Raiffesen Bank sh.a.

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

31 December 2013

GENERAL INFORMATION

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

Board of Directors (Supervisory Board)

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

Audit Committee

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Mitter	Member

Management Board

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

Registered office

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Auditor

PricewaterhouseCoopers Audit sh.p.k
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Telephone +355 42 242254/280423
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Independent Auditor's Report

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

We have audited the accompanying financial statements of Raiffeisen Bank sh.a. (the "Bank") standing alone, which comprise the statement of financial position as at 31 December 2013 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Bank standing alone as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

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

PricewaterhouseCoopers Audit sh.p.k.

PricewaterhouseCoopers Audit sh.p.k

28 March 2014
Tirana, Albania

Statutory auditor
Kledian Kodra, FCCA

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Regjistruar në Qendrën Kombëtare të Regjistrimeve më 15 korrik 2009 dhe me NUIS K91915023A

(amounts in LEK'000)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	**7**	35,355,398	38,153,031
Restricted balances	**8**	24,527,024	28,243,158
Investments held for trading	**9.1**	43,704,399	41,203,461
Held-to-maturity investment securities	**9.2**	65,859,763	81,375,669
Investment securities available for sale	**13**	-	37,785
Loans and advances to customers	**10**	116,100,412	123,799,181
Investments in subsidiaries	**12**	201,898	201,898
Current income tax prepayment		197,371	190,106
Deferred income tax asset	**11**	70,691	-
Intangible assets	**14**	1,432,820	1,218,093
Premises and equipment	**15**	1,867,322	1,974,928
Other assets	**16**	1,248,336	926,515
Total assets		**290,565,434**	**317,323,825**
Liabilities			
Due to banks and financial institutions	**17**	4,049,185	823,722
Due to customers	**18**	246,385,359	284,396,736
Deferred income tax liability	**11**	-	2,461
Other liabilities	**19**	3,154,097	1,432,413
Subordinated debt	**20**	7,154,318	-
Total liabilities		**260,742,959**	**286,655,332**
Equity			
Share capital	**21**	14,178,593	14,178,593
Retained earnings		12,843,882	13,652,115
Other reserves	**22**	2,800,000	2,837,785
Total equity		**29,822,475**	**30,668,493**
Total liabilities and equity		**290,565,434**	**317,323,825**

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

Christian Canacaris
Chief Executive Officer

Alexander Zsolnai
Vice Chairman of Management Board

The separate statement of financial position is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 58.

(amounts in LEK'000)

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	23	15,735,941	18,713,967
Interest expense	24	(5,023,677)	(8,094,627)
Net interest income		**10,712,264**	**10,619,340**
Provision for impairment of loans to customers	10	(4,008,658)	(2,757,402)
Net interest income after provision for loan impairment		**6,703,606**	**7,861,938**
Fee and commission income	25	1,578,813	1,368,388
Fee and commission expense	26	(397,170)	(317,734)
Net fee and commission income		**1,181,643**	**1,050,654**
Net income from investments	13	32,340	-
Net trading income	27	2,884,081	2,581,987
Net other operating expense	28	(142,920)	(101,724)
		2,773,501	**2,480,263**
Deposit insurance premium	29	(855,698)	(802,684)
Personnel expenses	30	(2,352,237)	(2,455,599)
Depreciation and amortisation	14,15	(568,908)	(559,206)
General and administrative expenses	31	(2,000,829)	(1,926,705)
		(5,777,672)	**(5,744,194)**
Profit before tax		**4,881,078**	**5,648,661**
Income tax expense	32	(420,890)	(458,080)
PROFIT FOR THE YEAR		**4,460,188**	**5,190,581**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Gains less losses arising during the year	13	(37,785)	-
Gains less losses reclassified to profit or loss upon disposal or impairment		-	12,072
Other comprehensive income for the year		**(37,785)**	**12,072**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,422,403**	**5,202,653**

The separate statement of comprehensive income is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 58.

(amounts in LEK'000)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	General reserves	Revaluation reserve for AFS securities	Retained earnings	Total
Balance as at 1 January 2012	**9,926,093**	**6,300,000**	**25,713**	**12,942,981**	**29,194,787**
Capital increase	4,252,500	-	-	(4,252,500)	-
Transfer of general reserve to retained earnings	-	(3,500,000)	-	3,500,000	-
Dividends paid during the year	-	-	-	(3,728,947)	**(3,728,947)**
Profit for the year	-	-	-	5,190,581	**5,190,581**
Other comprehensive income (Note 13)	-	-	12,072	-	**12,072**
Balance as at 31 December 2012	**14,178,593**	**2,800,000**	**37,785**	**13,652,115**	**30,668,493**
Dividends paid during the year	-	-	-	(5,268,421)	**(5,268,421)**
Profit for the year	-	-	-	4,460,188	**4,460,188**
Other comprehensive income (Note 13)	-	-	(37,785)	-	**(37,785)**
Balance as at 31 December 2013	**14,178,593**	**2,800,000**	**-**	**12,843,882**	**29,822,475**

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 58.

