

**RAIFFEISEN BANK SH.A.**

**Independent auditor's report and  
Consolidated Financial Statements  
for the year ended 31 December 2009**

**CONTENTS**

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	3
CONSOLIDATED STATEMENT OF CASH FLOWS	4
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	5 - 48

## INDEPENDENT AUDITOR'S REPORT

### To the shareholders of Raiffeisen Bank Sh.a.:

We have audited the accompanying consolidated financial statements of Raiffeisen Bank Sh.a. (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements as at and for the year ended December 31, 2008 were audited by another auditor, whose audit report dated May 5, 2009, expressed an unqualified opinion on the consolidated financial statements.

### 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte Albania shpk*

Tirana, Albania  
March 12, 2010

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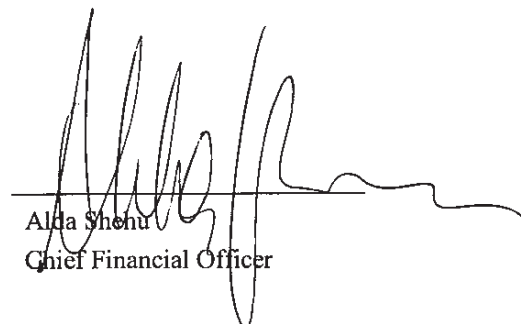
**RAIFFEISEN BANK S.H.A.****Consolidated statement of financial position as at 31 December 2009***(amounts in Lek'000, unless otherwise stated)*

	Note	31 December 2009	31 December 2008
<b>Assets</b>			
Cash and cash equivalents	7	11,220,360	6,563,688
Restricted balances	8	20,345,307	22,279,752
Investments held for trading	9.1	36,524,191	21,877,289
Held-to-maturity investment securities	9.2	93,189,711	115,992,749
Loans and advances to customers	10	88,328,640	83,374,927
Property and equipment	11	1,647,341	1,978,504
Intangible assets	11	311,388	309,312
Equity investments	12	19,734	10,859
Goodwill		92,783	-
Prepaid income tax		163,374	313,559
Other assets	13	1,359,931	882,433
<b>Total assets</b>		<b>253,202,760</b>	<b>253,583,072</b>
<b>Liabilities</b>			
Due to financial institutions	14	2,197,145	3,151,021
Repurchase agreements sold	15	17,945,088	11,395,040
Due to customers	16	207,628,047	216,067,206
Deferred tax liabilities	17	202,464	167,923
Other liabilities	18	728,593	3,003,241
<b>Total liabilities</b>		<b>228,701,337</b>	<b>233,784,431</b>
<b>Equity</b>			
Share capital	19	4,348,233	4,348,233
General reserve	20	2,800,000	850,000
Revaluation reserve		19,734	10,859
Retained earnings		17,281,448	14,550,880
<b>Total equity attributable to equity holder of the Bank</b>		<b>24,449,415</b>	<b>19,759,972</b>
<b>Non-controlling interest</b>	21	<b>52,008</b>	<b>38,669</b>
<b>Total equity</b>		<b>24,501,423</b>	<b>19,798,641</b>
<b>Total liabilities and equity</b>		<b>253,202,760</b>	<b>253,583,072</b>

These consolidated financial statements have been approved by the Supervisory Board on March 5<sup>th</sup> 2010 and signed on its behalf by:



Oliver J. Whittle  
Chief Executive Officer



Alda Shenu  
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

**RAIFFEISEN BANK SH.A.****Consolidated statement of comprehensive income for the year ended 31 December 2009***(amounts in Lek'000, unless otherwise stated)*

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	22	19,300,170	18,996,544
Interest expense	23	(8,524,410)	(8,954,111)
<b>Net interest income</b>		<b>10,775,760</b>	<b>10,042,433</b>
Fee and commission income	24	1,329,167	1,662,109
Fee and commission expense		(215,182)	(306,269)
<b>Net fee and commission income</b>		<b>1,113,985</b>	<b>1,355,840</b>
Gain from disposals of securities		-	10,199
Net trading income		1,226,968	1,129,358
Net other operating income/(expense)	25	173,621	(275,384)
		<b>1,400,589</b>	<b>864,173</b>
Deposit insurance premium	26	(409,561)	(414,868)
Personnel expenses	27	(1,743,173)	(1,946,664)
Depreciation and amortisation	11	(621,712)	(638,749)
General and administrative expenses	28	(1,486,548)	(1,876,718)
Net impairment loss on financial assets	10	(3,788,377)	(1,690,037)
		<b>(8,049,371)</b>	<b>(6,567,036)</b>
<b>Profit before income tax</b>		<b>5,240,963</b>	<b>5,695,410</b>
Income tax	29	(547,056)	(600,550)
<b>Profit for the year</b>		<b>4,693,907</b>	<b>5,094,860</b>
<b>Other comprehensive income</b>			
Fair value reserve (available for sale financial assets)			
Net change in fair value	11	8,875	10,859
<b>Total comprehensive income for the period</b>		<b>4,702,782</b>	<b>5,105,719</b>
<b>Attributable to</b>			
Equity holders of the Bank		4,680,568	5,082,870
Non-controlling interest		13,339	11,990

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

## RAIFFEISEN BANK SH.A.

### Consolidated statement of changes in equity for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

	Attributable to equity holders of the Bank						Total equity
	Share Capital	General Reserves	Revaluation reserve	Retained Earnings	Total	Non-controlling interest	
<b>Balance at 31 December 2007</b>	4,348,233	850,000	-	10,167,732	15,365,965	26,679	15,392,644
Dividend payment	-	-	-	(699,722)	(699,722)	-	(699,722)
Other comprehensive income	-	-	10,859	-	10,859	-	10,859
Profit for the year	-	-	-	5,082,870	5,082,870	11,990	5,094,860
<b>Balance as at 31 December 2008</b>	<b>4,348,233</b>	<b>850,000</b>	<b>10,859</b>	<b>14,550,880</b>	<b>19,759,972</b>	<b>38,669</b>	<b>19,798,641</b>
Transfer of retained earnings to general reserve	-	1,950,000	-	(1,950,000)	-	-	-
Other comprehensive income	-	-	8,875	-	8,875	-	8,875
Profit for the year	-	-	-	4,680,568	4,680,568	13,339	4,693,907
<b>Balance as at 31 December 2009</b>	<b>4,348,233</b>	<b>2,800,000</b>	<b>19,734</b>	<b>17,281,448</b>	<b>24,449,415</b>	<b>52,008</b>	<b>24,501,423</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

**RAIFFEISEN BANK SH.A.****Consolidated statement of cash flows for the year ended 31 December 2009***(amounts in Lek'000, unless otherwise stated)*

	<b>Year ended 31 December 2009</b>	<b>Year ended 31 December 2008</b>
<b>Cash flows from operating activities</b>		
<b>Net profit for the period before taxation</b>	<b>5,240,963</b>	<b>5,695,410</b>
<b>Non-cash items in the statement of income</b>		
Depreciation and amortisation	621,712	638,749
Fixed assets written off	66,892	20,858
Net impairment loss on financial assets	3,788,377	1,690,037
Net interest income	(10,775,760)	(10,042,433)
Change for provision for other debtors	(190,562)	145,962
	<b>(1,248,378)</b>	<b>(1,851,417)</b>
Decrease / (Increase) in restricted balances	1,934,663	(1,668,958)
Increase in loans and advances to customers	(8,401,766)	(23,179,691)
Increase in Reverse repurchase agreements/in repurchase agreements	6,497,528	11,345,546
Increase in Trading Securities	(14,646,902)	(21,815,770)
Increase in other assets and goodwill	(470,580)	(370,125)
(Decrease) / Increase in due to financial institutions	(978,839)	740,087
Decrease in due to customers	(7,322,434)	(3,787,102)
(Decrease) / Increase in other liabilities	(2,084,270)	1,651,945
	<b>(26,720,978)</b>	<b>(38,935,485)</b>
Interest received	19,086,033	17,920,233
Interest paid	(9,563,650)	(7,629,620)
Corporate income tax paid	(461,846)	(831,162)
<b>Net cash used in operating activities</b>	<b>(17,660,441)</b>	<b>(29,476,034)</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(224,258)	(604,778)
Purchases of intangible assets	(135,263)	(168,155)
Net proceeds from purchase and redemption of securities held to maturity	22,676,634	7,697,345
<b>Net cash generated from investing activities</b>	<b>22,317,113</b>	<b>6,924,412</b>
<b>Cash flows from financing activities</b>		
Dividends paid from retained earnings for the previous year	-	(699,722)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(699,722)</b>
<b>Increase / (Decrease) in cash during the year</b>	<b>4,656,672</b>	<b>(23,251,344)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>6,563,688</b>	<b>29,815,034</b>
<b>Cash and cash equivalents at the end of the year (Note 7)</b>	<b>11,220,360</b>	<b>6,563,688</b>

