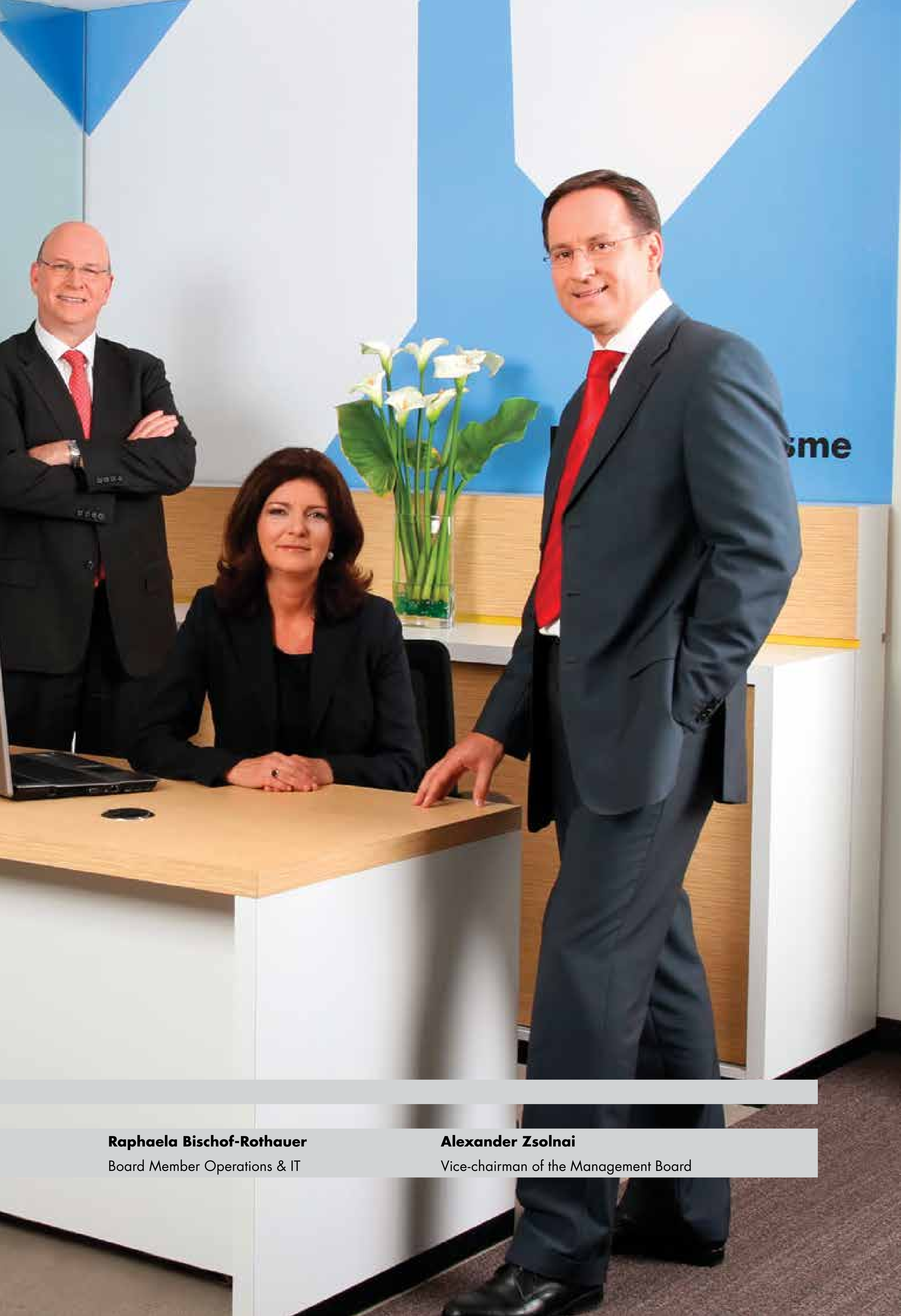
Branches and representative offices

EUROPE: **France:** Paris; **Germany:** Frankfurt/Main; **Malta:** Sliema; **Sweden:** Stockholm; **UK:** London;
ASIA AND AMERICA: **China:** Beijing, Harbin, Hong Kong, Xiamen, Zhuhai; **India:** Mumbai; **Kazakhstan:** Almaty (leasing company); **Korea:** Seoul; **Malaysia:** Labuan; **Singapore:** Singapore; **USA:** New York; **Vietnam:** Ho Chi Minh City.

The members of Raiffeisen Bank Sh.a Management Board (from left to right):

Christian Canacaris
Chief Executive Officer

John McNaughton
Board Member Retail



Raphaela Bischof-Rothauer
Board Member Operations & IT

Alexander Zsolnai
Vice-chairman of the Management Board

Report of the Supervisory Board

Ladies and Gentlemen,

After years of extremely low or even negative growth, 2013 finally showed the first signs of an economic recovery in the euro area and Central and Eastern Europe alike. We also saw an increasing shift of economic growth to Central Europe with Poland, Czech Republic and Slovakia taking on a leading role in the region. In addition, political decisions about the future of the European Banking Union were finally made and provided more clarity for the European banking sector. However, the business environment for banks remained difficult. Especially the short-term raising of equity capital requirements and various complex regulatory requirements, as well as banking levies, have been and continue to be an additional burden on banks leading to restricted lending.

In autumn 2013, RBI Group launched the program "Fit for Future 2016" with the goal to lower costs to the level of 2012 by the year 2016. This means that over the next three years we will more than offset inflation and save around EUR 450 million in total. We were also very satisfied with the EUR 2.78 billion result of the recent capital increase. The higher free float makes our shares even more attractive for both private and institutional investors. The proceeds will be used to achieve our goal, for the coming 12 to 18 months, of achieving a fully-phased in Basel III CET 1ratio of 10.0 per cent by the end of the transition period. Both actions were taken in order to support our successful business model across the region and guarantee a sustainable development of the Group in this still challenging environment. Hence, the RBI Group is proud of posting a profit before tax of EUR 835 million.

As far as Raiffeisen Bank Sh.a is concerned, I am glad to state that despite the very difficult year we had a successful implementation of a new core banking system, while we kept the cost income ratio (CIR) below 40 per cent; a much appreciated achievement under the circumstances. At the same time the Raiffeisen Bank's Asset Management Company had a very good year and reached EUR 360 million in assets. Let me take this opportunity to thank all employees of Raiffeisen Bank in Albania for their hard work in this continuously challenging environment and their constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

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 2013. I am particularly proud of this because in 2013 we faced a lot of challenges.

However, with the contribution of all business segments we met our objectives and further consolidated our number one position in all key indicators. Now we are ready for 2014. More than 700,000 customers nationwide, who we provide with a broad range of saving, loan and payment products, have great confidence in us.

Besides the very difficult economic environment in Albania, where the total banking market is shrinking by 1.8 per cent year-on-year in loans, Raiffeisen Bank remained number one in the market. Responding to these difficult conditions, we improved our processes and services, made our bank more efficient and decreased our cost income ratio (CIR) to 39.69 per cent in 2013.

We continued to focus on improving and expanding the range of services and products we provide to our customers throughout the year. During 2013, we introduced a new service called M-Pay. It is an entirely new and innovative service for the Albanian market and has been welcomed by many of our clients. Together with internet banking and mobile banking M-pay allows our customers to access their accounts and order transactions 24 hours a day, seven days a week, wherever they are.

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

Additionally, Raiffeisen Invest is the only licensed company in the Albanian market that provides marketing of investment funds, while also offering companies and individuals private pension funding products. Last year we introduced two investment funds in euro and Lek, respectively. Both were by all means a success.

In 2014, still some challenges lie ahead of us and we will have to work hard to achieve our objectives. However, our employees are well-trained, focused and decisive for Raiffeisen Bank Sh.a to remain the number one in the domestic banking sector.

Finally, on behalf of the Management Board, I would like to sincerely thank all our employees, customers and business partners for their cooperation and support during 2013 and I am looking forward to another very successful year 2014.

Christian CANACARIS
Chief Executive Officer

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 2014

After the challenges of 2013, Raiffeisen Bank plans to continue its development and offer more to the country's economy. Competition will remain high in 2014. We will respond by continuing to focus on close and cooperative customer relationships, and by continuing our investments in products, services and new technology.

In 2013, Raiffeisen Bank in Albania implemented a new Core Banking System to facilitate faster and more efficient services that will increase customer satisfaction. The 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 better access through more convenient distribution channels will help to achieve this goal. We intend to maintain the position of the bank with the country's highest lending portfolio, 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 on providing a wide range of banking services to both businesses and their employees. The expansion of electronic banking services will remain a priority. We also plan to bring other new products and services to the market. Electronic and mobile banking ensure maximum flexibility and convenience to perform banking transactions anywhere and at any time for corporates and retail clients alike. At the same time, the branch network will continue to improve by the establishment of new standards as well as the relocation of some branches to larger and more suitable places.

We went through this difficult year having the best employees in the Albanian banking market. We work and win challenges as a team. Therefore we would like to thank all our employees for the hard work and their efforts. We will keep this pace and master the new challenges of 2014 as well.

Finally, we would like to sincerely thank all our customers and business partners for their cooperation and support during 2013. 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.

Management Board
Raiffeisen Bank Sh.a

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice-chairman of the Management Board

Raphaela Bischof-Rothauer
Board Member Operations & IT

John McNaughton
Board Member Retail

Raiffeisen Bank sponsors the planting of 390 trees in collaboration with the Municipality of Tirana

Raiffeisen Bank has sponsored the planting of 390 trees in collaboration with the Municipality of Tirana. A ceremony was organized at the artificial lake in Tirana in which were present the CEO of Raiffeisen Bank, Mr. Christian Canacaris and Mayor of Tirana, Mr. Basha

Report of the Management Board

Economic Developments

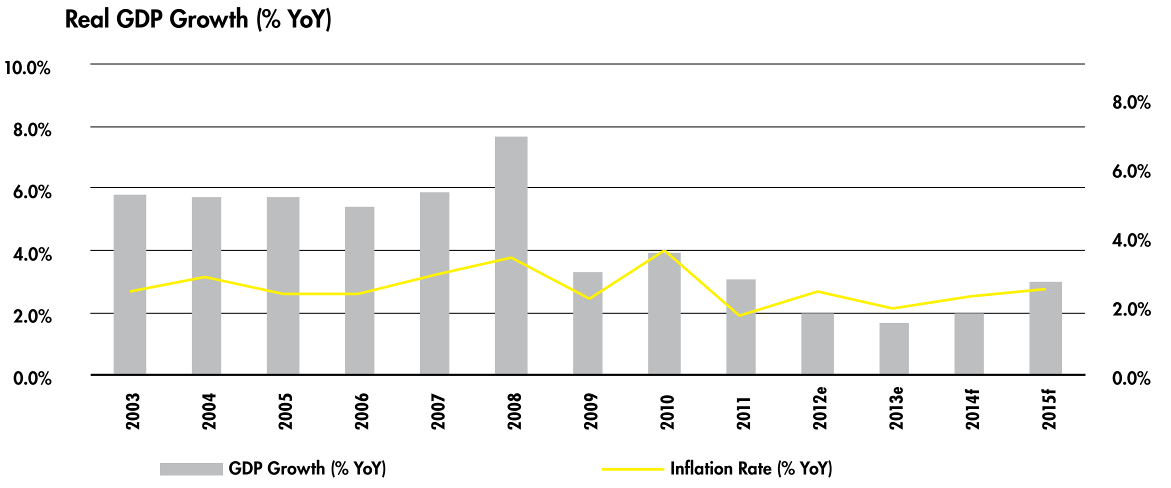
The deceleration of the Albanian economy peaked on third quarter 2013, contracting by 2 per cent. In the fourth quarter 2013 the economy rebounded and increased by 1 per cent, while the first estimation from the INSTAT for the year 2013 except the GDP to have grown by 0.44 per cent. Year 2013 was the least favourable year for the Albanian economy of the last 16 years.
The rate of the exports to imports has increased to 41 per cent from 27 per cent that used to be before crisis as the external demand remains the key driving sector of the economy.

The new government of the coalition between SP and LSI that came out of the general elections of June 23rd, recognized arrears to private sector that would account for nearly € 400 - 500 million. This development is expected to have driven the public debt over to 68 per cent by the end of 2013 and probably over 72 per cent by the end of 2014. However the government signed a financial agreement with IMF for € 330 million that is going to be paid in three yearly instalments starting from March 2014.

Nearly 25 per cent of these arrears are linked to the country's non-performing loans level that hit 23.5 per cent in December 2013. The payment of these arrears is expected to increase confidence and would lead to a moderate revival of the banking sector.
The budget deficit was widen during this year as the electoral period lead to a relaxed fiscal policy with the revenues decreasing by 3 per cent in October and the expenditures increasing by 7 per cent. Therefore the budget deficit is expected to be at 6 per cent by the end of the year compared to the target 3.5 per cent.

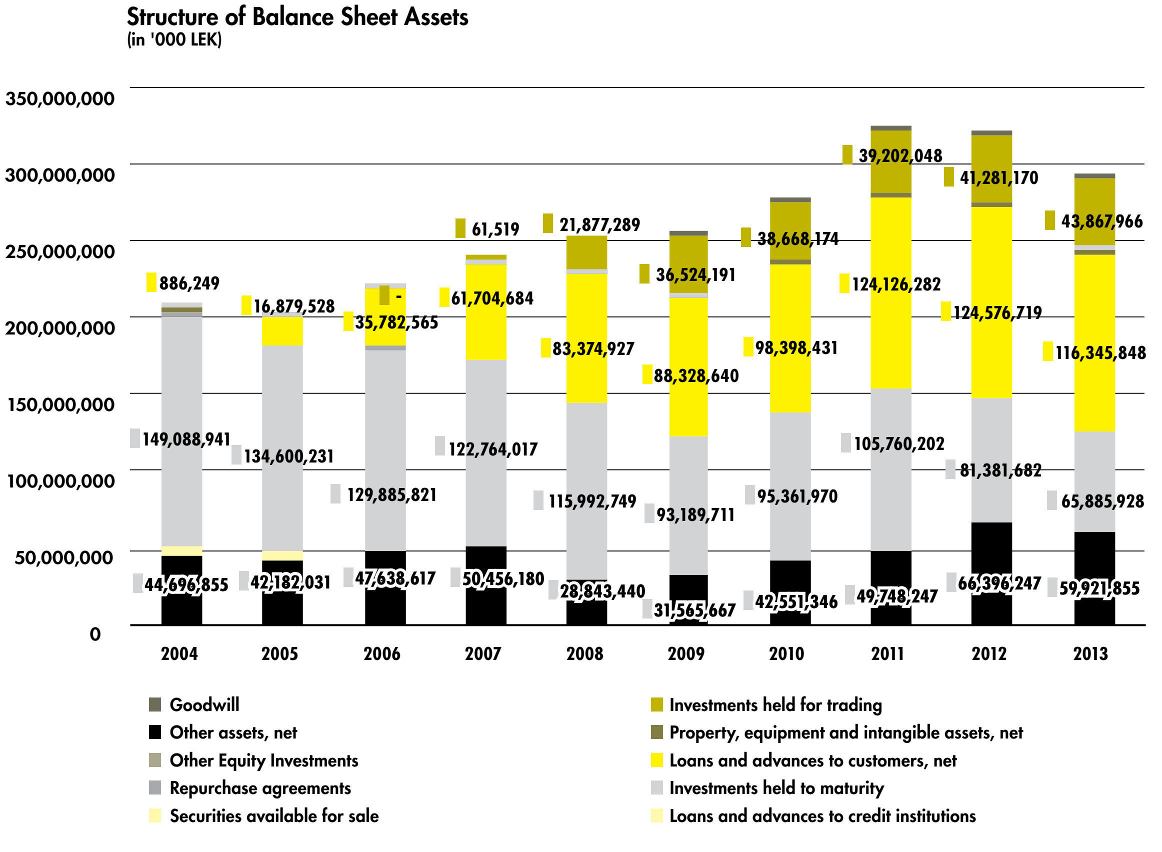
This deficit is expected to be start contracting on 2014 as fiscal consolidation is in the plans of the government and the new fiscal package has being approved. This package foresees a scale based taxation system compared to the flat income tax of the previous government. From this system small business and private individuals are going to profit mostly. On the other hand tax hikes are foreseen for excise products and for corporate businesses the tax over profit is going to increase from 10 per cent to 15 per cent.
The expectation for the economic growth in 2014 is at around 2 per cent, conditioned by the increase of the public debt and the budget deficit affecting as such the growth from the public sector.

Domestic demand could be motivated by a revival of the financial sector however we would still expect that the real effects to kick in during 2015. New tax hikes probably will not motivate FDI, but the fight against corruption in the fiscal and judiciary system could still recover instead. As well in 2014 the TAP (Trans Adriatic Pipeline) project will start. This investment exceeds € 400 million and will be completed until 2019.
External demand has been the leading sector of the economy and it should continue to be also for the 2014, with the energy, oil and textile being the main industries.