(amounts in LEK'000)

SEPARATE STATEMENT OF CASH FLOWS

	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities		
Profit for the year before taxation	**4,881,078**	**5,648,661**
Non-cash items in the statement of comprehensive income		
Depreciation and amortization	568,908	559,206
Loss/(Profit) from sale of fixed asset	(52,652)	3,356
Net impairment loss on financial assets	4,008,658	2,757,402
Net Interest income	(10,712,264)	(10,619,339)
Net income from revaluation of trading securities	(42,167)	80,990
Changes in provision for other debtors	-	(10,559)
Changes in provision for litigation	213	11,171
Revaluation effect of cash and cash equivalents	62,176	(53,986)
	(1,286,049)	**(1,623,100)**
Decrease/(Increase) in restricted balances	3,716,134	(2,572,661)
Decrease /(Increase) in loans and advances to customers	3,413,630	(3,162,052)
Increase in Reverse REPO/in REPOs	-	(8,169,197)
Increase in trading securities	(2,456,670)	(2,125,870)
Increase in other assets	(321,821)	(581,690)
Increase / (Decrease) in due to financial institutions	3,224,151	(3,391,365)
(Decrease)/Increase in due to customers	(35,995,674)	5,165,740
Increase in other liabilities	1,681,919	644,184
Operating cash flows after changes in working capital	**(28,024,380)**	**(15,816,012)**
Interest received	16,121,672	18,684,617
Interest paid	(6,893,751)	(7,370,527)
Corporate income tax paid	(501,307)	(788,240)
Net cash generated used in operating activities	**(19,297,766)**	**(5,290,162)**
Cash flows from investing activities		
Purchases of premises and equipment	(355,727)	(624,001)
Purchases of intangible assets	(325,161)	(737,428)
Proceeds from sale of fixed assets	57,510	-
Proceeds from matured financial assets held-to-maturity	70,762,975	81,460,994
Purchase of financial assets held-to-maturity	(55,318,868)	(57,058,056)
Net cash generated from investing activities	**14,820,729**	**23,041,509**
Cash flows from financing activities		
Dividends paid from retained earnings for the previous year	(5,268,421)	(3,728,947)
Increase in Subordinated debt	7,010,000	-
Net cash used in financing activities	**1,741,579**	**(3,728,947)**
(Decrease)/Increase in cash and cash equivalents during the year	**(2,735,457)**	**14,022,401**
Cash and cash equivalents at the beginning of the year	**38,153,031**	**24,076,644**
Revaluation effect of cash and cash equivalents	(62,176)	53,986
Cash and cash equivalents at the end of the year (Note 7)	**35,355,398**	**38,153,031**

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 5 to 58.

1. INTRODUCTION

Raiffeisen Bank Sh.a. (the "Bank") is a banking institution operating in accordance with the provisions of Law 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies", and Law 9662, dated 18 December 2006 "On Banks in the Republic of Albania", as well as other relevant laws. The Bank is incorporated and domiciled in Albania and operates in Albania. Raiffeisen Bank Sh.a. is a 100% owned subsidiary of Raiffeisen SEE Region Holding GmbH, Austria, which is the ultimate controlling party.

The Bank operates through a banking network of 102 service points, as of 31 December 2013, (31 December 2012: 103 service points) throughout Albania, which are managed through 8 Districts and has no overseas operations.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'group'). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from http://www.rbinternational.com. Users of these separate financial statements should read them together with the group's consolidated financial statements as at and for the year ended 31 December 2013 in order to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole.

Presentation currency. These financial statements are presented in Albanian Lek ("LEK"), unless otherwise stated. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

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

(amounts in LEK'000, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency transactions

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

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

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

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

(c) Interest

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

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

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

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

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

(d) Fees and commission

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

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

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

(e) Net trading income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Operating lease payments and other operating expenses

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

(g) Employee benefits

- *Defined contribution plans*

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

- *Paid annual leave*

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

- *Short-term benefits*

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

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

- *Termination benefits*

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

(h) Income tax expense

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realised.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets and liabilities

i Recognition

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

ii Derecognition

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

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

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

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

iii Amortised cost measurement

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

iv Fair value measurement

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

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

Determination of fair value is further detailed in Note 4 to the separate financial statements "Critical accounting estimates and judgements" and Note 36 "Fair values of financial assets and liabilities".

v Offsetting

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i). Financial assets and liabilities (continued)

vi Identification and measurement of impairment

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

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

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

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

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

vii Designation at fair value through profit or loss

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

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

(j) Cash and cash equivalents

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

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

(k) Trading assets and liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Non-trading derivatives

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

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

(m) Loans and advances

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

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

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

(n) Investment securities

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

i Held-to-maturity

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

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

ii Fair value through profit or loss

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

iii Available-for-sale

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

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Premises and equipment

i Recognition and measurement

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

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

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

ii Subsequent costs

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

iii Depreciation

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

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

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

Useful lives and residual values are reassessed each reporting date.