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 48.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 1. INTRODUCTION

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

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

On 14 April 2004, the Ministry of Finance of Albania sold 100% of the issued and outstanding shares of the Group to Raiffeisen Zentralbank Osterreich Aktiengesellschaft (RZB AG).

On 21 July 2004, RZB AG transferred its 100% share in the Bank to RZB AG's fully owned subsidiary Raiffeisen International AG, Vienna, Austria, which therefore is now the holder of 100% of the issued and outstanding shares of the Bank.

On 28 April 2006, RBAL and RLI established Raiffeisen Leasing Sh.a. RBAL is the owner of 75% of the shares of the company. On January 15, 2009 obtained ownership of 100% of the issued and outstanding shares of Instituti Amerikan i Pensioneve Private Supplementare te Shqiperise-American Pension Fund of Albania" Sh.A based on sale purchase agreement dated 26 December 2008. On 23 April 2009, Instituti Amerikan i Pensioneve Private Supplementare te Shqiperise-American Pension Fund of Albania" Sh.A changed its name to Instituti Privat i Pensioneve Supplementare Raiffeisen – Raiffeisen Pensions" Sh.A.

The consolidated financial statements of the Group as at 31 December 2009 comprise the Bank, Raiffeisen Leasing and Raiffeisen Pensions (together referred to as the "Group") and as at 31 December 2008 comprise the Bank and Raiffeisen Leasing Sh.a.

The Bank operates through a banking network as of 31 December 2009 of 102 service points (31 December 2008: 100 service points) throughout Albania, which are managed through 20 Regional Branches.

### Directors and management as of 31 December 2009 and 2008

#### *Board of Directors (Supervisory Board)*

Heinz Höedl	Chairman
Herbert Stepic	Member
Peter Lennkh	Member
Martin Grill	Member
Aris Bogdaneris	Member

#### *Audit Committee*

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Mitter	Member

#### *Management Board*

Oliver J. Whittle	Chief Executive Officer
Christian Canacaris	Member
Peter Hakkenberg	Member
Robert Wright	Member (left the Bank on 30 June 2009)



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

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

#### (b) Basis of measurement

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

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

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgments

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies have been applied consistently by Group entities.

#### (a) Basis of consolidation

##### (i) Business combinations

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

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

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of consolidation (continued)****(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

**(iii) Transactions eliminated on consolidation**

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

**(b) Foreign currency transactions**

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

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

**(c) Interest**

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Fees and commission

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

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

Other 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 and other operating expenses

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

The operating expenses are recognized when incurred.

#### (g) Employee benefits

- *Defined contribution plans*

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

- *Paid annual leave*

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

- *Short-term benefits*

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

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

- *Termination benefits*

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 recognized only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognized 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 realized.

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

**(i) Financial assets and liabilities*****i Recognition***

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

***ii Derecognition***

The Group derecognizes 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 recognized as a consolidated asset or liability.

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

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets, or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the 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 derecognizes the asset if control over the asset is lost.

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

In transfers where control over the asset is retained, the Group continues to recognize 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 Amortized cost measurement**

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

**iv Fair value measurement**

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

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

**v Offsetting**

Financial assets and liabilities are set off and the net amount presented in the 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.



**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial assets and liabilities (continued)****vi Identification and measurement of impairment (continued)**

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

**vii Designation at fair value through profit or loss**

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

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

**(j) Cash and cash equivalents**

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

Cash and cash equivalents are carried at amortised cost in the 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 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 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) Loans and advances**

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

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

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

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

**(n) Investment securities**

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

***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.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Property and equipment

##### *i Recognition and measurement*

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

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

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

##### *ii Subsequent costs*

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

##### *iii Depreciation*

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

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

	2009 (in years)	2008 (in years)
• Buildings	20	20
• Computers, ATM, and IT equipment	4	4
• Vehicles	5	5
• Leasehold improvements	2-4	2-4
• Other (Office furniture)	5	5

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

#### (p) Intangible assets

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

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

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

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



**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(q) 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 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.

**(r) 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.

**(s) 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Standards and Interpretations effective in the current period**

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

- **IFRS 8 “Operating Segments”** (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures”** - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009). Improvements on financial instruments disclosures applied by the Bank are described in Note 3 (v),
- **Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements”** – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to various standards and interpretations** resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),
- **Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”** – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- **IAS 1 (revised) “Presentation of Financial Statements”** – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- **IAS 23 (revised) “Borrowing Costs”** (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to IFRS 2 “Share-based Payment”** – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”** -Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- **IFRIC 13 “Customer Loyalty Programmes”** (effective for annual periods beginning on or after 1 July 2008),
- **IFRIC 15 “Agreements for the Construction of Real Estate”** (effective for annual periods beginning on or after 1 January 2009),
- **IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”** (effective for annual periods beginning on or after 1 October 2008),

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(u) Standards and Interpretations in issue not yet adopted**

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 3 (revised) “Business Combinations”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRS 1 (revised) “First-time Adoption of IFRS”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters** (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters** (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IFRS 2 “Share-based Payment”** - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 24 “Related Party Disclosures”** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 27 “Consolidated and Separate Financial Statements”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 32 “Financial Instruments: Presentation”** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to various standards and interpretations** resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction”** - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 17 “Distributions of Non-Cash Assets to Owners”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 18 “Transfers of Assets from Customers”** (effective for transfer of assets from customers received on or after 1 July 2009),

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(u) Standards and Interpretations in issue not yet adopted (continued)**

- **IFRIC 19 “Extinguishing Liabilities with Equity Instruments”** (effective for annual periods beginning on or after 1 July 2010).

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

**(v) Other accounting developments**

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments. Revised disclosures in respect of fair values of financial instruments are included in note 4.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of guarantee to be disclosed in the earliest period in which the guarantee could be called. Disclosures in respect of liquidity risk are included in note 5 (c).

**4. USE OF ESTIMATES AND JUDGMENTS**

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

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

**Key sources of estimation uncertainty*****Allowances for credit losses***

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

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

***Determining fair values***

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

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

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



**5. FINANCIAL RISK MANAGEMENT****(a) Overview**

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

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

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

***Risk management framework***

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

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

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

***Current developments***

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

**(b) Credit risk**

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

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

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (continued)

##### *Management of credit risk*

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit 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 Bank credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Division processes are undertaken by Internal Audit.