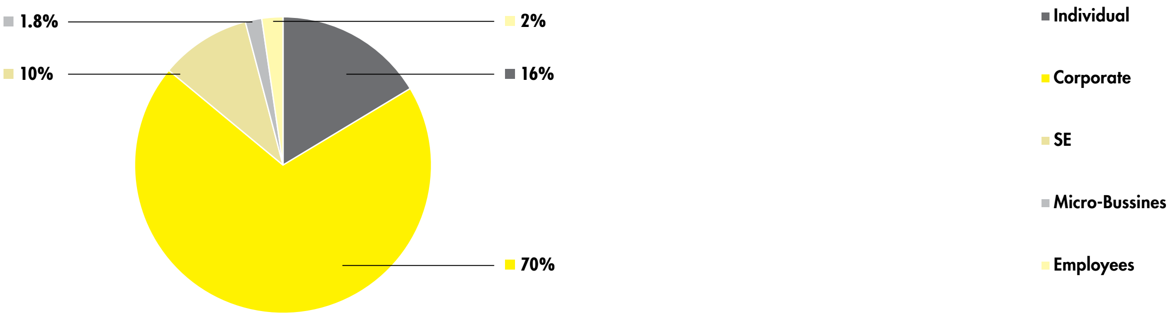
Financial Results

Total assets at the end of 2013 were ALL 291,796 million (2012: ALL 318,919 million). In 2013 the loan book at the end of 2013 represented 40 percent (2012: 39 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 2013 (2012: 38 per cent).



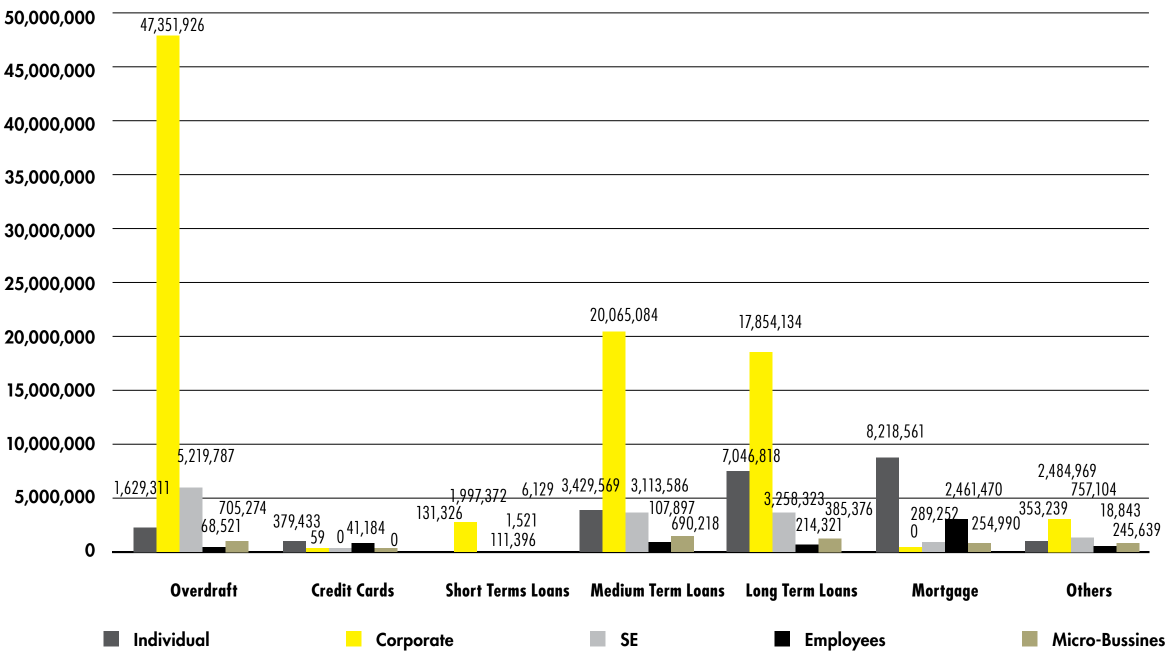
Total gross loans and advances to customers at year end 2013 totaled ALL 128,452 million (2012: ALL 135,995 million) representing a 6 per cent decrease in lending over the year. Corporate Sector in percentage terms is 70 per cent of the loan book and it still represents the highest fraction of the loan portfolio with an outstanding loan book amounting to ALL 89,534 million (2012: ALL 93,379 million). The SE recorded a 2 per cent decrease and Micro Business recorded a 35 per cent decrease in its outstanding loan book amounting to ALL 2,274 million (2012: ALL 3,511 million).

Structure of Loans to Customers



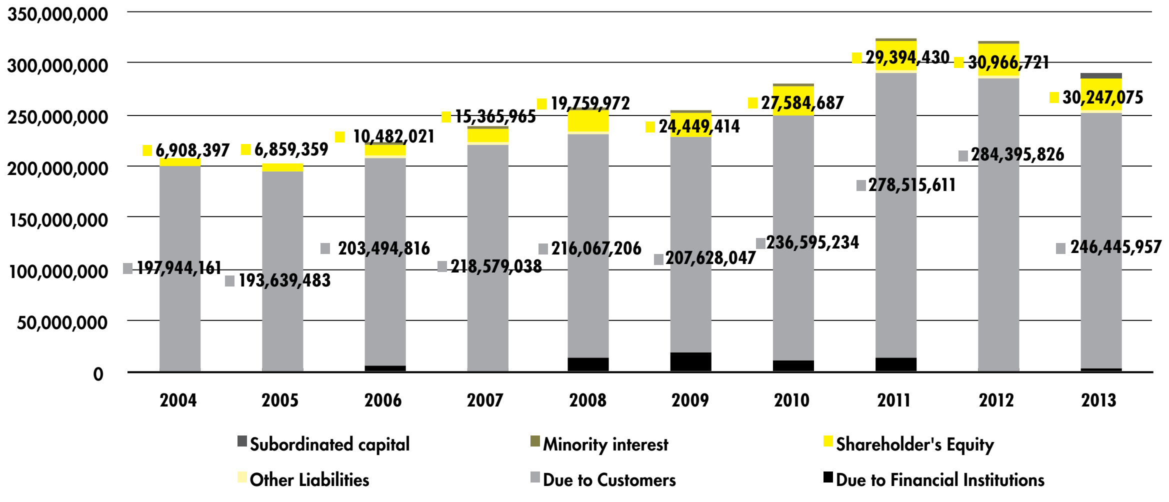
In 2013 the lending product portfolio was mainly a combination of medium term loans of 21 per cent (2012: 24 per cent) and overdrafts of 43 per cent (2012: 41 per cent). The long term loans represent 22 per cent of the Bank's loan portfolio in 2013 (2012: 23 per cent).

Loans for the year end 2013
(in '000 LEK)



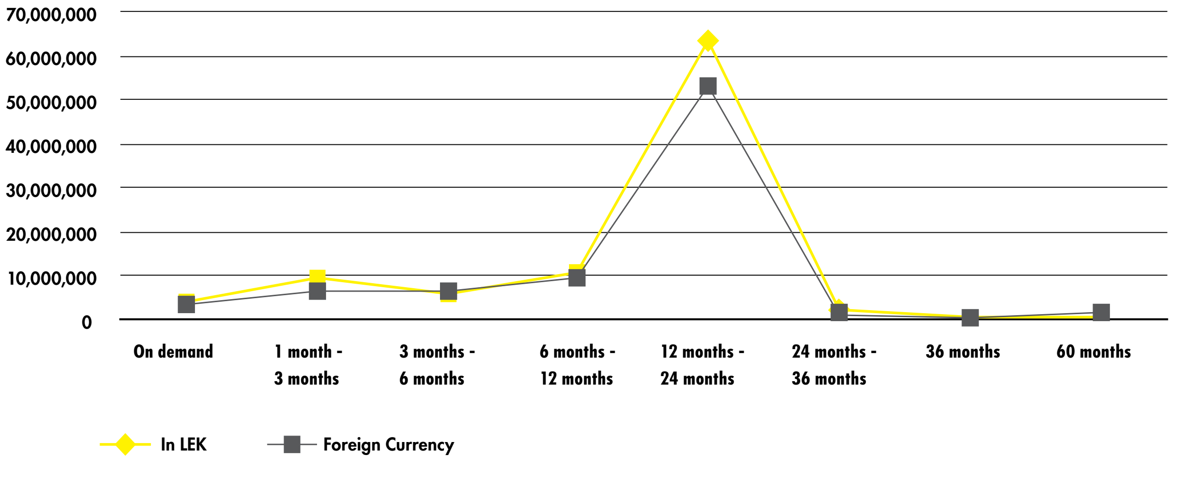
The total liabilities at the end of 2013 were ALL 291,796 million (2012: ALL 318,919 million). In 2013, the greatest proportion of the Bank's liabilities was customer deposits representing nearly 84 per cent (2012: 89 per cent) of the Bank's total liabilities.

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

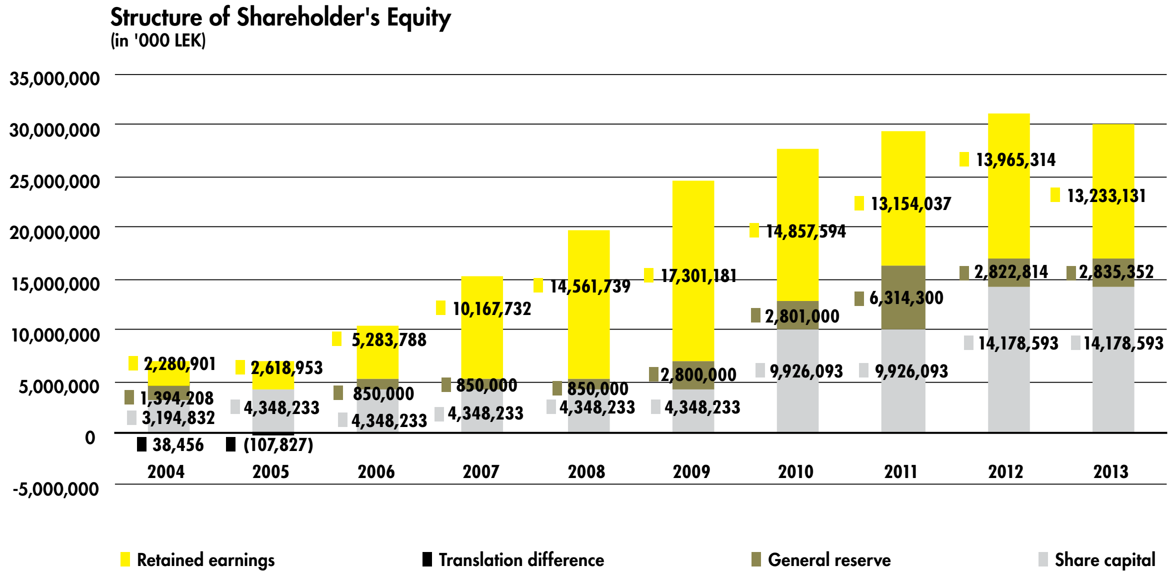


Like in 2012, the profile of customer deposits in 2013 shows a movement away from shorter term deposits. In order to take advantage of higher rates available the customers are extending their deposits in longer maturities. Total term customer deposits at the end of 2013 were ALL 179,314 million (2012: ALL 226,994 million).

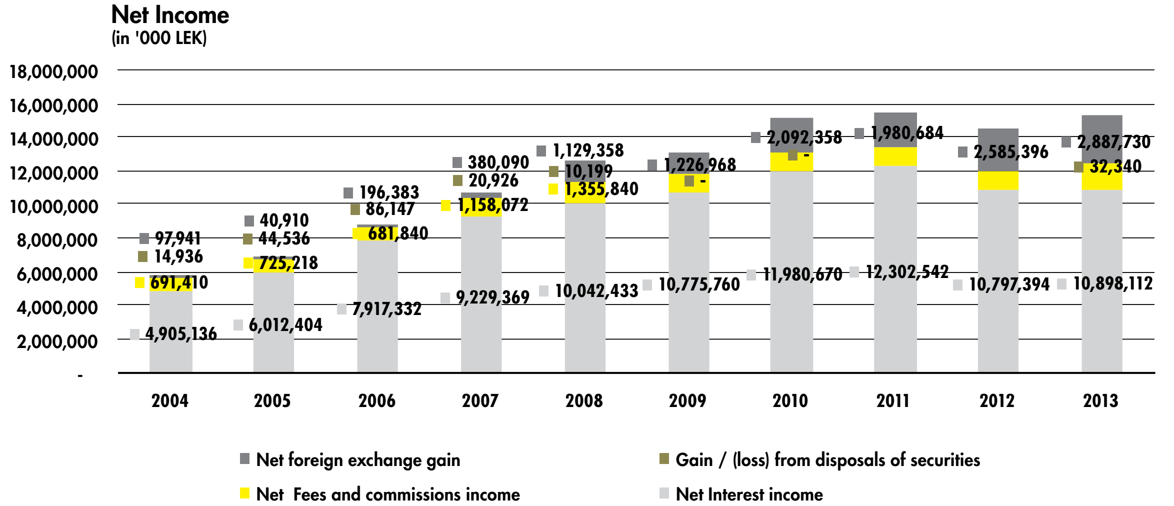
Deposits Structure
(in '000 LEK)



2013 showed a 12 per cent decrease in net profit after tax over 2012 to ALL 4,647 million (2012: ALL 5,306 million) changing the Bank's return on equity ratio from 20 per cent in 2012 to 16 per cent in 2013. Dividend declared and paid in 2013 is ALL 5,313 million (2011: ALL 3,729 million).

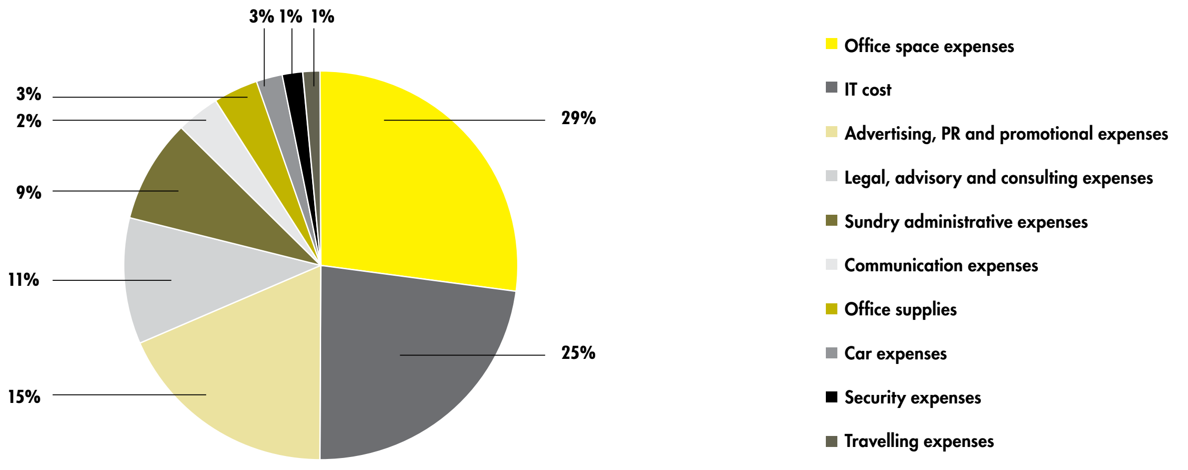


The Bank's net interest income increased by 1 per cent, or ALL 10,797 million in 2012 to ALL 10,898 million in 2013. This increase together with the decrease in the Bank's total balance sheet, which came to 10 per cent, decline the net interest margin (calculated in relation to average balance sheet – total) by 20 basis points from 3 per cent in 2012 to 4 per cent in 2013.

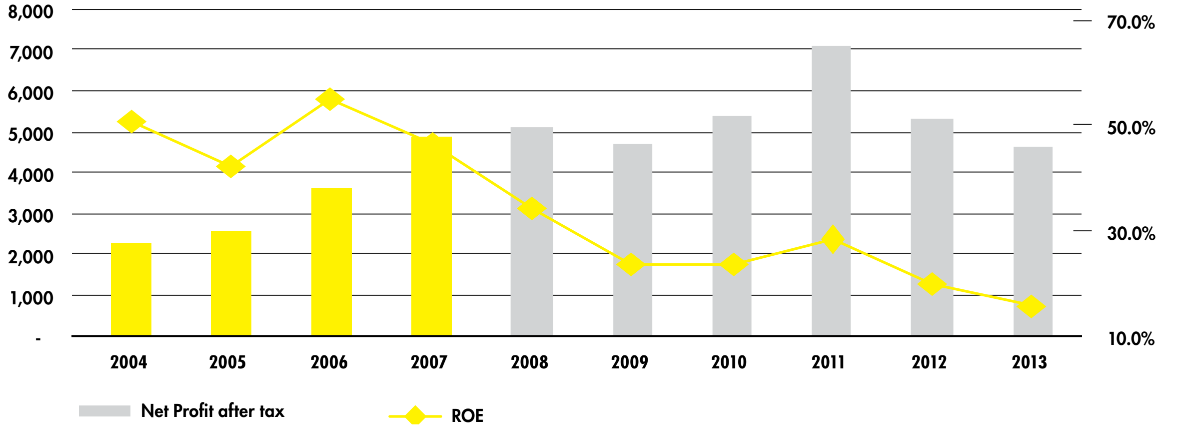


Total general administrative expenses during 2013 were ALL 2,110 million (2011: ALL 1,968 million). The Bank's operating efficiency – the cost/income ratio changed– from 41 per cent to 39 per cent.
The staff expenses decreased by 4 per cent or ALL 2,427 million in 2013 to ALL 2,520 million in 2012.