(p) Intangible assets

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

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

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

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

(q) Repossessed property

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Deposits and other financial liabilities

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

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

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

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

(s) Impairment of non-financial assets

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

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

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

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

(t) Provisions

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

Loan loss provisions for contingent liabilities and commitments

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

(u) Presentation of statement of financial position in order of liquidity.

The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 33.

(v) Comparability

All amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

i. Impairment losses on loans and advances

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

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of LEK 405,377 thousand (2012: LEK 267,598 thousand) or a decrease in loan impairment losses of LEK 680,539 thousand (2012: LEK 91,005 thousand), respectively.

Reversals of impairment provisions. The Bank reversed loan impairment provisions of LEK 1,449,718 thousand (2012: LEK 1,480,849 thousand) primarily as a result of improvement in the financial condition of its borrowers.

ii. Determining fair values

Information about fair values of financial assets and liabilities that were valued using assumptions that are not based on observable market data is disclosed in Note 36.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements The amended standard did not have any material impact on the Bank's financial statements.

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

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

6. NEW ACCOUNTING PRONOUNCEMENTS

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

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

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

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

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

(amounts in LEK'000, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash on hand	2,455,397	2,459,612
Central Bank		
Current accounts	1,401	96,952
Deposits	-	1,300,000
Accrued interest on deposit account	-	80
Banks		
Current accounts with non-resident banks	260,942	4,721,931
Deposits with resident banks with original maturities of less than three months	-	2,673,025
Deposits with non-resident banks with original maturities of less than three months	32,637,658	26,901,431
Total	**35,355,398**	**38,153,031**

Current accounts with the Bank of Albania bear no interest.

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

8. RESTRICTED BALANCES

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

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

The credit quality of cash and cash equivalents and restricted balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2013:

	2013	2012
Neither past due nor impaired		
A-1	24,513,854	29,735,610
A-1+	3,233,166	1,681,088
A-2	15,965	26,241
B	26,638	26,522
Unrated	32,092,799	34,926,728
Carrying amount	**59,882,422**	**66,396,189**

(amounts in LEK'000, unless otherwise stated)

9. INVESTMENT IN SECURITIES

9.1 Investments held for trading

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

	31 December 2013	31 December 2012
Government bonds	43,393,437	40,859,101
Treasury bills	310,962	344,360
Total	**43,704,399**	**41,203,461**

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

Government bonds as at 31 December 2013 represent 2-year, 3-year, 5-year and 7-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 4.69% to 11.00% per annum (31 December 2012: from 7.56% to 11.00%).

9.2 Held-to-maturity investment securities

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

	31 December 2013	31 December 2012
Government bonds (note 9.2.1)	47,615,676	63,448,747
Corporate bonds	2,230,652	-
Treasury bills (note 9.2.2)	16,013,435	17,926,922
Total	**65,859,763**	**81,375,669**

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

9.2.1 Government bonds

Government bonds as at 31 December 2013 represent 2-year, 3-year,5-year, 7-year and 10-year bonds denominated in LEK issued by the Government of Albania with coupon rates ranging from 4.69% to 11.00% per annum (31 December 2012: from 7.38% to 11.00%).

	31 December 2013	31 December 2012
Nominal value of bonds	46,677,645	62,042,972
Unamortised premium	10,574	13,656
Accrued interest	927,457	1,392,119
Total	**47,615,676**	**63,448,747**

(amounts in LEK'000, unless otherwise stated)

9. INVESTMENT SECURITIES (CONTINUED)

9.2 Held-to-maturity investment securities (continued)

9.2.2 Corporate bonds

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

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

9.2.3 Treasury Bills

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

	31 December 2013	31 December 2012
Nominal value of treasury bills	16,406,757	18,630,596
Unamortised discount	(393,322)	(703,674)
Total	**16,013,435**	**17,926,922**

The debt securities are not collateralised.