#### (i) *Investment securities*

	Investments held for trading		Held-to-maturity investment securities	
	2009	2008	2009	2008
Neither past due nor impaired (internal rating used)				
Country rate: B2	-	8,661,705	-	-
Country rate: B4	36,524,191	13,215,584	93,189,711	115,992,749
<b>Carrying amount</b>	<b>36,524,191</b>	<b>21,877,289</b>	<b>93,189,711</b>	<b>115,992,749</b>

# RAIFFEISEN BANK SH.A

Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

#### (ii) Loans and advances to customers

	<b>Loans and advances to customers</b>	
	<b>2009</b>	<b>2008</b>
Individually impaired		
Grade 5: Impaired	8,432,858	2,153,907
Gross amount	8,432,858	2,153,907
Allowance for impairment	(4,649,622)	(1,406,318)
<b>Carrying amount (A)</b>	<b>3,783,236</b>	<b>747,589</b>
Portfolio based allowance for losses		
Enterprises		
Grade 1	4,222,480	8,892,841
Grade 1.5	3,850,042	7,153,586
Grade 2	6,872,231	6,292,073
Grade 2.5	4,479,439	6,956,334
Grade 3	8,617,462	7,965,754
Grade 3.5	18,579,786	16,336,120
Grade 4	10,057,152	4,249,189
Grade 4.5	6,193,412	2,260,391
Grade 5 (unrated)	2,587,918	48,835
	<b>65,459,922</b>	<b>60,155,123</b>
Private individuals	20,384,531	23,337,150
Gross amount	85,844,453	83,492,273
Allowance for impairment	(1,299,049)	(864,935)
<b>Carrying amount (B)</b>	<b>84,545,404</b>	<b>82,627,338</b>
<i>Past due but not impaired comprises:</i>		
30-60 days:	1,445,842	3,966,064
60-180 days:	1,469,885	825,978
<b>Carrying amount</b>	<b>2,915,727</b>	<b>4,792,042</b>
<b>Total carrying amount (A+B)</b>	<b>88,328,640</b>	<b>83,374,927</b>

#### *Impaired loans and securities*

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

#### *Past due but not impaired loans*

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



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (continued)

##### *Loans with renegotiated terms*

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

##### *Allowances for impairment*

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

##### *Write-off policy*

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

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

	Loans and advances to customers	
	Gross	Net
<b>31 December 2009</b>		
<i>Individually impaired</i>		
Grade 5:Impaired	8,432,858	3,783,236
<b>Total</b>	<b>8,432,858</b>	<b>3,783,236</b>
<b>31 December 2008</b>		
<i>Individually impaired</i>		
Grade 5:Impaired	2,153,907	747,589
<b>Total</b>	<b>2,153,907</b>	<b>747,589</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (continued)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2009 and 31 December 2008.

			2009	2008
	Against individually impaired	Against collectively impaired	Total	Total
Property	2,012,033	25,706,276	27,718,309	150,679,386
Pledge	783,326	11,995,421	12,778,747	111,215,797
Cash	157,249	2,009,056	2,166,305	7,645,169
Guarantee	382,350	4,885,015	5,267,365	3,935,567
<b>Total</b>	<b>3,334,958</b>	<b>44,595,768</b>	<b>47,930,726</b>	<b>273,475,919</b>

#### *Minimum lease payments receivable*

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

	Finance lease 2009	2008
Gross investment in the lease	3,958,921	3,003,159
Unearned financial income	(524,793)	(519,218)
	<b>3,434,128</b>	<b>2,483,941</b>

#### *Settlement risk*

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

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

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk as at 31 December 2009 and 31 December 2008 is shown below:

	31 December 2009					
	Individual	Corporate	SME	Micro - Business	Employees	Total
Overdraft	2,366,729	35,364,282	6,248,486	1,082,969	34,274	45,096,740
Credit Card	99,092	-	-	-	3,436	102,528
<b>Loans</b>						
Short term	130,112	1,573,467	-	4,888	941	1,709,408
Medium term	3,641,415	9,324,112	4,321,666	619,857	177,143	18,084,193
Long term	8,717,145	7,045,419	3,112,167	44,605	209,501	19,128,837
minus						
Administrative Fee	(162,805)	(138,879)	(87,549)	(21,685)	-	(410,918)
	<b>12,325,867</b>	<b>17,804,119</b>	<b>7,346,284</b>	<b>647,665</b>	<b>387,585</b>	<b>38,511,520</b>
Mortgage	5,880,734	-	-	218,034	928,489	7,027,257
Other	310,415	2,002,891	1,221,957	2,953	1,051	3,539,267
<b>TOTAL (Note 10)</b>	<b>20,982,837</b>	<b>55,171,292</b>	<b>14,816,727</b>	<b>1,951,621</b>	<b>1,354,835</b>	<b>94,277,312</b>

	31 December 2008					
	Individual	Corporate	SME	Micro - Business	Employees	Total
Overdraft	4,178,253	28,594,080	8,042,854	191,465	30,147	41,036,799
Credit Card	-	-	-	-	-	-
<b>Loans</b>						
Short term	291,155	1,900,072	422,258	-	636	2,614,121
Medium term	4,441,122	8,293,487	6,203,375	98,626	203,349	19,239,959
Long term	8,591,693	4,893,493	2,983,715	2,496	177,517	16,648,914
minus						
Administrative Fee	-	-	-	-	-	-
	<b>13,323,970</b>	<b>15,087,052</b>	<b>9,609,348</b>	<b>101,122</b>	<b>381,502</b>	<b>38,502,994</b>
Mortgage	5,232,522	-	-	9,054	714,563	5,956,139
Other	100,516	37,534	10,980	61	1,157	150,248
<b>TOTAL (Note 10)</b>	<b>22,835,261</b>	<b>43,718,666</b>	<b>17,663,182</b>	<b>301,702</b>	<b>1,127,369</b>	<b>85,646,180</b>

# RAIFFEISEN BANK SH.A

Notes to the consolidated financial statements for the year ended 31 December 2009  
(amounts in Lek'000, unless otherwise stated)

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

Carrying amount at 31 December 2009	Loans and advances to customers	Restricted balances	Investments held for trading	Held-to- maturity investments
Albania	92,783,414	19,671,528	36,524,191	93,189,711
North America	-	-	-	-
Europe	1,493,898	673,779	-	-
<b>Total</b>	<b>94,277,312</b>	<b>20,345,307</b>	<b>36,524,191</b>	<b>93,189,711</b>

Carrying amount at 31 December 2008	Loans and advances to customers	Restricted balances	Investments held for trading	Held-to- maturity investments
Albania	83,933,144	21,170,205	13,215,584	115,992,749
North America	-	16,000	-	-
Europe	1,713,036	1,093,547	8,661,705	-
<b>Total</b>	<b>85,646,180</b>	<b>22,279,752</b>	<b>21,877,289</b>	<b>115,992,749</b>

### (c) Liquidity risk

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

#### *Management of liquidity risk*

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

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

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

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Liquidity risk (continued)

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

#### Residual contractual maturities of financial assets and liabilities

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	Total
<b>31 December 2009</b>							
<b>Assets</b>							
Cash and cash equivalents	11,220,360	-	-	-	-	-	11,220,360
Restricted balances	19,671,528	-	-	11,497	662,282	-	20,345,307
Investments held for trading	90	1,562,556	778,686	5,400,637	28,782,222	-	36,524,191
Investments held to maturity	4,601,467	5,895,255	11,181,190	28,544,374	42,967,425	-	93,189,711
Loans and advances to customers	11,054,372	10,916,613	9,318,017	27,568,227	35,370,866	(5,899,455)	88,328,640
Prepaid income tax	-	163,374	-	-	-	-	163,374
Other assets	659,959	138,950	561,022	-	-	-	1,359,931
<b>Total</b>	<b>47,207,776</b>	<b>18,676,748</b>	<b>21,838,915</b>	<b>61,524,735</b>	<b>107,782,795</b>	<b>(5,899,455)</b>	<b>251,131,514</b>
<b>Liabilities</b>							
Due to financial institutions	1,091,775	-	1,105,370	-	-	-	2,197,145
Repurchase agreements sold	9,962,077	7,983,011	-	-	-	-	17,945,088
Due to customers	76,984,566	29,563,013	23,169,876	72,703,842	5,206,750	-	207,628,047
Other liabilities	592,622	135,971	-	-	-	-	728,593
<b>Total</b>	<b>88,631,040</b>	<b>37,681,995</b>	<b>24,275,246</b>	<b>72,703,842</b>	<b>5,206,750</b>	<b>-</b>	<b>228,498,873</b>
<b>Liquidity risk at 31 December 2009</b>	<b>(41,423,264)</b>	<b>(19,005,247)</b>	<b>(2,436,331)</b>	<b>(11,179,107)</b>	<b>102,576,045</b>	<b>(5,899,455)</b>	<b>22,632,641</b>
<b>Cumulative</b>	<b>(41,423,264)</b>	<b>(60,428,511)</b>	<b>(62,864,842)</b>	<b>(74,043,949)</b>	<b>28,532,096</b>	<b>22,632,641</b>	<b>-</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Liquidity risk (continued)