General Administrative Expenses



Profit & ROE
(in '000 ALL)



Gezuar
FËMIJË TË DASHUR
SPONSOR GJENERAL
Raiffeisen
BANK

The theme of this event, organized by **"Focus on Orphans"** Association, sponsored by Raiffeisen Bank, was "Year-end celebrations, passion of orphan children, - let us celebrate together as a community.
This event was attended by 220 orphan children coming from Tirana, Berati, Kavaja, Çorovoda and Poliçani. At the end of the concert, presents were distributed to all the participating children.

Segment Reports

Corporate Segment

Year 2013 can be considered a challenging year for the Corporate Segment and either for Raiffeisen Bank. Beside the strict rules set by the European Banking Authority on capital requirements for credit institutions which aims at improving the EU banks' existing capital structure, Raiffeisen Bank continued to maintain its leading position in the market.

A special focus during 2013 has been given to the quality of the credit portfolio by further improving risk management and collateral quality, by perceiving on time the business difficulties, and generation of the best appropriate solutions for both parties involved.

Need to be emphasized that Raiffeisen Bank is actually serving to 1,338 corporate customers operating in Albania and cross borders. Raiffeisen Bank has put maximum efforts not only to improve and extend the services and products offered to the existing clients but also to attract new ones so that it can contribute to a healthier customers' basis and respectively to contribute to the common success. During year 2013, there was recorded a 10 per cent growth of the corporate customer basis as compared to the previous year.

Main factors determining the eventual achieved results are the following:

I. More efficient and continuous professional training of Sales Force.

II. Continuous improvements of sales techniques by developing the new Sales Incentive techniques introduced during 2013 to Corporate and SE Segment.

III. Specialized Products offered to the clients.

IV. A better inter-department synergy within RBAL and also a good synergy build with the other banks of the group Raiffeisen Bank International.

The experts of the Corporate Division offer a wide range of products, services and financial solutions in compliance to the clients' business needs. Mainly, the success of this segment consists in establishing long-term and sustainable partnership with its customers so that we can carefully understand and analyze their business developing plans in order to provide them with a highly professional in real time solution. The main purpose of this consists in offering to the corporate clients the maximum support to achieve a stable growth in the long term perspective.
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The market consolidation for the corporate clients operating in Albania has required a further structuring of the bank's products offered to this segment. Moreover, during year 2013 it has been accomplished to expand the products range in order to efficiently fulfill clients' needs. Such products to mention hereby are:

- "Factoring", a new short term financing product launched in the domestic market which requires an extended expertise to be implemented.
- "Business credit card", a new short term financing product launched in the domestic market to support the everyday operations of the companies.

From the clients' segmentation viewpoint, the Corporate Division serves to:

- Domestic Corporate Clients that operate in the Albanian market;
- International Corporate Clients actually operating in the domestic market or showing interest towards it in perspective;
- Public Institutions and Central & Local Government Institutions;
- Financial Non-Banking Institutions.

The Corporate Division long experienced staff is willing to provide to our customers with the best banking alternative in Albania by guaranteeing loyalty, effectiveness, safety and customer service orientation.

Public Sector

The public sector remains one of the most crucial sectors in the bank due to its strategic importance. The Public Institution, Central & Local Government Department in Raiffeisen Bank is in charge to ensure continuity of successful long term relationship, and creation of positive and favorable climate with all Public Entities.

Being the largest bank in the country and the main financial partner of the Albanian Government, as attested in the inter-institutional relationship, made possible the conclusion of important projects of wide public interest such as:

- Electronic Payment and Reporting of Budget Incomes System;
- Electronic Payment of Tax Obligations from businesses;
- Electronic Payment of Customs obligations from businesses;

The full completion of these projects gave a positive contribution in the transparent, efficient and responsible use of public financial sources. Furthermore these projects contributed positively in the data and information exchange between various public institutions and banks by improving the service for the public.

Small Enterprises segment

The year 2013 as expected provided a very challenging macroeconomic environment that required quick reactions and flexibility to an ever-changing business context. In order to provide long-term, comprehensive support to its customers, Raiffeisen Bank on beginning of year 2013 introduced a new organizational structure where SE Segment is divided and managed in three geographic areas, which has successfully been implemented and given outstanding results in the year end.

Such structure has strengthened and improved customer relationship since them rely on our bank capability to sustain and drive them to succeed. Raiffeisen Bank supports business customers by offering top quality financial services, spending time and efforts to know their needs and behaviors and providing consultancy through loyal and motivated staff. Frequent visits, meetings and events are organized to be present in the dynamic of their business activities.

Portfolio quality improvement is shown during this year. Despite the difficult situation, non performing volume for the year 2013 is decreased by 3 per cent compared to year 2012.

During 2013 SE segment managed to maintain the customer base by offering financial advisory and wide range of products by personalizing them as per customer business nature.

Due to the tightened synergy of sales force, Product team, Branches network and other supporting teams, SE Segment has strengthen more the relationship with its customers, by being their reliable and professional partner in this challenge market, in order to support them in different and unpredictable financial situation.

Corporate and SE products Division

Cash Management Products

Year 2013 has been a productive year for Cash Management Products. The product team has been very focused in maintaining and improving Cash Management product and services and in the same time offering competitive Cash Management solutions for Small Enterprises, Domestic and International Corporate Customers.

During this year Raiffeisen has continued to be a strategic partner to bank customers and providing tailor made solutions to them, were worth to be mentioned the following developments:

- Tax Office- “E-payment Tax Office” Project: E-payment Service enables Corporate & SE Business Customers to pay taxes from Tax office Web directly to Bank System, where processing and authorization of the payment is done automatically without any manual input.
- Custom Office - Reporting in real time all transactions executed in our branches from Business (Private or Public Companies/Institutions) or Individual Customers in favor of Customs Offices.

Project Finance & Long Term Financing

This unit is committed to assess and finance investments such as Project Loans and Real Estate Financings as well as structured long term financing like merger and acquisition transactions.

Raiffeisen Bank has successfully completed several projects during 2013, offering to corporate clients a professional solution which fits their financing needs. The Unit is constantly focused in strengthening collaboration with clients as well as increase cooperation with other financial institutions (national and international) who find in Raiffeisen Bank an outstanding financing partner.

Dedicated to the successful completion of each of our projects, the main qualities that distinguish us are: creativity, competence and market awareness.

Trade Finance Products

Trade Finance Unit offers advisory service to its customers, in order to enable them to properly use the Trade Finance Transactions as Bank Guarantees, Letters of Credit and Documentary Collections, to reduce the risk of trading relations with relevant international and domestic partners. Raiffeisen Bank supports its customers in performing these transactions timely and with high quality.
The bank has the proper technical expertise and plays a significant role in our customer's education regarding the advantages of using the Trade Finance Products. The work of this Team in cooperation with Sales staff has contributed in a further increase of our business in this field year by year.

The Trade Finance Products team is supporting the corporate customers in knowing and considering the product of Factoring as a new and better alternative of financing and structuring their liquidity needs.

In trade finance field the bank has created a competitive advantage in comparison to other competitors, by having a high level of expertise, which is continuously improved through the support of RBI Vienna and cooperation with other Network Banks and by having well balanced structures and wide distribution channels.

Raiffeisen Bank Albania starting from August 2013 has added a new product "MasterCard Business Credit Card" to the range of products offered. The MasterCard Business Credit Card will have a credit limit granted to the company by the bank and the Revolving function. It can be used by the Card-holders authorized by the company, for business purposes up to the credit limit approved by the company for each card. The MasterCard Credit Card can be used by the card-holders to perform the following transactions:

- • Make payments for purchased goods and services through more than 20 million POS terminals worldwide
- • Make payments/ buy on-line, book flights, make international phone calls
- • Withdraw cash at any bank's counter bearing the MasterCard logo worldwide

Business Credit Card will be offered in two currencies Euro and Albanian Lek and targets customers of Corporate and SE segment. This product will facilitate the everyday business to company administrators and employees.

Corporate and Small Businesses Development

The main objective of Corporate and Small Business Development Unit for the year 2013 has been improvement of the services offered to Corporate and Small business in Albania by the staff allocated in branches. Raiffeisen Bank has closely monitored daily processes performed in the branches for Corporate and SE Customers and provided ample support to them in order to provide timely and satisfactory service to the customer.

Dedicated staff in the main Branches where this target group of customers is allocated has increased significantly the efficiency and professionalism in the service offered to the customers.

One of the main tasks of the Business Segment Development Unit is management of Corporate and SE customers' complains toward the Bank. Due to that the unit has addressed several issues and proposed solutions which have lead in improvement of products and services offered to these business segments.

Customer Segment Development

Mass Private Individuals Customers

PI Mass Segment has continued last year's trend of giving more power to customers by offering them greater flexibility, choice and control, and by reconfiguring our business model around customer needs.
Customer Life Cycle (CLC) approach, launched in late 2012, is now a success story with close to 1/3 of our active customers choosing an account package based on their specific lifestyle needs. This milestone was reached only in one year.

The dedication and high quality service provided to Salary customers, incorporated with several campaigns to reward customer loyalty have boosted retention. This combined with acquisition programs resulted in further growth of the already large customer base.
During 2013 Raiffeisen Bank has strengthened cross selling capabilities through Customer Relationship Management (CRM) resulting in 18 per cent more campaigns and CRM activities, and increasing the average offers per customer by almost 50 per cent from a year ago.

Advanced CRM allows the Bank to increasingly understand the individual needs of our large customer-base, and to intelligently offer them tailored offers. In 2014, the bank will increase sophistication in this regard, with implementation of an advanced CRM system.

As well, "Customer On-boarding" programs are used to encourage new customers to start using banking services shortly after opening of their new relationship with us, thereby creating early loyalty and revenues.
With the largest customer base in Albanian banking, our dedication to using advanced means to personalize our relationship with clients is growing customer use of our services and generating new income for the bank.

Premium Banking

Premium Banking continues to offer a very unique and personalized high level of service for affluent customers. This year focus has been the strengthening of relationship with Premium customers by offering attractive products, competitive pricing and high service standards.

By the end of 2013, Premium Banking had over 32,000 customers from which almost 15 per cent belong to the top category of our Premium customer base, "Premium CLUB", the most valuable Premium customers -the CLUB category, which increased by 16 per cent during this year.
The Premium Web page launched this year has contributed further in service improvement and customer satisfaction.

Premium customers are assured of high levels of services in all our branches, while receiving a unique banking advisory and service in 16 branches with 22 dedicated Premium Relationship Managers.
The value proposition to Premium Customers is a combination of superior personalized service, advice in financial planning and products tailored to meet their needs. The financial advisory service provides a holistic solution to the client's financial needs. Trained Premium Relationship Managers offer expertise and guidance in banking and investment products by reviewing each customer's unique needs and aspirations and developing a plan for handling their money and their investments.
No other bank offers as high a level of advice and service as Raiffeisen Bank Premium Banking. 2014 will see continued focus on superior service linked to financial advice and tailored products.

Micro Segment

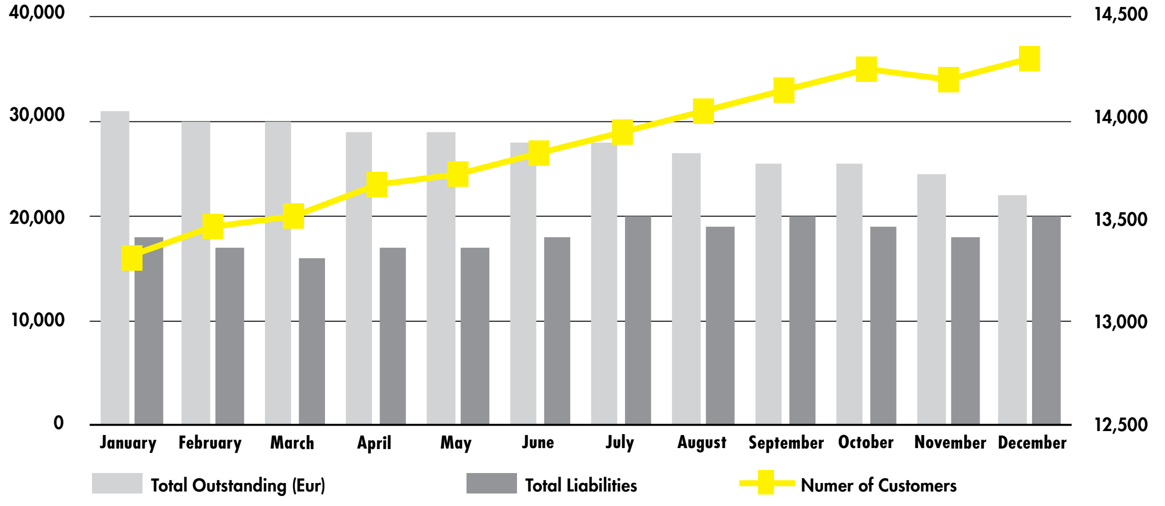
During 2013 Micro Segment continued to focus in supporting Micro businesses in their day to day activity by fulfilling their immediate needs and offering a strong partnership in their future needs. The major objective has been the increase of customer-base which by year end resulted in approximately 3,900 new accounts opened and our Micro customer base reached 15,500. The economic slowdown has reflected decrease in lending activity by closing the year 2013 with a Micro Assets portfolio of € 14.5 million, while on the Liability side € 22.9 million, increasing with € 2.4 million compared to 2012 due to new customer acquisition and activations.

Bank customers in their day to day activity needs continue to be served not only from all branches of the network but also from the dedicated staff of 30 Micro Account Managers located in 30 branches. Micro Account Managers are well trained to offer counseling in financial services relevant for these small business owners.

Raiffeisen Bank value proposition is a combination of competitive products and dedicated support, offering a strong partnership to Micro. The bank continues to invest in the development of dedicated sales force to provide high standard in service and support for this customer segment.

In 2014, the micro business segment will focus on increasing the customer base while growing a high quality loan portfolio.

Total Outstanding, Liability Vol. and Number of Clients,
January - December 2013



Product Management Division

Loans

The market's appetite for consumer borrowing has slowed during the current economic environment. Raiffeisen actively promoted its superior lending products with four advertising and promotional campaigns in 2013. Unsecured lending continued to be the bank biggest sales success, as it captured about 1/3 of market sales.

Raiffeisen Bank has continued to offer a wide and diverse range of products via competitive features and interest rates, thus through an improved lending process increasing efficiency and customer satisfaction. Lending criteria, reflecting a good portfolio quality, was eased to make loans more accessible.

Deposits

During 2013 retail deposits remained the largest funder of the bank balance sheet. Market rates hit record lows in 2013 due to excess liquidity in the banking system. Consequently, term deposits rates dropped significantly. Raiffeisen Bank was able to offer clients alternative wealth management options through our subsidiary asset management company, Raiffeisen Invest – the only company offering investment funds to the public. The vast majority of clients continued to place their trust in Raiffeisen Bank by keeping their Term Deposits despite the low interest rates. But a significant portion of the customer-base opted for Raiffeisen Invest Funds, where good annualized returns, well above the Term Deposits market rates, were achieved.

Raiffeisen Funds, offered throughout our branch network, also attracted new clients and funds from other sources. The combination of traditional banking savings products and Raiffeisen Invest Funds gave individuals more choice and possibilities to grow their savings.

The new improvements of deposit systems platform allows now our customers to choose on the widest range of products and maturities, as well as interest crediting and automatic renewal options offered in the market. Raiffeisen Bank is the only bank to offer such flexible conditions, supported also by firm policies to ensure highest standard transparency toward customers.

Payments and Transfers

The number of Payments and Transfers made by individual, affluent and micro customers during 2013 increased by 25 per cent versus the previous year, while the commissions generated from these services increased by 8 per cent, reflecting the lower prices to encourage greater use of the banking system for these transactions. Also to be mentioned is that though the amount of money that emigrants are bringing as transfers into Albania has dropped significantly during this year, in Raiffeisen Bank these transactions again marked an increase as the bank continue to improve its market position.

Payments and Transfers still represent significant growth opportunity for Raiffeisen Bank, which will be achieved through continued market development.

Cards Business and E-Channels

POS Network

In 2013 Raiffeisen Bank further developed its POS network all over the country. This service 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. At the end of 2013 Raiffeisen Bank POS Network reached a total of 1,423 terminals. Our POS network is present in more than 30 cities offering this service to more than 60 different merchant categories including hotels, travel agencies, shops, restaurants, petrol stations, hypermarkets and the largest shopping malls in the country. During 2013 the bank continued to increase the performance of this network in terms of transactions and volumes.

Internet Acquiring

Raiffeisen Bank was the first Bank that offered E-commerce service in the Albanian market in 2012. During 2013 this service was offered to a continuously increasing number of businesses such as travel agencies, cosmetic stores, hotels, subscribed TV services, internet services etc. Internet Acquiring offers the businesses the possibility to sell their products and services through the internet. The bank offers this service through 3-D Secure Technology, the most advanced standard of payment security.

ATM Network

During 2013 Raiffeisen Bank led the market with 195 ATM's, considerably more than any other bank in the country. 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 34 ATM's all over the country, with a special focus on the touristic areas, shopping malls and populated areas. Raiffeisen Bank's 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. Raiffeisen Bank ATM network offers other security features including PIN Shields for PIN protection, integrated cameras etc. In addition to cash withdrawal, our ATMs allow clients to change their PIN codes and receive a Mini Statement.

Credit Cards

During 2013, Credit Card product continued to grow, with over 30 per cent growth in the number of cards. At the end of 2013 Raiffeisen Bank had about 40 per cent of the market share of Credit Cards in distribution. The Bank offers the MasterCard brand of credit cards, both in Standard and Gold products. Also there was a significant increase in the transactions' volume performed with these cards, largely driven by successful cash back usage campaigns during different months of the year. During 2014, Raiffeisen Bank will continue to grow its credit card base in terms of number of cards, overall usage, and POS use.

Debit Cards

In 2013 Raiffeisen Bank continued to be a leader in the Debit Card market with a market share of about 30 per cent. During 2013, 50,000 new debit cards were issued for bank's customers. The number of transactions performed with these cards in ATMs and POS terminals has also increased.

Electronic Banking

As the market leader, Raiffeisen Bank is dedicated to innovation and continuous transformation of the market in terms of new, modern ways to bank.

Raiffeisen Bank has offered clients the convenience of Internet Banking, giving them 24/7 access to account balances, account transaction records, and the ability to make different types of payments.

In 2011, Raiffeisen Bank launched Mobile Banking, a new standard of convenience and accessibility. The m-banking service works on any Java enabled phone, meaning virtually all Albanians have easy access to this advanced banking channel. 2013 saw continued strong growth in the number of customers registered and using this innovative service.

In 2013 a new mobile payment service MPAY was added to the range of electronic banking services offered by the Bank. MPAY, operated by a third party service provider, offers to customers the possibility to pay their utility bills or top up their pre-paid mobile phone airtime at any time, by simply using their mobile phone. This service was launched in April and by end of year more than 29,000 customers had subscribed to it.

Call Center

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

There are eight agents in the incoming team who offer 24/7 service, providing information on bank products and services as per customers' needs.

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. 155 campaigns have been performed during 2013, with 184,000 targeted customers in total.

Distribution Channels

2013 was about maintaining the strategic direction of improving the overall quality of the customer experience in branches and improving the effectiveness of the network. Raiffeisen Bank maintained his strong leadership position as the largest bank in Albania with 103 locations serving the entire geography of our country.

From a business development perspective, the main focus was to deepened the relationship with our large customer base and ultimately achieve primary bank status with an increasing number of clients. Increasing the range of financial services used by customers is a daily focus by branch staff. Much attention was given to ensuring the upmost professional interaction with clients. This was achieved through the continued investment in people development. 2013 was also a very successful year for Investment Fund distribution. Bank customers continued to benefit from superior yields and the popularity of the product remained very strong.

On the branch efficiency front, efforts were deployed to maximize the service level of clients while allocating optimally the human resources. Raiffeisen Bank continues to use the efficiency monitoring tools developed in 2012.
Regarding Micro, Raiffeisen Bank achieved great results in portfolio quality improvement which contributed significantly to this segment's net income. It was also a record year in acquiring nearly 4,000 new customers. A new advisory model was introduced late in 2013 to better assess the needs of small businesses and propose adequate financial solutions. Raiffeisen Bank remains committed to support the important segment of small businesses in Albania.

Raiffeisen Bank alternative sales channels continued to actively support the branch network. Direct Sales Agents and Retail Sales Finance Representatives delivered solid results during a year marked by more macro-economic challenges. They remain dedicated to complement branches network by identifying, qualifying and pre-selling existing customers and prospects in the key product and service areas of Retail.
In conclusion, 2013 was about developing closer and stronger relationships with the existing client base. This can only be achieved through delivering superior customer service and ensuring high professional standards.

Raiffeisen Bank supports Eco-Fashion Show Art Made of Trash

The Urban Service Association with the support of Raiffeisen Bank organized the Eco-Fashion show. The message transmitted through this event is :

Reduce- Recycle- Reuse- Recreate

In this way everybody influences directly and indirectly in reducing trash and also gives them some hints on new innovations in terms of reducing-recycling-recreating, their input for a green economy and a sustainable environment.

Treasury and Investment Banking

Fixed Income

The year 2013 was another successful one for Raiffeisen Bank that still remained to be one of the main investors in the Albanian government securities. Although EU regulations still imposed taught targets for the risk weighted assets, the fixed income unit managed to achieve its goals within the targets in place.

Throughout this year, the bank continued to have a well-structured portfolio, composed from securities investments as hold to maturity and held for trading portfolio. Raiffeisen Bank long term investments in Treasury bonds were always above 80 per cent of our total securities portfolio. End of December 2013, the trading securities portfolio in local currency was up to € 295 million. During the past year Raiffeisen enriched the portfolio with corporate bonds in EUR, in way to alternate the investments even with foreign currency issues.

The downward trend of the interest rates in overall impacted short and long term investments making it more challenging for the fixed income unit, but above all this its performance was quite successful during 2013. Raiffeisen Bank 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.

Among the goals and strategies still remains important to increase and diversify the investment alternatives and opportunities for clients offering them treasury securities of different maturities. Consequently, it is worth underlining that Raiffeisen Bank is the major contributor in the secondary market of treasury bills and bonds by trading them at all branches across the country. During 2013 the volume and transactions number of treasury bonds traded in secondary market was more than doubled comparing to previous year.

Raiffeisen Bank is one of the initiators of various financial transactions and in this context, it has used REPO transactions with commercial banks during 2013, contributing to the development of the domestic market and alternating the different instruments.

Raiffeisen Bank continued to accomplish the role of the custodian of securities issued by the government of Albania, enabling foreign and domestic investors to participate in securities market.

Custody service and other new services to be provided in a near future are part of the efforts and challenges for further development of the financial domestic market.

Money Market

Money Market unit as an important part of the Dealing Room in Treasury department has taken an active role on the bank risk weighted assets target for 2013 by using different instruments on maintaining the minimum reserve requirement at the Central Bank. The unit has continuously contributed to maintain the liquidity ratio at the required level as per Bank of Albania's new regulation.

The money market portfolio throughout the whole year 2013 has been well managed and expanded in different maturities, respecting all limits constrains in place by assuring and fulfilling in any moment bank's liquidity needs in every currency.

It has contributed on short term liquidity management by increasing the number of interbank transactions, especially in the local market by further developing the interbank activity and using different instruments.

Despite the local and especially global headwinds that faced the markets during 2013, the Money Market Unit has done its maximum efforts to successfully manage the short term liquidity by generating a good performance in an ongoing low-interest-rate environment.

As an active and necessary part of a still developing local market, the Money Market unit contributes daily for 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 impacts in development of the market, instruments and investment possibilities in short term.

Foreign Exchange

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

During this year the weak economic indicators that came from some of European countries has shown a deep recession of European economy especially in the first quarter. As per consequence the international market has been characterized by a great fluctuation of exchange rates. European economic crises especially in some of our neighbor countries, 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 USD dollar which has been characterized by big movement reflecting the USD trend in international market.

Foreign exchange unit gave its maximum support in the local market by maintaining a small spread in the bid / ask and quoting at very competitive prices in the interbank market and with customers.

Volumes of foreign exchange transactions were enhanced compared to 2012, by running at EUR 300 million per month, where Euro / USD operations comprised the most part.

Treasury Sales

Treasury Sales Unit managed to retain its position in the market during 2013 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 foreign exchange products and interest rates. Besides increasing the profits and responding to the customer's 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.


UNIVERSITY of CAMBRIDGE
ESOL Examinations
Authorised BULATS Agent
International
Certificate

Raiffeisen Bank supports the Public Speaking Competition in Albania

Raiffeisen Bank has supported the Public Speaking Competition organized by English Speaking Union Albania in its fifth year.
Raiffeisen Bank always aims to be present in activities that have in focus to help and assist the education system with a positive effect for Albanians.

Corporate Social Responsibility

Corporate Social Responsibility is very important for Raiffeisen Bank. It is part of the corporate culture therefore the bank through sponsorship has supported a large number of projects, which aim the improvement of the social, health and environmental conditions of the community in Albania. The projects supported by Raiffeisen Bank during 2013 have been diverse and always in accordance with its sponsorship policy.

The main focus of the sponsorship policy remains the education sector, where the contribution of Raiffeisen Bank has been considerable during the year. In this framework, an important project was the initiative of Raiffeisen Bank to donate a flower for all the teachers on March 7th, the Teacher's Day. Teachers are the most important part of this sector; they are the main factor of education, training and preparation of the new generation, which is the future of the country. Therefore, the bank decided to express modestly its gratitude and respect for them and their noble profession. The Education Directorates across the country expressed their readiness for the implementation of this project that had a very positive impact in the community and beyond.

Meanwhile, the contribution of Raiffeisen Bank in this sector has continued with the support of educative and cultural projects for the high schools in Gjirokastra, Shkodra, Tirana, Lezha, Kavaja, Ksamili etc., as well as for the Universities of Shkodra, Elbasan, Durrës and Korça with the donation of computers or activities, which aimed the fulfillment of the needs of students in order to develop better the teaching process.

As part of its social responsibility, Raiffeisen Bank has continued also its contribution for the projects with social impact. Thus, for the third year in a row were organized successfully the summer camps in collaboration with Terres des Hommes. This year the camps established in Durrës, Fier, Elbasan, Vlora, Gjirokastra and Korça integrated more than 1,000 children from families with social and economic difficulties. These children benefited from the safe and friendly environment in these summer camps.
Other social projects, which have found the support of Raiffeisen Bank, were activities organized for orphan children on the occasion of end-year feasts or the donations of books for "Zyber Hallulli" orphanage in Tirana.

In addition, a very important project with socio-cultural character is "Gjimnastrada", a project which has become a tradition for the young children of the capital and not only. Every year "Gjimnastrada" gathers children and youngsters from 5 to 18 years old, who express their talent and skills in the disciplines of dance, sport, aerobic, etc. Last year this activity was attended by groups of young peoples from different cities of the country as well as from Kosovo and Macedonia.

The health sector has been in focus of the support of Raiffeisen Bank last year. The most important project in this sector was the collaboration with the Ministry of Health and in this framework Raiffeisen Bank enabled the purchase of hospital materials, very important for the diagnosis of patients at the oncology clinic near Mother Teresa University Hospital.

The environmental projects have also found the support of Raiffeisen Bank. Important project in this area has been the collaboration with the Municipality of Tirana, through which Raiffeisen Bank has sponsored the planting of trees in the Artificial Lake of Tirana. About 390 trees were planted in this area affecting directly the enhancement of the green areas of the city. In addition, projects for planting trees have been organized also with the municipalities of Kuçova and Lushnje.

Meanwhile, it has continued the support for cleaning the coast line organized by the "Free Thinking Forum". This year with the help of the Volunteer Corps and Raiffeisen Bank staff in these areas were cleaned the beach of Zverneci and Gjiri i Lalzit.
Raiffeisen Bank Albania besides offering banking services and products, remains always committed to contribute and support projects that help the community and the improvement of its life, as part of its social responsibility.

Raiffeisen Bank supports the action to clean the coast in Spilles, Kavaja

Raiffeisen Bank for the fifth consecutive year supported the initiative of the “Free Thinking Forum” for cleaning of the coast. During the past years, Raiffeisen Bank has supported the actions of various cleaning coastal areas of the country, which are highly frequented by tourists, as Lalzi Bay, Velipoja, Zvërnec, etc.
This year, 150 volunteers took part in the new “Corps Volunteer” for a clean beach, in Spille Kavaja.

Human Resources and Training

With a staff of over 1,400 employees, Raiffeisen Bank is one of the biggest and best employers in Albania, offering a competitive environment in terms of staff compensation, development and motivation.

During 2013, the process of staff recruitment and selection aimed at internal development of human resources. The internal candidates, based on their performance, were considered as the main potential for the vacant positions announced in the Bank. In this context, during 2013, 20 internal candidates were selected as the winning candidates for the vacant positions.
At the same time, in order to meet the needs for staff in entry-level positions, mainly in the Branch Network, we recruited 68 new employees, out of whom 10 interns, after they successfully completed the internship program.

Raiffeisen Bank has already established its tradition of Internship Program. Its aim is to attract students with very good results who demonstrate a high degree of motivation, will and interest to work in a financial environment.
Raiffeisen Bank is committed to Corporate Social Responsibility and the internship program is an important component of it. We welcome new students from the most reputable universities of the country, so that they can learn in practice the functions of a Bank and help them prepare for the labor market.

During 2013, Raiffeisen Bank widely supported FASTIP Program, not only by financing the students who are studying Banking Management profile, but also by involving them in the daily banking activity and integrating their school curricula and practice. This program offers the students the opportunity to become acquainted with the spirit and culture of a multinational company and the opportunity to work in our Bank.

In addition to the management of its talents, Raiffeisen Bank supports initiatives such as Junior Achievement that aim at shaping of new leaders, promoting of entrepreneurial skills, in order to prepare them for the labor market.
Many volunteers from different departments volunteered to teach Junior Achievement courses, such as: Business Ethics, Success Skills, Students' Company, Being an Entrepreneur. They shared with the high school students their valuable experience.

Another Junior Achievement initiative is Leader for Day, which creates a unique opportunity for students to learn from executive directors, under their mentoring for a day. Through this initiative, the high school students are introduced to the roles of a Bank Manager, the Bank activity and are informed of better choices for their future career.

In addition to its efforts to approach and select the best recruiters in the market, Raiffeisen Bank is also committed to staff development, enhancement of their knowledge and their professional skills.
The bank believes that training and development programs are a strategic investment for achievement of the business objectives.

The Bank offers an Orientation Training Package for all new recruited staff. This training is highly important as it introduces them to the new tasks that they will perform and it facilitates a smooth integration in the workplace. Even during their employment, many opportunities for development and qualifications are offered to them. The Bank provides a wide range of training programs and initiatives of professional development, which are organized through the internal sources of expertise or outsourced experts.

During 2013, the annual training plan reflects the requests of each Department for training sessions that aim at updating or enhancing their technical knowledge or competencies/skills needed to cope with the challenges and to meet the set targets and results. In this context, 3,917 days of classroom training were held and more than 90 per cent of the staff received at least one training.

In addition to the classroom training, the bank staff is offered the alternative to attend electronic training on e-learning platform, which serves as a tool for knowledge and information management.

The training menu in this platform has been enriched during 2013 with ten new modules. In addition to internally developed modules, this platform offers trainings held by RBI Group. The number of participants in on-line trainings in 2013 has gone up, recording 3,236 participants. This figure shows the broad interest in this learning method, which offers a lot of flexibility.

The Human Resources Division supports long-term business goals by focusing on creation and implementation of policies that aim the identification and talent management for the employees who demonstrate a high potential for achievement and constant performance. Managing and retaining of these talents is a key factor in the company success.

During 2013, the focus was on the implementation of programs related to development of leadership and management skills for bank managers. The Management training programs aim to strengthen the competencies and behaviors the bank managers should reflect in order to lead their teams towards continued success.

The rotation program is another tool for the development of Raiffeisen Bank staff, through the exchange of experience with their colleagues in and outside of the Bank. Such initiatives continued inside the Bank during 2013, with the aim of learning more about the interrelated work processes, by looking at them from a broader perspective. The selected employees were offered the possibility to complete the rotation programs in RBI or in other Banks of Raiffeisen Group through several-week or several-month visits, experiencing and observing the best practices and processes implemented, or work as part of international teams to implement RBI Group initiatives and projects.

Raiffeisen Bank supports for the third year in row the summer camps for the vulnerable children

Raiffeisen Bank Albania has supported again this year the summer camps organized by Terre des Hommes in Albania. It is the third year that our bank has made its generous contribution to the Summer Camps Program in 2013. 1006 children benefited from the summer camps activities this year where playing, having fun and learning has helped them mitigate the effects of their adverse life situations. Largely focusing on the most vulnerable groups, children from Roma and Egyptian communities, children from residential institutions and daily centers, children with disabilities, child victims of domestic violence, abuse or out-of-school children, the camps brought them all together in a spirit of harmony and cooperation.

Raiffesen Bank Group

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

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General Information

Directors and Management as of 31 December 2013 and 31 December 2012

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

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Independent Auditor's Report

To the Shareholder's and Board of Directors of Raiffeisen Bank sh.a.