	31 December 2008					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
<b>Assets</b>						
Cash and cash equivalents	6,563,688	-	-	-	-	6,563,688
Restricted balances	21,180,754	46,632	735,614	148,560	135,527	22,279,752
Investments held for trading	327,953	1,477,455	1,972,485	1,790,202	16,309,194	21,877,289
Investments held to maturity	8,454,346	13,098,795	15,270,440	32,665,841	46,503,327	115,992,749
Loans and advances to customers	9,213,318	9,000,391	9,070,999	24,526,143	33,835,330	83,374,927
Prepaid income tax	-	313,559	-	-	-	313,559
Other assets	351,249	59,918	471,144	122	-	882,433
<b>Total</b>	<b>46,091,308</b>	<b>23,996,750</b>	<b>27,520,682</b>	<b>59,130,868</b>	<b>96,783,378</b>	<b>251,284,397</b>
<b>Liabilities</b>						
Due to financial institutions	2,158,868	992,153	-	-	-	3,151,021
Repurchase agreements sold	7,258,166	4,136,874	-	-	-	11,395,040
Due to customers	86,736,803	32,496,287	26,185,136	63,282,047	7,366,933	216,067,206
Other liabilities	2,610,734	392,507	-	-	-	3,003,241
<b>Total</b>	<b>98,764,571</b>	<b>38,017,821</b>	<b>26,185,136</b>	<b>63,282,047</b>	<b>7,366,933</b>	<b>233,616,508</b>
<b>Liquidity risk at 31 December 2008</b>	<b>(52,673,263)</b>	<b>(14,021,071)</b>	<b>1,335,546</b>	<b>(4,151,179)</b>	<b>89,416,445</b>	<b>17,667,889</b>
<b>Cumulative</b>	<b>(52,673,263)</b>	<b>(66,694,334)</b>	<b>(65,358,788)</b>	<b>(69,509,967)</b>	<b>19,906,478</b>	<b>17,667,889</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Market risk

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

#### *Management of market risks*

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

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

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

#### *Exposure to foreign exchange risk*

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

#### *Exposure to interest rate risk*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing 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:

2009	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	(740,439)	740,439	1,025,760	(1,025,760)

2008	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	(381,786)	381,786	580,913	(580,913)



## RAIFFEISEN BANK SH.A

### Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

#### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### (d) Market risks (continued)

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

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

	31 December 2009					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
<b>Assets</b>						
Cash and cash equivalents	11,220,360	-	-	-	-	11,220,360
Restricted balances	19,671,528	-	-	11,497	662,282	20,345,307
Investments held for trading	90	1,562,556	778,686	5,400,637	28,782,222	36,524,191
Investments held to maturity	4,601,467	5,895,255	11,181,190	28,544,374	42,967,425	93,189,711
Loans and advances to customers	50,790,425	2,418,485	9,779,384	23,060,092	4,146,538	88,328,640
Prepaid income tax	-	163,374	-	-	-	163,374
Other assets	659,959	138,950	561,022	-	-	1,359,931
<b>Total</b>	<b>86,943,829</b>	<b>10,178,620</b>	<b>22,300,282</b>	<b>57,016,600</b>	<b>76,558,467</b>	<b>251,131,514</b>
<b>Liabilities</b>						
Due to financial institutions	1,091,775	-	1,105,370	-	-	2,197,145
Repurchase agreements sold	9,962,077	7,983,011	-	-	-	17,945,088
Due to customers	76,984,567	29,563,013	23,169,876	72,703,842	5,206,749	207,628,047
Other liabilities	592,622	135,971	-	-	-	728,593
<b>Total</b>	<b>88,631,041</b>	<b>37,681,995</b>	<b>24,275,246</b>	<b>72,703,842</b>	<b>5,206,749</b>	<b>228,498,873</b>
<b>Gap at 31 December 2009</b>	<b>(1,687,212)</b>	<b>(27,503,375)</b>	<b>(1,974,964)</b>	<b>(15,687,242)</b>	<b>71,351,718</b>	<b>(1,866,284)</b>



# RAIFFEISEN BANK S.H.A

Notes to the consolidated financial statements for the year ended 31 December 2009  
(amounts in Lek '000, unless otherwise stated)

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Market risks (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	31 December 2008 Total
<b>Assets</b>							
Cash and cash equivalents	6,563,688	-	-	-	-	-	6,563,688
Restricted balances	21,180,754	46,632	735,614	148,560	135,527	32,665	22,279,752
Investments held for trading	327,953	1,477,455	1,972,485	1,790,202	16,309,194	-	21,877,289
Investments held to maturity	8,454,346	13,098,795	15,270,440	32,665,841	46,503,327	-	115,992,749
Loans and advances to customers	49,001,088	5,761,198	5,084,407	23,289,287	2,510,201	(2,271,254)	83,374,927
Prepaid income tax	-	313,559	-	-	-	-	313,559
Other assets	351,249	59,918	471,144	122	-	-	882,433
<b>Total</b>	<b>85,879,078</b>	<b>20,757,557</b>	<b>23,534,090</b>	<b>57,894,012</b>	<b>65,458,249</b>	<b>(2,238,589)</b>	<b>251,284,397</b>
<b>Liabilities</b>							
Due to financial institutions	2,158,868	992,153	-	-	-	-	3,151,021
Repurchase agreements sold	7,258,166	4,136,874	-	-	-	-	11,395,040
Due to customers	86,736,803	32,496,287	26,185,136	63,282,047	7,366,933	-	216,067,206
Other liabilities	2,610,734	392,507	-	-	-	-	3,003,241
<b>Total</b>	<b>98,764,571</b>	<b>38,017,821</b>	<b>26,185,136</b>	<b>63,282,047</b>	<b>7,366,933</b>	<b>-</b>	<b>233,616,508</b>
<b>Gap at 31 December 2008</b>	<b>(12,885,493)</b>	<b>(17,260,264)</b>	<b>(2,651,046)</b>	<b>(5,388,035)</b>	<b>58,091,316</b>	<b>(2,238,589)</b>	<b>17,667,889</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Market risks (continued)

The analysis of assets and liabilities as at 31 December 2009 and 31 December 2008 by the foreign currencies in which they were denominated was as follows:

	31 December 2009				31 December 2008					
	Lek	EUR	USD	Other	Total	Lek	EUR	USD	Other	Total
<b>Assets</b>										
Cash and cash equivalents	2,534,790	1,424,562	3,892,491	3,368,517	11,220,360	4,658,121	1,149,019	577,269	179,279	6,563,688
Restricted balances	13,224,476	5,645,451	1,475,380	-	20,345,307	13,919,858	6,378,424	1,981,470	-	22,279,752
Investments held for trading	36,524,191	-	-	-	36,524,191	13,215,584	-	-	8,661,705	21,877,289
Investments held to maturity	93,189,711	-	-	-	93,189,711	115,992,749	-	-	-	115,992,749
Loans and advances to customers	34,421,848	46,924,340	6,546,856	435,596	88,328,640	26,593,338	48,174,083	7,903,475	704,031	83,374,927
Property and equipment	1,647,341	-	-	-	1,647,341	1,978,504	-	-	-	1,978,504
Intangibles	311,388	-	-	-	311,388	309,312	-	-	-	309,312
Equity Investments	19,734	-	-	-	19,734	10,859	-	-	-	10,859
Goodwill	92,783	-	-	-	92,783	-	-	-	-	-
Prepaid income tax	163,374	-	-	-	163,374	313,559	-	-	-	313,559
Other assets	361,784	908,790	40,067	49,290	1,359,931	235,858	632,415	13,312	848	882,433
<b>Total</b>	<b>182,491,420</b>	<b>54,903,143</b>	<b>11,954,794</b>	<b>3,853,403</b>	<b>253,202,760</b>	<b>177,227,742</b>	<b>56,333,941</b>	<b>10,475,526</b>	<b>9,545,863</b>	<b>253,583,072</b>
<b>Liabilities</b>										
Due to financial institutions	18,683	1,367,199	442,576	368,687	2,197,145	67,034	2,831,912	250,879	1,196	3,151,021
Repurchase agreements sold	17,945,088	-	-	-	17,945,088	11,395,040	-	-	-	11,395,040
Due to customers	139,307,847	53,117,490	11,866,935	3,335,775	207,628,047	144,490,529	55,155,046	13,539,816	2,881,815	216,067,206
Deferred tax liabilities	202,464	-	-	-	202,464	167,923	-	-	-	167,923
Other liabilities	482,329	231,807	11,210	3,247	728,593	1,652,654	1,273,027	109,844	(32,284)	3,003,241
Non-Controlling Interest	52,008	-	-	-	52,008	38,669	-	-	-	38,669
Shareholder's equity	24,449,415	-	-	-	24,449,415	19,759,972	-	-	-	19,759,972
<b>Total</b>	<b>182,457,834</b>	<b>54,716,496</b>	<b>12,320,721</b>	<b>3,707,709</b>	<b>253,202,760</b>	<b>177,571,821</b>	<b>59,259,985</b>	<b>13,900,539</b>	<b>2,850,727</b>	<b>253,583,072</b>
<b>Net Position</b>	<b>33,586</b>	<b>186,647</b>	<b>(365,927)</b>	<b>145,694</b>	<b>-</b>	<b>(344,079)</b>	<b>(2,926,044)</b>	<b>(3,425,013)</b>	<b>6,695,136</b>	<b>-</b>

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)****(e) Operational risks**

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

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

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

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

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

**(f) Capital management*****Regulatory capital***

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and "Banking Law of the Republic of Albania".

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (f) Capital management (continued)

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

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

	31 December 2009	31 December 2008
Total risk weighted assets	102,245,874	83,226,018
Total risk weighted off balance exposures	1,937,195	4,473,552
<b>Total</b>	<b>104,183,069</b>	<b>87,699,570</b>
Regulatory capital	18,687,180	14,409,386
<b>Capital adequacy ratio</b>	<b>17.94%</b>	<b>16.43%</b>

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

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

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

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

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 6. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

#### *Cash and cash equivalents*

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

#### *Investment securities*

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

As at 31 December 2009, the fair value of held-to-maturity investment securities is approximately Lek 93,322,307 thousand (31 December 2008: Lek 115,540,954 thousand) whilst their carrying value is Lek 93,189,711 thousand (31 December 2008: Lek 115,992,749 thousand).

#### *Loans and advances to customers*

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

#### *Due to customers*

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand. The fair value of time deposits with stated maturity as at 31 December 2009 is approximately Lek 207,596,828 thousand (31 December 2008: Lek 216,084,187 thousand) whilst their carrying value is Lek 207,628,047 thousand (31 December 2008: Lek 216,067,206 thousand).

#### *Due to banks and financial institutions*

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

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 7. CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
<i>Cash on hand</i>	2,479,638	2,112,009
<i>Central Bank</i>		
Current accounts	25,928	1,799,636
Deposits	700,067	1,200,148
<i>Banks</i>		
Current accounts with resident banks	797	394
Current accounts with non-resident banks	98,029	688,629
Deposits with resident banks	1,498,605	34,586
Deposits with non-resident banks	6,417,296	728,286
<b>Total</b>	<b>11,220,360</b>	<b>6,563,688</b>

Current accounts with the Bank of Albania bear no interest. Deposits with the Central Bank earn annual interest at 3.5 % (31 December 2008: 4.5%).

The annual interest rates on term deposits with non-resident banks as at 31 December 2009 vary from 0.15% to 0.5% (31 December 2008: 0.25% to 1.9%). The annual interest rates on term deposits with resident banks as at 31 December 2009 vary from 1% -5% (31 December 2008: 3% - 6.5%).

### 8. RESTRICTED BALANCES

	31 December 2009	31 December 2008
<i>Central Bank</i>		
Statutory reserves	19,671,528	21,170,205
<i>Banks</i>		
Guarantee accounts	673,779	1,109,547
<b>Total</b>	<b>20,345,307</b>	<b>22,279,752</b>

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Group should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account. The statutory reserve is not available for the Groups' day-to-day operations.

Interest on statutory reserves in the Central Bank is calculated as follows:

-Lek balances: 70% of the repurchase agreements rate: 3.675% per annum as of 31 December 2009 (31 December 2008: 4.375% per annum);

-EUR balances: 70% of the EURIBOR rate: 0.70% per annum as of 31 December 2009 (31 December 2008: 2.275%); and

-USD balances: 70% of the LIBOR rate: 0.09% per annum as of 31 December 2009 (31 December 2008: 0.7% per annum).

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

### 9. INVESTMENT IN SECURITIES

#### 9.1 Investments held for trading

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

	31 December 2009	31 December 2008
Treasury bills	5,325,251	5,568,095
Government Bonds	31,198,940	7,647,489
Hungarian municipality Bonds	-	8,661,705
<b>Total</b>	<b>36,524,191</b>	<b>21,877,289</b>

Treasury bills as at 31 December 2009 relate to zero-coupon treasury bills of the Government of Albania, with maturities ranging between January 2009 to December 2009, with yields ranging from 6.3% to 9.6% per annum (31 December 2008: from 6.24% to 8.72%).

Government Bonds as at 31 December 2009 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 8.15% to 11.00% per annum (31 December 2008: 8.15% to 11.00%).

Hungarian Municipality Bonds as at 31 December 2008 represent bonds denominated in CHF issued by the municipalities of Hungary with coupon rates ranging from 3.585% to 4.855% per annum.

#### 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 2009	31 December 2008
Treasury bills	25,303,208	37,588,649
Government Bonds	67,886,503	78,404,100
<b>Total</b>	<b>93,189,711</b>	<b>115,992,749</b>

As at 31 December 2009 treasury bills with a carrying amount of Lek 17,945,088 thousand (2008: 11,395,040) were pledged as security for the repurchase agreements portfolio (refer to note 15).

##### 9.2.1 Treasury Bills

Treasury bills as at 31 December 2009 relate to zero-coupon treasury bills of the Government of Albania, with maturities ranging between January 2009 to December 2009, with yields ranging from 5.75% to 10.27% per annum (31 December 2008: from 6.24% to 9.5%).

	31 December 2009	31 December 2008
Nominal value of treasury bills	26,304,149	38,675,939
Unamortized discount	(1,000,941)	(1,087,290)
<b>Total</b>	<b>25,303,208</b>	<b>37,588,649</b>



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 9. INVESTMENT IN SECURITIES (CONTINUED)

#### 9.2.2 Government Bonds

Government Bonds as at 31 December 2009 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 8.05% to 11.48% per annum (31 December 2008: from 7% to 11.00%).