We have audited the accompanying consolidated financial statements of Raiffeisen Bank sh.a. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of profit or loss and ot her comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising 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 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 entity'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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by another firm of auditors whose report, dated 27 March 2013, expressed an unmodified opinion on those statements. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers Audit sh.p.k

PricewaterhouseCoopers Audit sh.p.k.
6 June 2014
Tirana, Albania

Statutory auditor
Kledian Kodra, FCCA

Consolidated Statement of Financial Position as at 31 December 2013
(amounts in LEK'000)

Assets	Note	31 December 2013	31 December 2012
Cash and cash equivalents	7	35,394,831	38,153,089
Restricted balances	8	24,527,024	28,243,158
Investments held for trading	9.1	43,867,966	41,281,170
Held-to-maturity investment securities	9.2	65,885,928	81,381,682
Loans and advances to customers, net	10	116,345,848	124,576,719
Investment securities available for sale	11	-	37,785
Current income tax prepayment		181,178	190,190
Deferred income tax asset	12	73,902	-
Goodwill	13	92,783	92,783
Intangible assets	14	1,442,261	1,225,926
Premises and equipment	15	1,881,596	1,987,074
Other assets	16	2,103,238	1,749,047
Total assets		**291,796,555**	**318,918,623**
Liabilities			
Due to financial institutions	17	4,610,794	1,941,112
Due to customers	18	246,445,957	284,395,826
Deferred income tax liabilities	12	-	262
Other liabilities	19	3,235,863	1,513,284
Subordinated debt	20	7,154,318	-
Total liabilities		**261,446,932**	**287,850,484**
Equity			
Share capital	21	14,178,593	14,178,593
Retained earnings		13,233,130	13,927,529
Other reserves	22	2,835,352	2,860,599
Net assets attributable to the Bank owners		**30,247,075**	**30,966,721**
Non-controlling interest	23	**102,548**	**101,418**
Total equity		**30,349,623**	**31,068,139**
Total liabilities and equity		**291,796,555**	**318,918,623**

These consolidated financial statements have been approved by the Supervisory Board of the Bank on 5 March 2014 and signed on its behalf by:

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice Chairman of 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 10 to 63.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	**24**	15,953,426	18,935,579
Interest expense	**25**	(5,055,314)	(8,138,185)
Net interest income		**10,898,112**	**10,797,394**
Provision for impairment of loans to customers	**10,19**	(4,082,740)	(2,822,695)
Net interest income after provision for loan impairment		**6,815,372**	**7,974,699**
Fee and commission income	**26**	2,106,805	1,500,585
Fee and commission expense	**27**	(621,856)	(318,384)
Net fee and commission income		**1,484,949**	**1,182,201**
Net income from investments	**11**	32,340	-
Net trading income	**28**	2,887,730	2,585,396
Other operating income	**29**	238,768	42,244
		3,158,838	**2,627,640**
Deposit insurance premium	**30**	(855,698)	(802,684)
Personnel expenses	**31**	(2,427,117)	(2,520,468)
Depreciation and amortisation	**14,15**	(576,959)	(572,462)
General and administrative expenses	**32**	(2,109,655)	(1,968,247)
Other operating expense	**29**	(386,349)	(143,991)
		(6,355,778)	**(6,007,852)**
Profit before income tax		**5,103,381**	**5,776,688**
Income tax	**33**	(456,659)	(471,021)
Profit for the year		**4,646,722**	**5,305,667**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Gains less losses arising during the year	**11**	**(37,785)**	**-**
Gains less losses reclassified to profit or loss upon disposal or impairment		**-**	**12,072**
Other comprehensive income for the year		**(37,785)**	**12,072**
Total comprehensive income for the YEAR		**4,608,937**	**5,317,740**

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013
(amounts in LEK'000)

	Year ended 31 December 2013	Year ended 31 December 2012
Profit is attributable to:		
- Owners of the Bank	4,630,834	5,289,166
- Non-controlling interest	15,888	16,501
Profit for the year	**4,646,722**	**5,305,667**
Total comprehensive income is attributable to:		
- Owners of the Bank	4,593,178	5,301,201
- Non-controlling interest	15,759	16,539
Total comprehensive income for the year	**4,608,937**	**5,317,740**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in LEK per share)	**661,548**	**755,595**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 63.

Consolidated Statement of Changes in Equity for the year ended 31 December 2013
(amounts in LEK'000)

	Attributable to the owners of the Bank						
	Share capital	**General reserves**	**Revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 31 December 2011	**9,926,093**	**6,314,300**	**25,713**	**13,128,324**	**29,394,430**	**84,917**	**29,479,347**
Capital increase	4,252,500	-	-	(4,252,500)	-	-	-
Transfer of general reserve to retained earnings	-	(3,491,486)	-	3,491,486	-	-	-
Dividend payment	-	-	-	(3,728,947)	(3,728,947)	-	**(3,728,947)**
Profit for the year	-	-	-	5,289,166	5,289,166	16,501	**5,305,667**
Other comprehensive income (Note 11)	-	-	12,072	-	12,072	-	**12,072**
Balance as at 31 December 2012	**14,178,593**	**2,822,814**	**37,785**	**13,927,529**	**30,966,721**	**101,418**	**31,068,139**
Transfer of retained earnings to general reserve	-	12,538	-	(12,538)	-	-	-
Dividend payment	-	-	-	(5,312,695)	(5,312,695)	(14,758)	**(5,327,453)**
Profit for the year	-	-	-	4,630,834	4,630,834	15,888	**4,646,722**
Other comprehensive income (Note 11)	-	-	(37,785)	-	(37,785)	-	**(37,785)**
Balance as at 31 December 2013	**14,178,593**	**2,835,352**	**-**	**13,233,130**	**30,247,075**	**102,548**	**30,349,623**

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 10 to 63.

Consolidated Statement of Cash Flows for the year ended 31 December 2013
(amounts in LEK'000)

Cash flows from operating activities		Year ended 31 December 2013	Year ended 31 December 2012
Profit for the year before taxation		**5,103,381**	**5,776,688**
Non-cash items in the statement of comprehensive income			
Depreciation and amortization	**14,15**	576,959	572,462
Loss from sale of investment securities available for sale	**11**	5,445	-
(Profit)/Loss from sale of fixed assets		(53,181)	3,356
Net impairment loss on financial assets		4,082,740	2,822,695
Net Interest income		(11,289,080)	(10,797,394)
Net income from revaluation of trading securities		(42,167)	-
Changes in provision for other debtors		(1,095)	(10,559)
Changes in provision for litigation		214	-
Revaluation effect of cash and cash equivalents		62,176	(53,986)
Operating cash flows before changes in working capital		**(1,554,608)**	**(1,686,738)**
Decrease/(Increase) in restricted balances		3,716,134	(2,572,662)
Decrease /(Increase) in loans and advances to customers		3,664,598	(3,261,233)
Increase in Reverse REPO/in REPOs		-	(2,079,122)
Increase in trading securities		(2,540,110)	(455,421)
Decrease in investment securities available for sale		(37,785)	-
Increase in other assets		(313,758)	(8,169,197)
Increase / (Decrease) in due to financial institutions		2,866,892	(3,384,529)
(Decrease)/Increase in due to customers		(35,934,167)	5,708,298
Increase in other liabilities		1,684,372	479,088
Operating cash flows after changes in working capital		**(28,448,432)**	**(15,421,516)**
Interest received		16,810,171	18,906,215
Interest paid		(7,039,906)	(7,956,925)
Corporate income tax paid		(522,273)	(801,817)
Net cash used in operating activities		**(19,200,440)**	**(5,274,043)**
Cash flows from investing activities			
Proceeds from sale of investment securities available for sale	**11**	32,340	-
Purchases of premises and equipment	**15**	(363,316)	(633,075)
Purchases of intangible assets	**14**	(329,560)	(738,566)
Proceeds from sale of fixed assets		58,240	-
Proceeds from matured financial assets held-to-maturity		70,762,975	81,460,994
Purchase of financial assets held-to-maturity		(55,338,868)	(57,064,056)
Net cash generated from investing activities		**14,821,811**	**23,025,297**
Cash flows from financing activities			
Dividends paid		(5,327,453)	(3,728,947)
Increase in Subordinated debt		7,010,000	-
Net cash from/(used in) financing activities		**1,682,547**	**(3,728,947)**
(Decrease)/Increase in cash and cash equivalents during the year		**(2,696,082)**	**14,022,307**
Cash and cash equivalents at the beginning of the year	**7**	**38,153,089**	**24,076,796**
Revaluation effect of cash and cash equivalents		(62,176)	53,986
Cash and cash equivalents at the end of the year	**7**	**35,394,831**	**38,153,089**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 63.

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for Raiffiesen Bank sh.a. (the "Bank") and its subsidiaries (the "Group").
Raiffeisen Bank Sh.a. (the "Bank") is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies", and Law 9662, dated 18 December 2006 "On Banks in the Republic of Albania", as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen SEE Region Holding GmbH, Austria, which is the ultimate controlling party.

Principal activity. The Group's principal business activity is retail *banking operations within the Republic of Albania.* The Bank operates through a banking network of 102 service points, as of 31 December 2013, (31 December 2012: 103 service points) throughout Albania, which are managed through 8 Districts and has no overseas operations.

The consolidated financial statements for the year ended 31 December 2013 were authorized for issue by the Board of Directors on 5 March 2014. Approval of the financial statements by the Shareholders will take place in the Annual General Meeting of the Shareholders.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.
Presentation currency. These consolidated financial statements are presented in Albanian Lek ("LEK"), unless otherwise stated. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all the periods presented, unless otherwise stated.

a) Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Consolidated financial statements (continued)

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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 (t) and 3 (u), for Raiffeisen INVEST.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

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)

b) Foreign currency transactions (continued)

The applicable official Group rates (LEK to the foreign currency unit) for the principal currencies as at 31 December 2013 and 31 December 2012 were as below:

	31 December 2013		31 December 2012	
	Period end	*Average*	*Year end*	*Average*
United States dollar (USD)	101.86	105.53	105.85	108.20
European Union currency unit (EUR)	140.20	140.23	139.59	139.04

c) Interest

Interest income and expense are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

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

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

d) Fees and commission

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

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

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

e) Net trading income

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

f) Operating lease payments and other operating expenses

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

g) Employee benefits

• *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Group makes compulsory social security contributions that provide pension benefits for employees

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Employee benefits (continued)

upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

- *Paid annual leave*

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

- *Short-term benefits*

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

- *Termination benefits*

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

h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

i) Financial assets and liabilities

i. Recognition

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

ii. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and liabilities (continued)

iii. Amortised cost measurement

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

iv. Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable. Determination of fair value is further detailed in Note 4 to the consolidated financial statements "Critical accounting estimates and judgements" and Note 37 "Fair values of financial assets and liabilities".

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Groups 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 profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

l) Non-trading derivatives

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives are measured at fair value in the 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Investment securities (continued)

(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) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

q) Premises and equipment

(i) Recognition and measurement

Items of premises and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of premises 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 premises and equipment are recognised in profit or loss as incurred.

(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 premises 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:

	2013 (in years)	**2012(in years)**
• Premises	20	20
• Computers and IT equipment	4 to 8	4
• Vehicles	5	5
• Leasehold improvements	1to 10	2 to 4
• Other (Office furniture)	5	5

Useful lives and residual values are reassessed each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) 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 eight 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.

s) Repossessed property

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

t) 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,
- 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 2013, the net assets value of Raiffeisen voluntary pension fund amount to LEK 174,493 thousand (2012:LEK 113,908 thousand), Raiffeisen Prestige amount LEK 42,593,056 thousand (2012: LEK 15,221,687 thousand) and Raiffeisen Invest Euro amount LEK 7,735,486 thousand (2012: LEK786,208).

u) 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 2013 and 2012 the investment portfolio of the Funds includes government bonds and treasury bills, short term deposits in the second tier Banks operating in Albania and other cash and cash equivalents. First Investment Bank Albania sh.a. acts as the custodian bank of all the Funds.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Defined contribution plans (Voluntary Pension Fund and Investment Funds) (continued)

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. Raiffeisen Invest Prestige Fund pays a fee of 1.25% (annually) of net assets value (2012: 1%) to the Management Company. Raiffeisen Invest Euro Fund pays a fee of 1.5% of net assets value (2012: 1.5%). Raiffeisen Voluntary Pension Fund pays a fee of 1.5 % on net assets value (2012: 1.5%).

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

v) 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.

w) 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) Presentation of statement of financial position in order of liquidity.

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 34.

z) Comparability

All amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(i) Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of LEK 429,433 thousand (2012: LEK 312,099 thousand) or a decrease in loan impairment losses of LEK 708,547 thousand (2012: LEK 139,844 thousand), respectively.
Reversals of impairment provisions. The Group reversed loan impairment provisions of LEK 1,537,762 thousand (2012: LEK 1,591,110thousand) primarily as a result of improvement in the financial condition of its borrowers.

(ii) Determining fair values

Information about fair values of financial assets and liabilities that were valued using assumptions that are not based on observable market data is disclosed in Note 37.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Group from 1 January 2013:

IFRS 10 "Consolidated Consolidated financial statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Group's consolidated financial statements.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSsThe Standard also resulted in additional disclosures in these consolidated financial statements. Refer to Note 36.

IAS 27 "Separate financial statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated financial statements". The amended standard did not have any material impact on the Group's consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 1 "Presentation of Consolidated financial statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2013) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The amended standard did not have any material impact on the Group's consolidated financial statements.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of a Group's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amended standard did not have any material impact on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS consolidated financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements The amended standard did not have any material impact on the Group's consolidated financial statements.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated financial statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standard did not have any material impact on the Group's consolidated financial statements other than application of the relief from disclosure of certain comparative information in the notes to the consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Group's consolidated financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

6. NEW ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its consolidated financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its consolidated financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual consolidated financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash on hand	2,455,397	2,459,612
Central Bank		
Current accounts	1,401	96,952
Deposit accounts	-	1,300,000
Accrued interest in deposit account	-	80
Banks		
Current accounts with resident banks	39,434	58
Current accounts with non-resident banks	260,942	4,721,931
Deposits with resident banks of less than three months	-	2,673,025
Deposits with non-resident banks of less than three months	32,637,657	26,901,431
Total	**35,394,831**	**38,153,089**

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 2013 vary from 0.05% to 0.75% (31 December 2012 : 0.05% to 0.58%). The annual interest rates on term deposits with resident banks as at 31 December 2012 varies from 3.90% to 4.60%.

8. RESTRICTED BALANCES

	31 December 2013	31 December 2012
Central Bank		
Obligatory reserves	24,019,125	27,679,797
Banks		
Guarantee accounts	507,899	563,361
Total	**24,527,024**	**28,243,158**

Obligatory reserves with Central Bank are not for everyday use by the Bank and represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 10% of the average amount of deposits for the month owed to banks and customers, and are both in LEK and in foreign currency (USD and EUR).

The credit quality of cash at banks and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December:

	2013	2012
Neither past due nor impaired		
A-1	24,513,854	29,735,610
A-1+	3,233,166	1,681,088
A-2	15,965	26,241
B	26,638	26,522
Unrated	29,676,836	32,467,174
Carrying amount	**57,466,459**	**63,936,635**

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

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

	31 December 2013	31 December 2012
Treasury bills	350,836	358,760
Government Bonds	43,517,130	40,922,410
Total	**43,867,966**	**41,281,170**

Treasury bills as at 31 December 2013 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 3.63% to 6.64% per annum (31 December 2012: from 6.35% to 7.37%).

Government bonds as at 31 December 2013 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 4.69% to 11.00% per annum (31 December 2012: from 7.56% 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 2013	31 December 2012
Treasury Bills (9.2.1)	16,013,434	17,926,923
Government Bonds (9.2.2)	47,641,842	63,454,759
Corporate Bonds (9.2.3)	2,230,652	-
Total	**65,885,928**	**81,381,682**

As at 31 December 2013, no treasury bills were pledged as security for the repurchase agreements portfolio (2012: none)

9.2.1 Treasury bills

Treasury bills as at 31 December 2013 relate to zero-coupon treasury bills of the Government of Albania, with yields ranging from 3.63% to 7.10% per annum (31 December 2012: from 4.99% to 7.10%).

	31 December 2013	31 December 2012
Nominal value of treasury bills	16,406,757	18,630,597
Unamortised discount	(393,323)	(703,674)
Total	**16,013,434**	**17,926,923**

9. INVESTMENT SECURITIES (CONTINUED)
9.2 Held-to-maturity investment securities (continued)

9.2.2 Government bonds

Government Bonds as at 31 December 2013 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 4.69% to 11.00% per annum (31 December 2012: from 7.38% to 11.00%).

	31 December 2013	31 December 2012
Nominal value of bonds	46,703,645	62,048,971
Unamortised discount	10,574	13,656
Accrued interest	927,623	1,392,132
Total	**47,641,842**	**63,454,759**

9.2.3 Corporate bonds

Corporate bonds as at 31 December 2013 represent 1 year bonds denominated in EUR with coupon rates ranging from 3.25% to 3.75% per annum (31 December 2012: 0).

	31 December 2013	31 December 2012
Nominal value of bonds	2,145,060	-
Unamortised discount	6,546	-
Accrued interest	79,046	-
Total	**2,230,652**	**-**

The debt securities are not collateralised.

Analysis by credit quality of investment securities is summarized as follows at 31 December 2013 and 2012:

	Investments held for trading		Held-to-maturity investment securities	
	2013	**2012**	**2013**	**2012**
Neither past due nor impaired	-	-	-	-
B	43,867,966	41,281,170	63,655,275	81,381,682
AA+	-	-	725,369	-
BBB+	-	-	633,562	-
BBB	-	-	723,472	-
Unrated	-	-	148,250	-
Carrying amount	**43,867,966**	**41,281,170**	**65,885,928**	**81,381,682**

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2013	31 December 2012
Loans and advances to customers	128,452,725	135,995,090
Allowance for loan loss impairment	(12,106,877)	(11,418,371)
Net carrying amount	**116,345,848**	**124,576,719**

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

	2013	2012
Balance at the beginning of the year	11,418,371	10,865,948
Allowance for loan loss impairment	5,580,950	4,412,006
Release for loan loss impairment	(1,537,762)	(1,591,110)
Loans written off	(3,354,682)	(2,268,473)
Balance at the end of the year	**12,106,877**	**11,418,371**

The interest rates of loans and advances to customers vary from 1.82% to 9.58% p.a. in foreign currencies and from 6.57% to 19.02% p.a. in LEK (31 December 2012: from 2.34% to 10.22% p.a. in foreign currencies and from 7.12% to 19.36% p.a. in LEK).

Loans and advances to customers detailed in business segments as at 31 December 2013 and 2012 are presented in the following tables:

						31 December 2013
	Individual	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Overdraft	**1,629,311**	**47,351,926**	**5,219,787**	**705,274**	**68,521**	**54,974,819**
Credit Card	**379,433**	**59**	**-**	**-**	**41,184**	**420,676**
Loans						
Short term	131,326	1,997,372	111,396	6,129	1,521	2,247,744
Medium term	3,429,569	20,065,084	3,113,586	690,218	107,897	27,406,354
Long term	7,046,818	17,854,134	3,258,323	385,376	214,321	28,758,972
	10,607,713	**39,916,590**	**6,483,305**	**1,081,723**	**323,739**	**58,413,070**
Mortgage	**8,218,561**	**-**	**289,252**	**254,990**	**2,461,470**	**11,224,273**
Other	**353,239**	**2,484,969**	**757,104**	**245,639**	**18,843**	**3,859,794**
less Administrative Fee	(158,103)	(219,751)	(48,807)	(13,246)	-	(439,907)
TOTAL	**21,030,154**	**89,533,793**	**12,700,641**	**2,274,380**	**2,913,757**	**128,452,725**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

						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**
	11,971,283	**44,399,122**	**6,317,459**	**1,803,615**	**480,513**	**64,971,992**
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**
less Administrative Fee	(169,236)	(273,473)	(53,282)	(23,971)	-	**(519,962)**
TOTAL	**23,625,945**	**93,378,725**	**13,011,397**	**3,511,106**	**2,467,917**	**135,995,090**

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of LEK	**2013 Amount**	**%**	**2012 Amount**	**%**
Trade, repair of motor vehicles and household items	43,223,407	34%	46,286,756	34.0%
Households	23,942,915	19%	26,093,861	19.2%
Production and distribution of electricity, gas and water	19,346,678	15%	18,673,599	13.7%
Processing industry	10,273,526	8%	10,613,443	7.8%
Construction	9,521,395	7%	12,331,468	9.1%
Transportation, Storage and Telecommunications	6,780,955	5%	6,474,686	4.8%
Monetary and financial intermediation	4,416,410	3%	4,259,132	3.1%
Extracting industry	3,299,586	3%	4,070,535	3.0%
Agriculture and haunting	2,197,762	2%	2,147,694	1.6%
Collective, social and personal	2,117,384	2%	2,298,686	1.7%
Health and social work	1,642,342	1%	1,404,930	1.0%
Other	1,690,364	1%	1,340,300	1.0%
Total loans and advances to customers (before impairment)	**128,452,724**	**100%**	**135,995,090**	**100%**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

At 31 December 2013 the Group had 21 borrowers (2012:21 borrowers) with aggregated loan amounts above LEK 1,000,000 thousand. The total aggregate amount of these loans was LEK 53,983,544 thousand (2012: LEK 54,892,033 thousand) or 42% of the gross loan portfolio (2012: 41%).

Information about collateral at 31 December 2013 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,043,636	1,895,787	56,355	1,285,885	1,052,314	16,333,977
Loans guaranteed by other banks	-	893,654	-	-	-	893,654
Loans guaranteed by other parties, including credit insurance	421,443	16,788,684	52,959	-	2,407	17,265,493
Loans collateralised by:	-	-	-	-	-	-
- residential real estate	6,756,203	9,751,407	2,321,169	388,570	1,786,876	21,004,225
- other real estate	837,361	16,950,812	7,045,332	287,213	52,986	25,173,704
- cash deposits	622,290	838,642	24,657	13,178	800	1,499,567
- other assets	31,312	39,948,469	2,447,571	69,945	-	42,497,297
- Leased Vehicles- Movable Assets / Equipment	317,908	2,466,337	752,598	229,590	18,375	3,784,808
Total loans and advances to customers	**21,030,153**	**89,533,792**	**12,700,641**	**2,274,381**	**2,913,758**	**128,452,725**

Information about collateral at 31 December 2012 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	13,514,768	2,720,344	70,004	1,561,503	889,724	18,756,343
Loans guaranteed by other banks	-	1,137,756	-	-	-	1,137,756
Loans guaranteed by other parties, including credit insurance	442,910	17,257,627	40,334	9,288	11,202	17,761,361
Loans collateralised by:						
- residential real estate	7,067,425	9,936,570	2,443,802	903,215	1,504,345	21,855,357
- other real estate	1,028,757	17,079,934	7,111,193	536,519	46,331	25,802,734
- cash deposits	1,170,647	906,722	24,888	-	13,961	2,116,218
- other assets	-	41,871,499	2,369,516	244,874	-	44,485,889
-Leased Vehicles- Movable Assets / Equipment	401,438	2,468,273	951,662	255,707	2,352	4,079,432
Total loans and advances to customers	**23,625,945**	**93,378,725**	**13,011,399**	**3,511,106**	**2,467,915**	**135,995,090**

Other assets mainly include equipment and receivables. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Starting from December 2013, the Group has implemented a new rating system for non-retail customers (Corporate & SME). Impaired loans are loans 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 agreement. These loans are graded in intervals from 1A to 10C in the Group's internal credit risk grading system (2012: Grade 5).

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Total*
Neither past due nor impaired					
Grade 2C	3,505,579	-	-	-	3,505,579
Grade 3B	1,528,004	-	-	-	1,528,004
Grade 4A	623	-	-	-	623
Grade 4B	-	497,329	-	-	497,329
Grade 5B	113,720	1,464,410	-	-	1,578,130
Grade 5C	668,178	-	-	-	668,178
Grade 6A	84,469	824,158	-	-	908,627
Grade 6B	623,477	601,070	-	-	1,224,547
Grade 6C	1,618,885	519,149	-	-	2,138,034
Grade 7A	1,636,618	866,689	-	-	2,503,307
Grade 7B	2,989,918	893,522	-	-	3,883,440
Grade 7C	2,574,448	590,096	-	-	3,164,544
Grade 8A	23,520,594	328,656	-	-	23,849,250
Grade 8B	4,859,119	466,440	-	-	5,325,559
Grade 8C	5,451,605	69,695	-	-	5,521,300
Grade 9A	7,017,116	-	-	-	7,017,116
Grade 9B	2,386,830	998,981	-	-	3,385,811
Grade 9C	1,877,844	-	-	-	1,877,844
Grade 10A	23	56	-	-	79
Grade (unrated)	1,229,135	1,991	1,326,079	20,144,593	22,701,798
Total neither past due nor impaired	**61,686,185**	**8,122,242**	**1,326,079**	**20,144,593**	**91,279,099**
Past due but not impaired					
	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Total*
- less than 30 days overdue	6,805,150	1,237,790	206,357	1,196,965	9,446,262
- 30 to 60 days overdue	5,199,315	689,182	96,398	300,894	6,285,789
- 60 to 90 days overdue	1,872,162	101,901	75,565	277,195	2,326,823
- 90 to 180 days overdue	197,968	128,188	79,155	302,935	708,246
- 90 to 360 days overdue	667,933	102,102	11,129	76,354	857,518
- over 360 days overdue	782,510	397,158	76,480	58,551	1,314,699
Total past due but not impaired	**15,525,038**	**2,656,321**	**545,084**	**2,212,894**	**20,939,337**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	-	1,121	22,379	23,500
- 30 to 60 days overdue	-	-	653	2,457	3,110
- 60 to 90 days overdue	-	-	581	525	1,106
- 90 to 180 days overdue	5,716,836	123,957	7,543	18,427	5,866,763
- 90 to 360 days overdue	1,472,377	108,188	114,227	683,584	2,378,376
- over 360 days overdue	5,134,347	1,689,935	279,096	858,056	7,961,434
Total individually impaired loans (gross)	**12,323,560**	**1,922,080**	**403,221**	**1,585,428**	**16,234,289**
Less impairment provisions	(8,898,160)	(1,427,382)	(319,900)	(1,461,435)	(12,106,877)
Total loans and advances to customers	**80,636,623**	**11,273,261**	**1,954,484**	**22,481,480**	**116,345,848**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

	Corporate	Small Enterprises	Micro SMEs	Households	Total
Neither past due nor impaired	-	189,384	-	-	189,384
Grade 1	2,291,300	618,152	-	-	2,909,452
Grade 1.5	1,381,646	1,286,514	-	-	2,668,160
Grade 2	8,845,441	1,253,352	-	-	10,098,793
Grade 2.5	7,573,394	934,222	-	-	8,507,616
Grade 3	32,104,674	1,101,140	-	-	33,205,814
Grade 3.5	3,474,796	1,427,039	-	-	4,901,835
Grade 4	7,000,340	1,261,404	-	-	8,261,744
Grade 4.5	150,194	152,896	-	-	303,090
Grade 5	1,907,712	44,952	1,932,201	19,730,812	23,615,677
Grade (unrated)	-	6,939	155,502	256,747	419,188
Total neither past due nor impaired	**64,729,497**	**8,275,994**	**2,087,703**	**19,987,559**	**95,080,753**
Past due but not impaired					
- less than 30 days overdue	16,817,628	1,387,911	349,146	1,798,846	20,353,531
- 30 to 90 days overdue	3,016,071	1,042,711	140,297	561,173	4,760,252
- 90 to 180 days overdue	636,993	184,985	135,542	361,040	1,318,560
- 90 to 360 days overdue	95,842	335,614	17,401	5,942	454,799
- over 360 days overdue	304,050	140,369	50,659	5,411	500,489
Total past due but not impaired	**20,870,584**	**3,091,590**	**693,045**	**2,732,412**	**27,387,631**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	1,052,421	63,331	17,836	304,150	1,437,738
- 30 to 90 days overdue	1,360,017	1,489	9,950	132,719	1,504,175
- 90 to 180 days overdue	1,956,783	81,701	27,219	105,336	2,171,039
- 90 to 360 days overdue	980,595	379,453	142,253	449,923	1,952,224
- over 360 days overdue	2,428,830	1,164,738	486,201	2,381,761	6,461,531
Total individually impaired loans (gross)	**7,778,646**	**1,690,712**	**683,459**	**3,373,889**	**13,526,706**
Less impairment provisions	(6,176,727)	(1,348,985)	(666,564)	(3,226,094)	(11,418,371)
Total loans and advances to customers	**87,202,000**	**11,709,311**	**2,797,643**	**22,867,766**	**124,576,719**

10. LOANS AND ADVANCES TO CUSTOMERS (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. As at 31 December 2013 restructured loans were LEK 18,022,824 thousand (2012:LEK 19,224,525 thousand).

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

Write-off policy

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

As at 31 December 2013 and 2012, the loans and advances to customers with regard to outstanding balance and impairment assessment were as follows:

	Loans and advances to customers	
	Gross	**Net**
31 December 2013		
Individually impaired	16,234,289	6,680,380
Total	**16,234,289**	**6,680,380**
31 December 2012		
Individually impaired	13,526,706	3,920,772
Total	**13,526,706**	**3,920,772**

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally re-valued annually by both, external and internal evaluators. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 and 2012.

	Against individually impaired	**Against collectively impaired**	**Total**
Property	4,740,155	30,005,671	34,745,826
Pledge	1,697,129	13,908,589	15,605,718
Cash	-	1,510,568	1,510,568
Guarantee	32,056	800,778	832,834
Total	**6,469,340**	**46,225,606**	**52,694,946**

The collateral pledged against individually impaired loans as at 31 December 2012 was LEK 3,714,710 thousand.

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Financial effect of collateral on provision

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on impairment provisions recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

	31 December 2013	31 December 2012
Corporate	3,390,595	2,382,560
Micro SMEs	129,466	145,921
Households	299,876	254,027
Small Enterprises	943,361	854,681

11. INVESTMENT SECURITIES AVAILABLE FOR SALE

The Group owned 2,355 shares in Visa Inc. with a total carrying value of LEK 37,785 thousand in 31 December 2012. They were sold in during 2013 for an amount of 32,340 thousand Lek.

12. DEFERRED INCOME TAX ASSETS

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

	31 December 2013	31 December 2012
Balance at the beginning of the year	(262)	(125,375)
Deferred tax benefit relating to the origination and reversal of temporary differences (note 33)	74,164	125,113
Balance at the end of the year	**73,902**	**(262)**

Movements in temporary differences during the year are recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income.

Deferred tax has been calculated based on the enacted tax rate for 2013 of 10% (2012: 10%). As at 31 December 2013 and 31 December 2012 deferred tax assets and liabilities have been recognised for the following items:

	31 December 2013	31 December 2012
Deferred tax asset		
Accelerated depreciation	71,260	82,047
Deferred lease disbursement fees	1,615	181
	72,875	**82,228**
Deferred tax liability		
Allowance for impairment losses	1,027	(82,490)
	1,027	**(82,490)**
Net deferred tax assets	**73,902**	**(262)**

13. GOODWILL

During the year 2008, Raiffeisen Bank purchased 100% of the shares of the Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive sh.a. ("Raiffeisen INVEST "), for an amount of Lek 109,648 thousand. The purchase was approved by the Albanian Financial Supervisory Authority based on decision Nr.30, dated 26 March 2012, registered on the Albanian National Register on 23 April. Raiffeisen INVEST has a paid in capital of Lek 90 million as at 31 December 2013 (2012: Lek 90 million).

The goodwill on acquisition date was calculated as the excess of the cost of the business combination over the identified net assets of the acquired entity, resulting in an amount of Lek 92,783 thousand. The identified net assets of the acquired entity at acquisition date approximated their fair value at an amount of Lek 16,865 thousand.

Goodwill is tested for impairment at least annually or whenever there are indications that goodwill may be impaired. As at 31 December 2013, the carrying amount of the subsidiary (the cash generating unit to which goodwill has been allocated), does not exceed its recoverable amount and therefore goodwill is considered not to be impaired. No impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2013 (2012:nil).

14. INTANGIBLE ASSETS

Movements in intangible assets for the year ended 31 December 2013 and 2012 are detailed as follows:

	Software	Licences	Total
Cost			
At 1 January 2012	1,028,439	292,999	1,321,438
Additions	693,349	45,218	738,567
At 31 December 2012	**1,721,788**	**338,217**	**2,060,005**
At 1 January 2013	1,721,788	338,217	2,060,005
Additions	307,417	22,143	329,560
Disposals	(96,255)	(8,181)	(104,436)
Transfer	(2,534)	2,534	-
At 31 December 2013	**1,930,416**	**354,712**	**2,285,129**
Amortization			
At 1 January 2012	(483,861)	(228,519)	(712,380)
Amortization charge	(77,778)	(43,921)	(121,699)
At 31 December 2012	**(561,639)**	**(272,440)**	**(834,079)**
At 1 January 2013	(561,639)	(272,440)	(834,079)
Amortization charge	(103,188)	(9,912)	(113,100)
Disposals	96,131	8,181	104,312
At 31 December 2013	**(568,696)**	**(274,171)**	**(842,867)**
Net book value			
At 1 January 2013	**1,160,149**	**65,777**	**1,225,926**
At 31 December 2013	**1,361,720**	**80,541**	**1,442,261**

There are no assets pledged as collateral as at 31 December 2013 (2012: none).

15. PREMISES AND EQUIPMENT

Movements in premises and equipment for the year ended 31 December 2013 and 2012 are detailed as follows:

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
At 1 January 2012	1,223,543	2,149,415	323,061	155,817	609,268	4,461,104
Additions	423	237,921	42,322	311,932	40,476	633,074
Disposals	(316)	(155,975)	(3,740)	-	(52,152)	(212,183)
Transfers	142,539	75,579	6,918	(242,815)	17,779	-
At 31 December 2012	**1,366,189**	**2,306,940**	**368,561**	**224,934**	**615,371**	**4,881,995**
At 1 January 2013	1,366,189	2,306,940	368,561	224,934	615,371	4,881,995
Additions	36,495	158,167	27,349	112,608	28,698	363,317
Disposals	(11,827)	(316,921)	(18,832)	-	(26,610)	(374,190)
Transfers	96,025	185,797	2,239	(293,433)	9,372	-
At 31 December 2013	**1,486,882**	**2,333,983**	**379,317**	**44,109**	**626,831**	**4,871,122**
Accumulated depreciation						
At 1 January 2012	(424,209)	(1,653,780)	(173,668)	-	(401,329)	(2,652,986)
Depreciation charge	(91,343)	(219,975)	(55,383)	-	(84,062)	(450,763)
Disposals	316	155,183	3,739	-	49,590	208,828
At 31 December 2012	**(515,236)**	**(1,718,572)**	**(225,312)**	**-**	**(435,801)**	**(2,894,921)**
At 1 January 2013	(515,236)	(1,718,571)	(225,312)	-	(435,802)	(2,894,921)
Depreciation charge	(98,868)	(251,764)	(47,507)	-	(65,721)	(463,860)
Disposals	10,668	315,390	18,631	-	24,566	369,255
At 31 December 2013	**(603,436)**	**(1,654,945)**	**(254,188)**	**-**	**(476,957)**	**(2,989,526)**
Net Book Value						
At 31 December 2012	**850,953**	**588,368**	**143,249**	**224,934**	**179,570**	**1,987,074**
At 31 December 2013	**883,446**	**679,038**	**125,129**	**44,109**	**149,874**	**1,881,596**

There are no assets pledged as collateral as at 31 December 2013 (2012: none).