	31 December 2009	31 December 2008
Nominal value of bonds	66,226,295	76,531,138
Unamortized discount	36,217	30,888
Accrued interest	1,623,991	1,842,074
<b>Total</b>	<b>67,886,503</b>	<b>78,404,100</b>

### 10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2009	31 December 2008
Loans and advances to customers	94,277,312	85,646,180
Allowance for loan loss impairment	(5,948,672)	(2,271,253)
<b>Net carrying amount</b>	<b>88,328,640</b>	<b>83,374,927</b>

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

	31 December 2009	31 December 2008
Balance at the beginning of the year	2,271,253	958,637
Loan provision expense of the period	3,792,737	1,690,037
Reversal of provision	(4,360)	-
Usage	(110,958)	(377,421)
<b>Balance at the end of the period</b>	<b>5,948,672</b>	<b>2,271,253</b>

The interest rates of loans and advances to customers vary from 4.61% to 10.62% p.a. in foreign currencies and from 10.34% to 18.22% p.a. in Lek (31 December 2008: from 3.99 % to 23.09% p.a. in foreign currencies and from 2.94 % to 33 % p.a. in Lek).

The balance of loans and advances to customers includes a loan to a non-resident corporate given from the Bank through Raiffeisen Bank Kosovo based on the Participating Agreement with that bank, dated 14 October 2005. The carrying amount of this participation as at 31 December 2009 is Lek 1,445,383 thousand (2008: Lek 336,985 thousand).

Additionally, included in loans and advances to customers are loans to Raiffeisen Leasing Bulgaria with a carrying amount of Lek nil (2008: Lek 134,210 thousand) and Raiffeisen Factoring Bulgaria with a carrying amount of Lek nil (2008: Lek 1,238,274 thousand).

### 11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	31 December 2009	31 December 2008
Property and equipment	1,647,341	1,978,504
Intangible assets	311,388	309,312
<b>Total</b>	<b>1,958,729</b>	<b>2,287,816</b>

There are no assets pledged as collateral as at 31 December 2009 (2008: none).



# RAIFFEISEN BANK S.H.A

Notes to the consolidated financial statements for the year ended 31 December 2009  
(amounts in Lek '000, unless otherwise stated)

## 11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Cost	Software	Licenses	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Balance at 1 January 2008	414,566	100,899	818,396	1,657,316	301,126	136,503	465,910	3,894,716
Additions	49,293	118,863	-	162,121	40,180	276,635	125,843	772,935
Disposals	-	-	-	(124,038)	(55,187)	(1,985)	(86,156)	(267,366)
Transfer from work in progress	-	-	212,632	78,966	9,693	(303,907)	2,616	-
<b>Balance at 31 December 2008</b>	<b>463,859</b>	<b>219,762</b>	<b>1,031,028</b>	<b>1,774,365</b>	<b>295,812</b>	<b>107,246</b>	<b>508,213</b>	<b>4,400,285</b>
Balance at 1 January 2009	463,859	219,762	1,031,028	1,774,365	295,812	107,246	508,213	4,400,285
Additions	121,980	13,282	-	58,187	5,889	115,478	45,157	359,973
Additions of RPAL	231	-	-	1,681	2,583	-	-	4,495
Disposals	(2,717)	-	(16,087)	(185,958)	(12,838)	-	(56,518)	(274,118)
Transfer from work in progress	9,772	-	73,015	88,894	(2,583)	(176,805)	5,124	(2,583)
<b>Balance at 31 December 2009</b>	<b>593,125</b>	<b>233,044</b>	<b>1,087,956</b>	<b>1,737,169</b>	<b>288,863</b>	<b>45,919</b>	<b>501,976</b>	<b>4,488,052</b>
<b>Accumulated Depreciation</b>								
Balance at 1 January 2008	(181,080)	(59,931)	(108,832)	(1,004,136)	(132,159)	-	(234,090)	(1,720,228)
Charge for the period	(100,395)	(32,903)	(72,109)	(296,902)	(54,489)	-	(81,951)	(638,749)
Disposals	-	-	-	122,973	50,823	-	72,712	246,508
<b>Balance at 31 December 2008</b>	<b>(281,475)</b>	<b>(92,834)</b>	<b>(180,941)</b>	<b>(1,178,065)</b>	<b>(135,825)</b>	<b>-</b>	<b>(243,329)</b>	<b>(2,112,469)</b>
Balance at 1 January 2009	(281,475)	(92,834)	(180,941)	(1,178,065)	(135,825)	-	(243,329)	(2,112,469)
Charge for the period	(99,234)	(41,314)	(82,808)	(263,846)	(51,456)	-	(83,054)	(621,712)
Charge for RPAL	(48)	-	-	(945)	(1,371)	-	-	(2,364)
Disposals	123	1	4,361	142,362	11,766	-	48,609	207,222
<b>Balance at 31 December 2009</b>	<b>(380,634)</b>	<b>(134,147)</b>	<b>(259,388)</b>	<b>(1,300,494)</b>	<b>(176,886)</b>	<b>-</b>	<b>(277,774)</b>	<b>(2,529,323)</b>
<b>Carrying amount</b>								
As at 1 January 2008	233,486	40,968	709,564	653,180	168,967	136,503	231,820	2,174,488
As at 31 December 2008	182,384	126,928	850,087	596,300	159,987	107,246	264,884	2,287,816
As at 31 December 2009	212,491	98,897	828,568	436,675	111,977	45,919	224,202	1,958,729

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 12. EQUITY INVESTMENTS

The Group owns 2,355 shares in Visa Inc. with a total value of Lek 19,734 thousand (2008: 10,859 thousand).

During the year Raiffeisen Bank has purchased 100% of the shares of the American Supplementary Private Pension Institute of Albania, in amount of 109,648 thousand LEK. The purchase has been approved by the Albanian Financial Supervisory Authority based on decision nr.30, dated March 26, 2009, registered on the Albanian National Register on April 23, 2009 and now it is known as Instituti Privat i Pensioneve Supplementare Raiffeisen - Raiffeisen Pensions sh.a. Instituti Privat i Pensioneve Supplementare Raiffeisen - Raiffeisen Pensions sh.a has a paid in capital of LEK 90 million. The group has calculated goodwill on acquisition date as the excess of the cost of the business combination over the identified net assets of the acquired entity, resulting in amount of LEK 92,783 thousand. The identified net assets of the acquired entity approximate their fair value amounting LEK 16,865 thousand.

### 13. OTHER ASSETS

	31 December 2009	31 December 2008
VAT receivable	561,022	455,817
Suspense Accounts Asset	532,399	-
Prepaid expenses and accruals	87,424	200,470
Sundry debtors, net	65,734	173,635
Inventories	58,509	13,739
Money gram	54,843	32,013
Withholding tax receivable	-	6,759
<b>Total</b>	<b>1,359,931</b>	<b>882,433</b>

Suspense Accounts Asset comprise bank's suspense accounts which result in debit balance as at 31 December 2009 (31 December 2008: 0). Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items.

Sundry debtors, net are comprised as follows:

	31 December 2009	31 December 2008
Sundry debtors	79,288	187,374
Provisions for losses from other debtors	(13,554)	(13,739)
<b>Total Sundry debtors, net</b>	<b>65,734</b>	<b>173,635</b>

Movements in the provisions for sundry debtors are as follows:

	31 December 2009	31 December 2008
Balance at the beginning of the year	13,739	4,611
Provision expense for the year	-	9,128
Foreign exchange effect	(185)	-
<b>Balance at the end of the year</b>	<b>13,554</b>	<b>13,739</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 14. DUE TO FINANCIAL INSTITUTIONS

	31 December 2009	31 December 2008
<b>Current accounts</b>		
Resident banks and financial institutions	33,572	63,484
Non-resident banks and financial institutions	202,355	1,676,704
	<u>235,927</u>	<u>1,740,188</u>
<b>Deposits</b>		
Resident banks and financial institutions	1,598,346	1,410,833
Non-resident banks and financial institutions	362,872	-
	<u>1,961,218</u>	<u>1,410,833</u>
<b>Total</b>	<u>2,197,145</u>	<u>3,151,021</u>

The annual interest rates for borrowed funds from financial institutions varied from 0.1% to 3.5% during the year ended 31 December 2009 (2008: 0.44% to 3.05%).