16. OTHER ASSETS

	31 December 2013	31 December 2012
Inventories	1,197,523	845,049
VAT receivable	592,258	660,544
Sundry debtors, net	163,607	116,465
Prepaid expenses and accruals	135,986	115,932
Money gram	13,864	11,057
Total	**2,103,238**	**1,749,047**

16. OTHER ASSETS (CONTINUED)

As at 31 December 2013 the Group's repossessed collateral is LEK 1,197,523 thousand (2012: LEK 845,049 thousands). Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Sundry debtors comprise the following:

	31 December 2013	**31 December 2012**
Sundry debtors	175,190	128,048
Provisions for losses from other debtors	(11,583)	(11,583)
Total Sundry debtors, net	**163,607**	**116,465**

Movements in the provisions for sundry debtors are as follows:

	2013	**2012**
Balance at the beginning of the year	**11,583**	**13,553**
Foreign exchange effect	-	(1,970)
Balance at the end of the year	**11,583**	**11,583**

17. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2013	**31 December 2012**
Current accounts		
Resident banks and financial institutions	256,840	138,380
Non-resident banks and financial institutions	13,990	421,744
Accrued interest	2,357	2,458
	273,187	**562,582**
Deposits		
Central Bank	210,000	-
Resident banks and financial institutions	3,892,934	1,376,727
Non-resident banks and financial institutions	232,252	-
Accrued interest	2,421	1,803
	4,337,607	**1,378,530**
Total	**4,610,794**	**1,941,112**

The annual interest rates for borrowed funds from financial institutions varied from 0.06% to 4.75% during the year ended 31 December 2013 (2012: 0.10% to 5.05%). The annual interest rates for borrowed funds from Non-resident financial institutions varied from 0.19% to 0.35% during the year ended 31 December 2013 (2012: 0).

18. DUE TO CUSTOMERS

	31 December 2013	31 December 2012
Current accounts	61,445,038	49,394,687
Deposits	181,592,691	231,275,044
Other accounts	3,408,228	3,726,095
Total	**246,445,957**	**284,395,826**

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 2013 were as follows:

(in %)	**LEK**	**USD**	**EUR**
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.25-3.00	0.10-0.90	0.10-1.70
Time deposits – 3 month	0.20-3.30	0.10-1.35	0.10-1.30
Time deposits – 6 month	0.20-3.90	0.10-1.45	0.10-1.50
Time deposits – 9 month	0.20-4.15	0.10-1.65	0.10-1.25
Time deposits – 12 month	0.30-4.55	0.15-1.95	0.15-2.15
Time deposits – 24 month	0.30-4.70	0.15-2.10	0.15-2.20
Time deposits – 36 month	0.40-4.90	0.15-2.15	0.15-2.25
Time deposits – 60 month	0.40-4.95	0.15-2.50	0.15-2.30

18. DUE TO CUSTOMERS (CONTINUED)

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

			31 December 2013			31 December 2012
	Lek	Foreign currency	Total	Lek	Foreign currency	Total
Current accounts	**28,253,328**	**33,191,710**	**61,445,038**	**24,676,497**	**24,718,190**	**49,394,687**
Deposits						
On demand	4,236,078	3,552,227	7,788,305	3,597,584	3,190,206	6,787,790
1 month - 3 months	9,323,643	6,689,160	16,012,803	9,446,451	11,015,498	20,461,949
3 months - 6 months	5,803,545	6,444,692	12,248,237	8,604,049	8,979,692	17,583,741
6 months - 12 months	10,634,258	9,551,129	20,185,387	14,195,086	14,881,820	29,076,906
12 months - 24 months	63,342,397	53,136,189	116,478,586	85,570,120	60,372,685	145,942,805
24 months - 36 months	2,389,522	1,237,146	3,626,668	3,365,933	1,485,379	4,851,312
36 months	496,445	256,636	753,081	608,475	257,137	865,612
60 months	520,779	1,700,801	2,221,580	852,829	571,041	1,423,870
Accrued interest on deposits	1,634,504	643,540	2,278,044	3,030,592	1,250,467	4,281,059
Other accounts	**98,381,171**	**83,211,520**	**181,592,691**	**129,271,119**	**102,003,925**	**231,275,044**
Guarantee deposits	1,322,291	1,345,946	2,668,237	1,091,399	1,871,210	2,962,609
Dormant customer accounts	122,304	9,526	131,830	122,308	10,225	132,533
Other	561,866	46,295	608,161	629,033	1,920	630,953
	2,006,461	**1,401,767**	**3,408,228**	**1,842,740**	**1,883,355**	**3,726,095**
Total	**128,640,960**	**117,804,997**	**246,445,957**	**155,790,356**	**128,605,470**	**284,395,826**

19. OTHER LIABILITIES

	31 December 2013	31 December 2012
Other creditors	294,217	581,584
Accrued expenses	333,364	333,083
Due to employees	242,842	276,084
Withholding tax payable	87,636	123,350
Provision for contingent liabilities	116,688	77,137
Deferred income	49,746	46,186
Due to social insurance	30,412	29,840
Provision for litigation	19,470	23,190
Suspense accounts	2,028,915	15,555
Due to third parties	27,979	7,275
VAT payable	4,594	-
Total	**3,235,863**	**1,513,284**

- Included in "Other creditors" is the amount of LEK 26,376 thousand (2012: LEK 342,431 thousand) of unpaid invoices to suppliers.
- Included in "Accrued expenses" is the amount of LEK 213,924 thousand (2012: LEK 200,671 thousand) of accrued deposit insurance premium payable for customers' deposits.
- Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items.
- Provision for contingent liabilities represents impairment of irrevocable commitments and contingencies. The movements in the provisions for contingent liabilities are as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	77,137	80,530
Provisions expense for the period	43,386	12,810
Reversal of provisions for the year	(3,835)	(16,203)
Balance at the end of the year	**116,688**	**77,137**

- The Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2013. 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.

The movements in the provisions for litigations are as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	23,190	31,778
Provision expense for the year	1,214	11,184
Reversal of provision for the year	(4,934)	(19,772)
Balance at the end of the year	**19,470**	**23,190**

20. SUBORDINATED DEBT

During 2013, Raiffeisen International AG granted to the Bank a subordinated debt of EUR 50,000 thousand equivalent to Lek 7,000 million (2012: none) and related interest accrued of LEK 154 thousand. The debt carries an interest rate of Euribor plus a margin of 5,43% p.a. and matures on 11 July 2018. The debt ranks after all other creditors in case of liquidation.

21. SHARE CAPITAL

The Bank's capital is equal to LEK 14,178,593 thousand comprised of 7,000 shares of nominal value 2,025,513 LEK each (2012: LEK 14,178,593 thousand comprised of 7,000 shares of nominal value of LEK 2,025,513 each). During 2012 the Bank increased its subscribed capital with an amount equal to LEK 4,252,500 thousand. Based on the decisions dated 29 March 2012 and 15 April 2012 of the sole Shareholder, capital increase was appropriated from retained earnings.

22. OTHER RESERVES

Other reserves comprise general reserve, created from the distribution of net profit after tax in accordance with the law No. 9901, dated 14 April 2008, "On Entrepreneurs and commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999. In July 2012, the Bank decreased the general reserve by LEK 3,500,000 thousand based on the decision of the Bank's sole shareholder dated 19 May 2012.

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.	
	2013	**2012**
% of holding	**25%**	**25%**
Share Capital	65,880	65,880
Current year profit	15,888	16,500
Legal reserve	6,588	5,201
Accumulated profit	14,192	13,837
Non-controlling interest	**102,548**	**101,418**

24. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Loans and advances to customers	10,249,141	11,396,953
Investment securities	5,623,532	7,123,016
Bank deposits	80,663	414,414
Reverse repurchase agreement bought	90	1,196
Total	**15,953,426**	**18,935,579**

25. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Customers	4,831,208	8,029,359
Repurchase agreement sold	2,264	42,724
Banks	221,842	66,102
Total	**5,055,314**	**8,138,185**

26. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Funds transfers	1,300,653	914,540
Lending activities	225,367	233,135
Other banking services	580,785	352,910
Total	**2,106,805**	**1,500,585**

27. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2013	Year ended 31 December 2012
Payments transfer business	341,903	252,992
Loan and guarantee business	5,405	7,841
Other banking services	274,547	57,551
Total	**621,855**	**318,384**

28. NET TRADING INCOME

	Year ended 31 December 2013	Year ended 31 December 2012
Income from transactions with securities	2,296,292	2,041,350
Foreign exchange gains	591,438	544,046
Total	**2,887,730**	**2,585,396**

29. OTHER OPERATING INCOME/ EXPENSE

Other operating income comprises income from write-offs of old dormant accounts amounting LEK 155,000 thousand (2012: LEK 25,176 thousand). Other operating expense include loss from a fraud case of LEK 256,050 thousand and withholding tax amounting LEK 21,031 thousand (2012: LEK 34,154 thousand).

30. DEPOSIT INSURANCE PREMIUM

Based on Law no. 8873 "On deposit's insurance" dated 29 March 2002, the Banks are obliged to pay a deposit insurance premium to the Deposit Insurance Agency. The premium is calculated as a percentage of the daily average deposit balances up to LEK 2,500,000 (2012: LEK 2,500,000) for individuals, for the period from October to December of the predecessor calendar year. The percentage rate applied is 0.5% per annum and payable quarterly.

31. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Salaries	2,100,839	2,197,205
Social insurance	258,395	253,176
Personnel training	45,803	34,856
Other personnel costs	22,080	35,231
Total	**2,427,117**	**2,520,468**

32. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended 31 December 2013 and 2012 comprise the following expenses:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Office space expenses	619,109	595,875
IT cost	526,804	432,406
Advertising, PR and promotional expenses	317,636	306,055
Legal, advisory and consulting expenses	237,102	265,626
Sundry administrative expenses	184,036	129,112
Car expenses	67,039	67,703
Office supplies	57,215	64,303
Communication expenses	52,270	52,097
Travelling expenses	28,845	34,409
Security expenses	19,599	20,661
Total	**2,109,655**	**1,968,247**

Consultancy and legal fees include charges for management fees totalling LEK 171,471 thousand in 2013 (2012: LEK 148,629 thousand).

33. INCOME TAX

Income tax in Albania is assessed at the rate of 10% (2012: 10%) of taxable income:

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax	530,823	596,134
Deferred tax	(74,164)	(125,113)
Income tax expense for the year	**456,659**	**471,021**

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	**2013**	**Effective tax rate**	**2012**
Profit before taxes		**5,103,382**		**5,776,688**
Prima facie tax calculated at 10%	10.00%	510,338	10.00%	577,669
Non tax deductible expenses at	1.11%	56,664	0.60%	34,908
Tax savings by tax-exempted income	(0.5%)	(25,459)	(0.38%)	(21,292)
Tax expense/income for former periods	(1.66%)	(84,884)	(2.08%)	(120,265)
Income tax expense	**8.95%**	**456,659**	**8.15%**	**471,021**

Tax expense/income for former periods in 2013 includes reversal of deferred tax expense calculated on loan loss provisions following the changes in legislation.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

34. FINANCIAL RISK MANAGEMENT

a) Overview

The risk management function within the Group is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational risks.

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.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
a) Overview (continued)

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.

b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

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.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 19. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
b) Credit risk (continued)

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, the Board of Directors and Bank's Credit Committee. The Group does use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.

The Group's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8,9,10.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

c) Market risks

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. 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 Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Exposure to foreign exchange risk

The Group is exposed to currency risk through transactions in foreign currencies. As the currency in which the Group presents it 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.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2013			At 31 December 2012		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Albanian LEK	152,937,029	131,377,657	21,559,372	179,568,179	155,823,115	23,745,064
US Dollars	109,681,461	104,589,014	5,092,447	109,699,646	108,262,901	1,436,745
Euros	17,829,167	16,737,134	1,092,033	19,286,049	17,424,546	1,861,501
Other	5,573,943	5,507,265	66,678	5,119,728	4,826,377	293,351
Total	**286,021,600**	**258,211,070**	**27,810,530**	**313,673,602**	**286,336,939**	**27,336,661**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
c) Market risk (continued)

The Group also prepares regularly stress tests to measure impact of exposure to foreign currency exchange rate risk. The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the presentation currency, with all other variables held constant:

	At 31 December 2013	At 31 December 2012
In thousands of LEK	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 10% (2012: strengthening by 10%)	509,245	143,675
US Dollar weakening by 10% (2012: weakening by 10%)	(509,245)	(143,675)
Euro strengthening by 10% (2012: strengthening by 10%)	109,203	186,150
Euro weakening by 10% (2012: weakening by 10%)	(109,203)	(186,150)
Other strengthening by 10% (2012: strengthening by 10%)	6,688	29,335
Other weakening by 10% (2012: weakening by 10 %)	(6,688)	(29,335)

Exposure to interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. 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:

If interest rates had been 100 basis points lower (2013: [100] basis points lower, with all other variables held constant, profit would have been LEK 5,593 thousand (2012: LEK 2,354 thousand) higher.

If interest rates had been 100 basis points higher (2012: [100] basis points higher), with all other variables held constant, profit would have been LEK 4,341 thousand (2012: LEK 2,321 thousand) lower.

2013	up to 1 Year scenarios	
	100 bp	100 bp
	Decrease	Increase
Estimated Profit (loss) effect	5,593	(4,341)

2012	up to 1 Year scenarios	
	100 bp	100 bp
	Decrease	Increase
Estimated (Loss) profit effect	2,354	(2,321)

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
c) Market risk (continued)

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

							31 December 2013
	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	35,394,832	-	-	-	-	-	**35,394,832**
Restricted balances	24,527,024	-	-	-	-	-	**24,527,024**
Investments held for trading	1,305,677	13,301	2,353,263	10,627,631	29,568,094	-	**43,867,966**
Held-to-maturity investment securities	4,031,145	2,206,147	9,207,414	23,796,971	26,644,251	-	**65,885,928**
Loans and advances to customers	15,592,949	22,831,268	16,052,406	62,460,273	1,194,935	(1,785,981)	**116,345,850**
Other assets	137,511	138,891	592,293	70	-	-	**868,765**
Total	**80,989,138**	**25,189,607**	**28,205,376**	**96,884,944**	**57,407,280**	**(1,785,981)**	**286,890,365**
Liabilities							
Due to banks and financial institutions	4,049,185	561,609	-	-	-	-	**4,610,794**
Due to customers	102,725,545	29,747,595	29,039,963	80,992,121	3,940,733	-	**246,445,957**
Other liabilities	3,205,205	29,658	1,000	-	-	-	**3,235,863**
Subordinated capital	-	-	-	-	7,154,318	-	**7,154,318**
Total	**109,979,935**	**30,338,862**	**29,040,963**	**80,992,121**	**11,095,051**	**-**	**261,446,932**
Gap at 31 December 2013	**(28,990,797)**	**(5,149,255)**	**(835,587)**	**15,892,824**	**46,312,229**	**(1,785,981)**	**25,443,433**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
c) Market risk (continued)

							31 December 2012
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	38,153,089	-	-	-	-	-	**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	10,257,581	25,411,133	16,153,079	67,860,819	6,250,399	(1,356,292)	**124,576,719**
Other assets	84,515	86,044	135	152	662,743	-	**833,589**
Total	**79,745,312**	**37,280,765**	**32,597,599**	**100,206,692**	**65,995,331**	**(1,356,292)**	**314,469,407**
Liabilities							
Due to banks and 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 at 31 December 2012	**(19,546,920)**	**(1,752,218)**	**(7,661,544)**	**(4,949,258)**	**61,885,154**	**(1,356,292)**	**26,618,922**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments.

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 Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Groups and other inter-Group 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 Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

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

The following table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments 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.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
d) Liquidity risk (continued)

Residual contractual maturities of financial assets and liabilities

							31 December 2013
	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	35,394,832	-	-	-	-	-	35,394,832
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	13,301	2,353,263	10,627,631	29,568,094	-	43,867,966
Held-to-maturity investment securities	4,031,145	2,206,147	9,207,414	23,796,971	26,644,251	-	65,885,928
Loans and advances to customers	16,466,861	10,493,622	10,493,622	16,329,726	52,415,962	(11,896,763)	94,303,030
Income tax prepaid	181,178	-	-	-	-	-	181,178
Other assets	137,511	138,891	592,293	70	-	-	868,765
Total	**82,044,228**	**12,851,961**	**22,646,592**	**50,754,398**	**108,628,307**	**(11,896,763)**	**265,028,723**
Liabilities							
Due to banks and financial institutions	4,049,185	-	561,609	-	-	-	4,610,794
Due to customers	102,725,545	29,747,595	29,039,963	80,992,121	3,940,733	-	246,445,957
Other liabilities	3,205,205	29,658	1,000	-	-	-	3,235,863
Subordinated capital	**-**	**-**	**-**	**-**	7,154,318	**-**	**7,154,318**
Total	**109,979,935**	**29,777,253**	**29,602,572**	**80,992,121**	**11,095,051**	**-**	**261,446,932**
Liquidity risk at 31 December 2013	**(27,935,707)**	**(16,925,292)**	**(6,955,980)**	**(30,237,723)**	**97,533,256**	**(11,896,763)**	**3,581,791**
Cumulative	**(27,935,707)**	**(44,860,999)**	**(51,816,979)**	**(82,054,702)**	**15,478,554**	**3,581,791**	

34. FINANCIAL RISK MANAGEMENT (CONTINUED)
d) Liquidity risk (continued)

							31 December 2012
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
Assets							
Cash and cash equivalents	38,153,089	-	-	-	-	-	**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	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	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 banks and 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	**(18,487,563)**	**(32,960,380)**	**(45,877,934)**	**(80,201,550)**	**38,057,122**	**26,809,113**	**-**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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 Group 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.

35. CAPITAL MANAGEMENT

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of Albania and (ii) to safeguard the Group's ability to continue as a going concern

Regulatory capital

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

Capital Adequacy Ratio

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

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

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 100%, 150%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Premises 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.

35. CAPITAL MANAGEMENT (CONTINUED)

	31 December 2013	31 December 2012
Total risk weighted assets	136,051,166	142,953,719
Total risk weighted off balance exposures	2,619,932	2,298,775
Total	**138,671,098**	**145,252,494**
Regulatory capital	30,408,383	23,011,552
Capital adequacy ratio	**21.93%**	**15.84%**

The modified capital adequacy ratio is 15.23% in 31 December 2013 (31 December 2012: 15.84%).

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

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

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 2013 and 2012, Raiffeisen INVEST is in compliance with legal requirements on regulatory capital.

Regulatory capital of Leasing Company (subsidiary of the Bank)

Based on the regulation of the Bank of Albania "Licencing of Non-banking institutions" the finance leasing activity is included in the activities of non-banking financial institutions and among others, the requirement for minimum capital to start leasing activities is 100,000 thousand Lek. As at 31 December 2013 and 2012, 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.

36. CONTINGENCIES AND COMMITMENTS

	31 December 2013			31 December 2012
	LEK	Foreign currency	Total	Total
Contingent liabilities				
Bank Guarantees issued	586,576	6,225,899	6,812,475	7,443,731
Letters of Credit	45,084	4,483,308	4,528,392	4,394,759
Unused credit lines	3,701,366	1,199,943	4,901,309	6,998,171
Total	**4,333,026**	**11,909,150**	**16,242,176**	**18,859,851**

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.

36. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Operating lease commitments

The Bank has entered into non-cancellable operating lease commitments for the Head Office and the branches. Such commitments as at 31 December 2013 and 31 December 2012 are as follows:

	31 December 2013	31 December 2012
Not later than 1 year	383,490	392,330
Later than 1 year and not later than 5 years	768,199	558,225
Later than 5 years	78,206	37,855
Total	**1,229,895**	**988,410**

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2013				2012
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total	Total
Loans to banks	-	26,913,259	30,551,799	**57,425,628**	**63,839,683**
Loans to customers	-	-	128,452,726	**128,452,726**	**124,576,719**
Trading Assets	-	43,867,966	-	**43,867,966**	**41,281,169**
Financial Investments	-	66,284,834	-	**66,284,834**	**81,381,795**
Due to banks and financial institutions	-	-	4,610,794	**4,610,794**	**1,941,112**
Due to customers	-	-	246,469,202	**246,469,202**	**288,488,241**

Cash and cash equivalents

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

Investment securities

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

Loans and advances to customers

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

37. FAIR VALUE MEASUREMENT (CONTINUED)

Loans to banks /Due to banks and financial institutions

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

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.

38. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2013:

	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	35,394,831	-	-	-	35,394,831
Restricted balances	24,527,024	-	-	-	24,527,024
Investments held for trading	-	-	43,867,966	-	43,867,966
Held-to-maturity investment securities	-	-	-	65,885,928	65,885,928
Loans and advances to customers	116,345,848	-	-	-	116,345,848
Total financial assets	**176,267,703**	**-**	**43,867,966**	**65,885,928**	**286,021,597**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2012:

	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	38,153,089	-	-	-	38,153,089
Restricted balances	28,243,158	-	-	-	28,243,158
Investments held for trading	-	-	41,281,170	-	41,281,170
Held-to-maturity investment securities	-	-	-	81,381,682	81,381,682
Loans and advances to customers	124,576,719	-	-	-	124,576,719
Investment securities available for sale		37,785	-	-	37,785
Total financial assets	**190,972,966**	**37,785**	**41,281,170**	**81,381,682**	**313,673,603**

As of 31 December 2013 and 31 December 2012, all of the Group's financial liabilities except for derivatives were carried at amortised cost.

39. RELATED PARTIES

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Bank has a related party relationship with Raiffeisen International AG, Raiffeisen Zentralbank Osterreich Aktiengesellshafft (RZB AG), with fellow subsidiaries and its subsidiaries, and with its directors and executive officers. The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	31 December 2013	**31 December 2012**
Amounts due from:		
Immediate parent company	17,726,555	18,898,394
Other related parties	25,612	18,853
Assets total	**17,752,167**	**18,917,247**
Amounts due to:		
Immediate parent company	(7,388,266)	(658)
Other related parties	(18,324)	(399,643)
Liabilities total	**(7,406,590)**	**(400,301)**

	Year ended 31 December 2013	**Year ended 31 December 2012**
Net interest expense		
Immediate parent company	(133,733)	21,490
Other related parties	(13,109)	(2,423)
Total net interest expenses	**(146,842)**	**19,067**
Net fee and commission expense		
Immediate parent company	(22,715)	(18,739)
Other related parties	(159,074)	(118,978)
Total net fee and commission expense	**(181,789)**	**(137,717)**
Operating expenses		
Immediate parent company	(379,255)	(308,453)
Other related parties	(31,663)	(36,770)
Total operating expenses	**(410,918)**	**(345,223)**
Grand Total	**(739,549)**	**(463,873)**

39. RELATED PARTIES (CONTINUED)

Key management personnel

The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

	2013	2012
Statement of financial position		
Amounts due from	37,576	108,438
Amounts due to	(79,258)	(50,989)
Net balances due (to)/from	**(41,682)**	**57,449**
Statement of comprehensive income		
Wages, salaries and bonuses	(307,192)	(225,305)
Total	**(307,192)**	**(225,305)**

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

As of 27 February 2014, the Shareholders of Raiffeisen Leasing sh.a. approved the apportionment of 75% of the net profit after tax for the year ended 2013 to Raiffeisen Bank sh.a. in the form of dividend for an amount of LEK 47,665 thousand.

As of 28 February 2014, the Shareholders of the Raiffeisen INVEST- Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive" sh.a. approved the distribution of the net profit after tax for the year ended 2013 to Raiffeisen Bank sh.a. in the form of dividend for an amount of LEK 122,982 thousand.

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


Dolce Vita
Dolce Vita
SARRIS CRUISES

Raiffeisen Bank has continued its contribution in the city of Saranda. In the framework of collaboration with the Municipality of this city, Raiffeisen Bank has sponsored the reconstruction of the swimming pool of the city. In the inauguration ceremony were present the Mayor of Saranda, and the CEO of Raiffeisen Bank, Mr. Canacaris.

Raiffeisen Leasing

During year 2013, Raiffeisen Leasing Albania, managed to maintain its high ranking and further strengthen its position as number one leader in the Albanian leasing market, with more than 45 per cent market share.
Raiffeisen Leasing for the first time paid dividend to its shareholders
The value of new business in 2013 amounted to € 8.48 million, of which € 7.59 million were used for vehicle financing, and € 0.89 million for equipment.

Raiffeisen Leasing goal was mainly focusing on strengthening long-term partnership with clients of Raiffeisen Banking Group, providing them with efficient support they needed in their business. Also, aiming at improving its offer, Raiffeisen Leasing devoted special attention to further strengthening of partnerships and establishing strategic cooperation with the network of the most important dealers operating in Albania.

2013 was a year of challenges for the Albanian automotive market, which marked a fall of more than 15 per cent for the new vehicles. The economic crisis in the neighboring countries and the Albanian legislation, favors the importing of second hand cars, which reflects in the performance of new vehicle market.

By fostering the high professional standards set by its founders, Raiffeisen Leasing provides its clients with superior quality products and services, as well as complete information regarding the structure and simplicity of all transactions involved.

The basic products of Raiffeisen Leasing are vehicle leasing and equipment leasing. 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 product range offered was financing of motorboats, making Raiffeisen Leasing the only leasing company in the country providing this kind of service.

Part of the activity is also vehicles remarketing and resale. Raiffeisen Leasing is also positioned in the ranks of experts concerning establishment of standards in the resale market due to procedures 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.

At the end of 2013, Raiffeisen Leasing had 17 employees, providing their clients with prompt and highly competent services.

Raiffeisen Leasing publishes a wide range of printed and electronic materials on its website: **www.raiffeisen-leasing.al.** During 2013, Raiffeisen Leasing has launched marketing campaigns, mainly basing on policies and marketing activities of local concessionaires as our key business partners

We would like to use this opportunity to thank our clients and business partners for the excellent cooperation in 2013 and especially for the trust they laid in us. We are also especially grateful to our employees for their commitment and efforts expressing our deep conviction that Raiffeisen Leasing team will be able to keep its strong market position in 2014 as well.

Raiffeisen Leasing has been established for the purpose of enhancing and promoting leasing activities in Albania, and at the same time extending the range of services of Raiffeisen Banking Group in this market.
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 2013

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

Prospect 2014

Thanks to the high professional standards and expertise of the Group which proved to be very strong even in difficult times, Raiffeisen Leasing will be in position to actively support the business and investment plans of its clients in 2014 as well, by offering financing of vehicles and equipment. Raiffeisen Leasing will stay fully committed to further development of long-lasting cooperation with clients and dealers and will continue to proactively respond to their needs by developing range of products and services.

Having in mind the changed business environment, the major objective will be increasing of new business, improving cross-sales with Raiffeisen bank in all segments, constant improvement of existing products and innovation of new ones, adequate risk management, cost reduction and efficiency improvement. Raiffeisen Leasing is fully dedicated to keep the stability of the portfolio by applying the principle of quality, instead of quantity and strict risk policy.
The experience and support of Raiffeisen Group, strong capital base and quality portfolio represent a guarantee that Raiffeisen Leasing will remain a secure and reliable partner to the clients and dealers in the forthcoming period as well.

Raiffeisen INVEST Sh.a.

2013 was an excellent year for Raiffeisen INVEST Sh.a. In only its second year of activity as the only Asset Management Company licensed by the Albanian Financial Supervising Authority to manage investment funds and voluntary pension funds, Raiffeisen INVEST registered high growth of both assets under management and investors. The assets under management exceeded € 360 million, and the number of investors who have trusted their assets to Raiffeisen INVEST is over 30,000.

Investment Funds continue to remain relatively little known by the Albanian investors who are traditionally focused on banking products. Nevertheless the continued success of Raiffeisen INVEST during 2013 showed that this new capital market product has now gained solid ground as a key component of the investors' financial planning. The investment funds offer the investors an opportunity to invest their savings both in Albanian Lek and Euro in a profitable manner, but also to diversify their investments outside the spectrum of banking products.

Raiffeisen INVEST funds are designed for the retail investor, with a clear value proposition and very little complexity which makes the investment process easy, comfortable and time-efficient. The high growth recorded during 2013 is a clear indication of the mass appeal that the investment funds carry, which can easily be attributed to the satisfactory net return of the funds, the low fees and the full liquidity feature. During 2013, Raiffeisen INVEST delivered on its promise to generate a net return that far exceeded the interest rates that investors could receive from the term deposits offered by the banks, and more importantly this was achieved with very little or no price volatility at all, a reflection of its prudent approach in terms of investment policy and risk management.

Fund Performance
More specifically, during 2013 the funds generated the following net performance (after management fee is deducted):

- Pension Fund: 8.7%,
- Prestige Fund: 8.1%
- Euro Fund: 2.9%

The investment policy adopted during 2013 remained consistent with the overall purpose of each individual fund, by seeking to provide the investor with higher total income by investing assets in a manner that was consistent with this objective and preservation of liquidity. The composition of investment portfolios is adjusted as needed, and does reflect market developments, resulting in careful selection of financial instruments that meet carefully designed and executed investment selection process. Depending on the fund, the portfolio may be invested in different financial instruments in ALL and EUR, in the Albanian market and/or international markets.

Social Responsibility

In addition to having a great year by achieving high growth of assets and customers, Raiffeisen INVEST made an important contribution to the Albanian society and economy during 2013, through its sponsorship program which was executed in close cooperation with Raiffeisen Bank Albania. Raiffeisen INVEST made substantial donations to charitable organizations, different not-for-profit institutions and supported various public projects which were aimed at improving the social and economic lives of the Albanian citizens.

2014 Outlook

2014 will likely be another challenging year for the Albanian economy and the financial market should be no exception, due to internal and external weaknesses. The issues seen during 2013, such as weak consumer demand, persisting high levels of non-performing loans, and anemic business activity are likely to extend in 2014 as well.

Raiffeisen INVEST will continue to pursue its growth strategy, in line with its medium-term business outlook, with the ultimate goal of improving its financial performance of the company. In addition to maintaining strong performance of its current funds, and high levels of service for its investors, the focus will be on expanding the product line with new funds, which shall be designed to give the investors more opportunities to diversify their investments through new funds with differing risk profiles.

Any new product will bring new and interesting investment opportunities before the investors, and they will have the opportunity to choose between different funds with different investment policies and risks, and consequently different return potential. Raiffeisen INVEST seeks to exploit opportunities to grow business relying on ongoing healthy demand for current investment funds, and potential additional business as a result of additional funds to be opened in the future.

**The mission of Raiffeisen INVEST 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 Bank International at a glance

A leading bank in Central and Eastern Europe, including Austria

Raiffeisen Bank Sh.a 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 15 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 2013 around 55.000 staff served approximately 14.6 million customers in around 3.000 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 centers and operates branches and representative offices in Asia. All in all, RBI employs about 58.000 staff and has total assets of around € 131 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.

Raiffeisen Bank sponsors the new playground for the children of Lezha city

Raiffeisen Bank has supported the Municipality of Lezha to establish the new playground for the children of this city near the Skanderbeg memorial and archaeological area, in the main park of Lezha.

Mr. John McNaughton, Board Member for Retail at Raiffeisen Bank was present at the inauguration ceremony and he promised that the cooperation with the Municipality of Lezha will be continued in the future on the accomplishment of other similar projects. Parents of children thanked the Municipality of Lezha and “Raiffeisen Bank” for making possible the establishment of this playground in a picturesque and convenient area for the entertainment of their children.

RBI's development

RZB was founded in 1927 as "Genossenschaftliche Zentralbank". Raiffeisen established its first subsidiary bank in Central and Eastern Europe already back in 1987. Other own subsidiaries have since been established. From 2000 onward, Raiffeisen's expansion into CEE countries has mainly been achieved by acquiring existing banks and subsequently combining them into a holding company that from 2003 operated under the name Raiffeisen International. In April 2005 Raiffeisen International was listed on the stock exchange in order to finance its future growth efficiently. Today's RBI was established in 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB).

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares as of 31 December 2013. The remaining approximate 21.5 per cent of RBI's shares were in free float. Due to the capital increase at the beginning of 2014, the free float rose significantly to about 39.3 per cent after RZB waived its subscription rights and participated in the amount of just € 750 million. As of the editorial deadline RZB held 60.7 per cent of RBI's shares.

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

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RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group center for the entire RZB Group, including RBI. RZB functions as the key link between RBG 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 2012, RBG's consolidated balance-sheet total amounted to more than € 291 billion. It represents about a quarter of all banking business in Austria and comprises the country's largest banking network with 2,285 business outlets and more than 29,700 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 universal 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.

Raiffeisen Bank sponsor kryesor i Kampionatit Evropian të Peshëngritjes

Me një ceremoni të denjë për një eveniment të përmasave gjigande që zhvillohet për herë të parë në Shqipëri, është zhvilluar Kampionati Evropian i Peshëngritjes ku Raiffeisen Bank ka qenë sponsor gjeneral dhe ku për herë të parë në Shqipëri organizohet një ngjarje e këtij niveli dhe është një lajm i shkëlqyer për sportin e peshëngritjes, një nga sportet më popullore, ku Shqipëria ka arritur rezultatet më të mira në dekada.

Raiffeisen Bank general sponsor of the European Weightlifting Championships

Raiffeisen Bank has been the general sponsor of the European Weightlifting Championships, a unique event happening for the very first time in Albania. This was excellent news for the sport of weightlifting, one of the most popular sports, where Albania has achieved the best results in decades.