### 15. REPURCHASE AGREEMENTS SOLD

The repurchase agreements totalling Lek 17,945,088 thousand as at 31 December 2009 (2008: Lek 11,395,040 thousand) relate to repurchase agreements with Bank of Albania with maturities from 28 to 91 days. They bear interest, which varies from 5.25% to 5.98% p.a (2008: 6.25% to 7.2% p.a). Treasury bills with a carrying amount of Lek 17,945,088 thousand as of 31 December 2009 (2008: Lek 11,395,040 thousand) were pledged as security for these repurchase agreements (see Note 9.2).

### 16. DUE TO CUSTOMERS

	31 December 2009	31 December 2008
Current accounts	38,780,140	35,972,000
Deposits	166,647,782	177,501,787
Other accounts	2,200,125	2,593,419
	<u>207,628,047</u>	<u>216,067,206</u>

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2009 were as follows:

(in %)	LEK	USD	EUR
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.20-7.00	0.25-4.20	0.10-4.70
Time deposits – 3 month	4.20-8.30	0.40-3.30	1.25-5.60
Time deposits – 6 month	4.60-6.80	0.80-2.60	1.35-4.80
Time deposits – 9 month	5.00-7.20	1.10-2.70	1.40-4.90
Time deposits – 12 month	5.70-9.50	1.15-2.80	1.50-5.30
Time deposits – 24 month	5.50-8.10	1.30-3.00	1.55-5.40
Time deposits – 36 month	5.80-8.20	1.40-3.30	1.60-5.50
Time deposits – 60 month	6.10-8.50	1.60-3.70	1.65-5.70

# RAIFFEISEN BANK SH.A

Notes to the consolidated financial statements for the year ended 31 December 2009  
(amounts in Lek '000, unless otherwise stated)

## 16. DUE TO CUSTOMERS (CONTINUED)

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

	31 December 2009			31 December 2008		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
<b>Current accounts</b>	<b>23,233,567</b>	<b>15,546,573</b>	<b>38,780,140</b>	<b>25,354,400</b>	<b>10,617,600</b>	<b>35,972,000</b>
<b>Deposits</b>						
On demand	5,244,853	4,570,251	9,815,104	7,942,941	5,656,006	13,598,947
1 month - 3 months	7,425,993	4,840,008	12,266,001	452,164	6,684,801	7,136,965
3 months - 6 months	12,298,223	11,370,830	23,669,053	8,690,355	5,634,128	14,324,483
6 months - 12 months	16,425,540	8,414,785	24,840,325	16,597,347	7,303,824	23,901,171
12 months - 24 months	62,649,669	19,421,957	82,071,626	65,968,023	29,383,566	95,351,589
24 months - 36 months	6,548,722	1,438,104	7,986,826	13,810,936	2,672,533	16,483,469
36 months	592,926	1,315,775	1,908,701	387,696	1,348,075	1,735,771
60 months	508,926	164,639	673,565	306,965	125,545	432,510
Accrued interest on deposits	2,866,466	550,115	3,416,581	3,510,058	1,026,824	4,536,882
	<b>114,561,318</b>	<b>52,086,464</b>	<b>166,647,782</b>	<b>117,666,485</b>	<b>59,835,302</b>	<b>177,501,787</b>
<b>Other accounts</b>						
Guarantee deposits	942,626	654,408	1,597,034	1,026,434	1,101,289	2,127,723
Cheques in circulation	-	-	-	502	2	504
Dormant customer accounts	122,686	8,294	130,980	126,251	7,659	133,910
Other	465,551	6,560	472,111	316,457	14,825	331,282
	<b>1,530,863</b>	<b>669,262</b>	<b>2,200,125</b>	<b>1,469,644</b>	<b>1,123,775</b>	<b>2,593,419</b>
<b>Total</b>	<b>139,325,748</b>	<b>68,302,299</b>	<b>207,628,047</b>	<b>144,490,529</b>	<b>71,576,677</b>	<b>216,067,206</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 17. DEFERRED TAX LIABILITIES

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

	31 December 2009	31 December 2008
Balance at the beginning of the year	(167,923)	(19,477)
Deferred tax benefit relating to the origination and reversal of temporary differences	(34,541)	(148,446)
<b>Balance at the end of the year</b>	<b>(202,464)</b>	<b>(167,923)</b>

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

Deferred tax has been calculated based on the enacted tax rate for 2009 of 10% (2008: 10%). As at 31 December 2009 and 31 December 2008 deferred tax assets and liabilities have been recognized for the following items:

	31 December 2009	31 December 2008
<i>Deferred tax asset</i>		
Accelerated depreciation	56,978	44,560
Deferred lease disbursement fees	1,383	180
Other assets recognized as expenses	181	-
	<u>58,542</u>	<u>44,740</u>
<i>Deferred tax liability</i>		
Allowance for impairment losses	(261,006)	(212,663)
	<u>(261,006)</u>	<u>(212,663)</u>
<b>Net deferred tax assets / (liabilities)</b>	<b>(202,464)</b>	<b>(167,923)</b>

### 18. OTHER LIABILITIES

	31 December 2009	31 December 2008
Accrued expenses	225,646	220,497
Due to employees	155,765	270,009
Due to third parties	115,067	-
Withholding Tax payable	87,475	109,646
Other creditors	73,531	191,984
Deferred income	40,316	1,010,910
Due to Social Insurance	23,515	27,657
Provision for litigation	3,829	194,206
VAT payable	3,449	230
Other liabilities	-	978,102
<b>Total</b>	<b>728,593</b>	<b>3,003,241</b>

Included in "Accrued expenses" is an amount of Lek 102,390 thousand (2008: Lek 103,717 thousand) of accrued deposit insurance premium payable for customers' deposits.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 18. OTHER LIABILITIES (CONTINUED)

The movements in the provision for litigation are as follows:

	31 December 2009	31 December 2008
Balance at the beginning of the year	194,206	48,244
Provision expense for the year	-	148,560
Reversal of provision for the year	(190,377)	(2,598)
<b>Balance at the end of the year</b>	<b>3,829</b>	<b>194,206</b>

Deferred income is comprised from loan administration fees that will be amortised over the life of the loan granted to customers, corporate, small business enterprises and individuals.

### 19. SHARE CAPITAL

As at 31 December 2009 the subscribed capital of the Bank is Lek 4,348,233 thousand made up of 7,000 shares with a nominal value of Lek 621,176 each.

### 20. GENERAL RESERVE

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

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

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek '000, unless otherwise stated)

### 21. 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 leasing company named Raiffeisen Leasing sh.a. has a paid-in capital of EUR 1 million. The Group participates with a share of 75% for an amount of EUR 750 thousand (equivalent of Lek 92,250 thousand). The remaining share of 25% of the paid-in capital of Raiffeisen Leasing sh.a., is owned by Raiffeisen -Leasing International Gesellschaft m.b.H.

Company Name	% of holding	Capital	Current year profit	Accumulated profit	Net value
Raiffeisen Bank Sh.a	75%	92,250	40,018	23,755	156,023
Raiffeisen -Leasing International Gesellschaft m.b.H.	25%	30,750	13,339	7,918	52,007

### 22. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Loans and advances to customers	9,539,902	7,471,121
Investment securities	9,091,104	9,854,020
Bank deposits	669,164	1,656,385
Repurchase agreement	-	15,018
<b>Total</b>	<b>19,300,170</b>	<b>18,996,544</b>

### 23. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Customers	7,419,580	8,562,735
Reverse repurchase agreement	992,329	229,316
Banks	112,501	162,060
<b>Total</b>	<b>8,524,410</b>	<b>8,954,111</b>

### 24. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Funds transfers	849,745	981,531
Other banking services	263,164	35,981
Lending activities	216,258	644,597
<b>Total</b>	<b>1,329,167</b>	<b>1,662,109</b>



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 25. NET OTHER OPERATING INCOME / (EXPENSE)

	Year ended 31 December 2009	Year ended 31 December 2008
Other revenue	274,369	17,900
Other expenses	(100,748)	(293,284)
<b>Total</b>	<b>173,621</b>	<b>(275,384)</b>

In "Other revenues" is included income from sale of fixed assets amounting to Lek 108,516 thousand (2008: Lek 10,816 thousand). In other expenses is included the write off of fixed assets amounting to Lek 16,757 thousand (2008: Lek 14,641 thousand), and taxes other than income tax amounting to Lek 16,443 thousand (2008: Lek 12,995 thousand).

### 26. DEPOSIT INSURANCE PREMIUM

Legislation from 18 October 2002, determined that banks should pay a deposit insurance premium. This premium is based on the rate of 0.5% per annum, payable quarterly and is calculated as a percentage of the daily average deposit balances up to Lek 2,500,000 (2008: Lek 700,000) for individuals for the period from October to December of the previous calendar year.

### 27. PERSONNEL EXPENSES

	Year ended 31 December 2009	Year ended 31 December 2008
Salaries	1,473,850	1,562,102
Social insurance	195,388	210,647
Personnel training	37,564	65,905
Other personnel costs	36,371	108,010
<b>Total</b>	<b>1,743,173</b>	<b>1,946,664</b>

As at 31 December 2009, the Group had 1,389 employees (2008: 1,471 employees).

### 28. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2009	Year ended 31 December 2008
Utilities	403,445	351,920
Repair and maintenance	284,271	232,619
Marketing expenses	265,145	298,305
Consultancy and legal fee	252,003	672,398
Communication expenses	191,136	197,938
Stationery expenses	54,637	68,071
Travel expenses	19,316	38,061
Other	16,595	17,406
<b>Total</b>	<b>1,486,548</b>	<b>1,876,718</b>

Consultancy and legal fees include head office management charge totalling Lek 210,859 thousand in 2009 (2008: Lek 626,017 thousand).

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 29. INCOME TAX

Income tax in Albania is assessed at the rate of 10% (2007: 20%) of taxable income:

	Year ended 31 December 2009	Year ended 31 December 2008
Current tax	512,515	452,412
Deferred taxes	34,541	148,138
<b>Total</b>	<b>547,056</b>	<b>600,550</b>

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

		Year ended 31 December	
	Tax rate	2009	Tax rate 2008
Profit before taxes		5,240,963	5,695,410
Prima facie tax calculated at 10% (2008: 10%)	10.0%	524,096	10.0%
Non tax deductible expenses	0.5%	22,960	0.5%
Not recognised temporary differences	0.0%	-	0.0%
Reduction in tax rate	-	-	-
<b>Income tax expense</b>	<b>10.5%</b>	<b>547,056</b>	<b>10.5%</b>
		<b>600,550</b>	

### 30. CONTINGENCIES AND COMMITMENTS

		31 December 2009		31 December 2008
	Lek	Foreign currency	Total	Total
<i>Contingent liabilities</i>				
Bank Guarantees issued	645,189	2,803,952	3,449,141	3,338,834
Letters of Credit	-	635,154	635,154	998,840
Unused credit lines	4,355,765	2,265,705	6,621,470	7,205,116
Finance lease commitments		38,692	38,692	21,219
Litigation	3,829	-	3,829	194,206
<b>Total</b>	<b>5,004,783</b>	<b>5,743,503</b>	<b>10,748,286</b>	<b>11,758,215</b>
<i>Contingent assets</i>				
Bank Guarantees received	67,545	2,740,026	2,807,571	3,683,483
Operating lease commitments	86,072	354,695	440,767	479,607
<b>Total</b>	<b>153,617</b>	<b>3,094,721</b>	<b>3,248,338</b>	<b>4,163,090</b>

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

#### Litigation

As at 31 December 2009 the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2009 and at 31 December 2008.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 30. CONTINGENCIES AND COMMITMENTS (CONTINUED)

#### Lease commitments

The Group has entered into non-cancelable lease commitments for the Head Office and the branches. Such commitments as at 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Not later than 1 year	207,716	221,109
Later than 1 year and not later than 5 years	233,051	258,498
<b>Total</b>	<b>440,767</b>	<b>479,607</b>

### 31. RELATED PARTIES

#### Parent and ultimate controlling party and fellow subsidiaries

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

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

	31 December 2009	31 December 2008
<b>Amounts due from:</b>		
RZB AG	630,454	988,757
Raiffeisen Bank Bulgaria Ead	575	691
Raiffeisen Leasing Bulgaria Ood	-	134,211
Tatra Banka	-	11,555
Raiffeisen International AG	-	8,806
Raiffeisen Factoring Ltd., Sofia (BG)	-	1,238,274
Raiffeisen Bank Budapest	19	13,059
<b>Assets total</b>	<b>631,048</b>	<b>2,395,353</b>
<b>Amounts due to:</b>		
RZB AG	(375,651)	(42,284)
Raiffeisen International AG	-	(8,211)
Tatra Banka	-	(5,799)
Ukrainian Processing Center	-	(4,235)
Raiffeisen Bank Kosovo	(152,428)	(1,557,409)
<b>Liabilities total</b>	<b>(528,079)</b>	<b>(1,617,938)</b>

The aggregate value of the contingent liabilities of the Group to these entities as at 31 December 2009 was Lek 1,228,113 thousand (31 December 2008: Lek 1,501,264 thousand) and represents Bank Guarantees and Letters of Credit.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2009

(amounts in Lek'000, unless otherwise stated)

### 31. RELATED PARTIES (CONTINUED)

	2009	2008
<b>Net interest income</b>		
RZB AG	3,002	355,004
Raiffeisen Bank Bulgaria Ead	2	24
Raiffeisen Leasing Bulgaria Ood	1,474	15,897
Raiffeisen-Leasing D.O.O.	-	10,584
Raiffeisen Bank Kosovo	(26,871)	(42,446)
Raiffeisen Factoring Ltd., Sofia (BG)	20,233	18,495
<b>Net fee and commission expense</b>		
RZB AG	(9,891)	(7,805)
Raiffeisen Bank Bulgaria Ead	(16)	(17)
Tatra Banka	(15,092)	(92,166)
Ukrainian Processing Center	(51,298)	(25,072)
Regional Card Processing Centre,s.r.o	(62,779)	-
<b>Net trading profit</b>		
Raiffeisen Bank Zrt., 1054 Budapest (H)	70,632	23,493
<b>Purchase of assets and operating expenses</b>		
RZB AG	(2,820)	(6,927)
Raiffeisen International AG	(377,561)	(666,352)
Raiffeisen Group It	-	(31,777)
Tatra Banka	(1,964)	(8,966)
RSC Raiffeisen Daten Service Center GmbH	(263)	(221)
Raiffeisen Leasing International G. m.b.H	(660)	(615)
<b>Transactions, net</b>	<b>(453,872)</b>	<b>(458,867)</b>

#### Administrators

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

	2009	2008
<b>Statement of financial position</b>		
Amounts due from administrators	85,135	64,943
Amounts due to administrators	(45,935)	(18,238)
<b>Net balances due from administrators</b>	<b>39,200</b>	<b>46,705</b>
<b>Statement of comprehensive income</b>		
Wages, salaries and bonuses	(181,636)	(282,806)
<b>Total</b>	<b>(181,636)</b>	<b>(282,806)</b>

#### Subsidiary

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

### 32. EVENTS AFTER THE REPORTING PERIOD

On March 5<sup>th</sup>, 2010 the supervisory Board of the Bank has decided to distribute 15 million EUR as dividend.

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