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

	Investments held for trading		**Held-to-maturity investment securities**	
	2013	**2012**	**2013**	**2012**
Neither past due nor impaired	-	-	-	-
B	43,704,399	41,203,461	63,629,111	81,375,669
AA+	-	-	725,369	-
BBB+	-	-	633,562	-
BBB	-	-	723,471	-
Unrated	-	-	148,250	-
Carrying amount	**43,704,399**	**41,203,461**	**65,859,763**	**81,375,669**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2013	31 December 2012
Loans and advances to customers	127,266,544	134,000,527
Accrued interest	730,630	1,046,663
Allowance for loan loss impairment	(11,896,762)	(11,248,008)
Net carrying amount	**116,100,412**	**123,799,181**

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

	2013	2012
Balance at the beginning of the year	11,248,008	10,755,687
Allowance for loan loss impairment	5,418,824	4,241,643
Release for loan loss impairment	(1,449,718)	(1,480,849)
Loans written off	(3,320,352)	(2,268,473)
Balance at the end of the year	**11,896,762**	**11,248,008**

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

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

						31 December 2013
	Individual	Corporate	SME	Micro - Business	Employees	TOTAL
Overdraft	**1,629,311**	**50,681,183**	**5,219,787**	**705,274**	**68,521**	**58,304,076**
Credit Card	**379,433**	**59**	**-**	**-**	**41,184**	**420,676**
Loans						
Short term	131,326	1,997,372	111,396	6,129	1,521	2,247,744
Medium term	3,429,569	20,065,084	3,113,586	690,218	107,897	27,406,354
Long term	7,046,818	17,854,134	3,258,323	385,376	214,321	28,758,972
less Administrative Fee	(158,103)	(219,751)	-48,807	(13,246)	-	(439,907)
	10,449,610	**39,696,839**	**6,434,498**	**1,068,477**	**323,739**	**57,973,163**
Mortgage	**8,218,561**	**-**	**289,252**	**254,990**	**2,461,470**	**11,224,273**
Other	**35,331**	**18,632**	**4,506**	**16,049**	**468**	**74,986**
TOTAL	**20,712,245**	**90,396,713**	**11,948,043**	**2,044,791**	**2,895,382**	**127,997,174**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

						31 December 2012
	Individual	**Corporate**	**SME**	**Micro - Business**	**Employees**	**TOTAL**
Overdraft	**2,137,172**	**49,865,134**	**5,716,631**	**1,125,523**	**68,125**	**58,912,585**
Credit Card	**328,290**	-	-	-	**39,892**	**368,182**
Loans						
Short term	149,280	764,403	128,729	12,373	1,229	**1,056,014**
Medium term	3,518,209	24,855,867	3,107,301	1,337,698	127,920	**32,946,995**
Long term	8,303,794	18,778,853	3,081,429	453,544	351,363	**30,968,983**
less Administrative Fee	(169,236)	(273,474)	(53,282)	(23,971)	-	**(519,963)**
	11,802,047	**44,125,649**	**6,264,177**	**1,779,644**	**480,512**	**64,452,029**
Mortgage	**8,813,112**	-	**62,630**	**316,515**	**1,875,804**	**11,068,061**
Other	**143,886**	**51,200**	**16,297**	**33,718**	**1,231**	**246,332**
TOTAL	**23,224,507**	**94,041,983**	**12,059,735**	**3,255,400**	**2,465,564**	**135,047,189**

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

In thousands of LEK	**2013**		**2012**	
	Amount	**%**	**Amount**	**%**
Trade, repair of motor vehicles and household items	42,562,652	33.3%	45,555,689	33.7%
Households	23,606,633	18.4%	25,690,071	19.0%
Production and distribution of electricity, gas and water	19,346,678	15.1%	18,673,599	13.8%
Processing industry	10,012,088	7.8%	10,216,963	7.6%
Construction	8,515,323	6.7%	11,240,717	8.3%
Monetary and financial intermediation	7,745,667	6.1%	7,389,960	5.5%
Transportation, Storage and Telecommunications	5,953,906	4.7%	5,760,752	4.3%
Extracting industry	3,156,364	2.5%	3,817,165	2.8%
Agriculture and haunting	2,189,408	1.7%	2,132,680	1.6%
Collective, social and personal	2,057,914	1.6%	2,231,525	1.7%
Health and social work	1,610,482	1.3%	1,374,249	1.0%
Other	1,240,061	1.0%	963,819	0.7%
Total loans and advances to customers (before impairment)	**127,997,176**	**100%**	**135,047,189**	**100%**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

State and public organisations exclude government owned profit orientated businesses.

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

Information about collateral at 31 December 2013 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	12,043,636	5,225,044	56,355	1,285,885	1,052,314	19,663,233
Loans guaranteed by other banks	-	893,654	-	-	-	893,654
Loans guaranteed by other parties, including credit insurance	421,443	16,788,684	52,959	-	2,407	17,265,493
Loans collateralised by:						
- residential real estate	6,756,203	9,751,407	2,321,169	388,570	1,786,876	21,004,225
- other real estate	837,361	16,950,812	7,045,332	287,213	52,986	25,173,704
- tradable securities	-	-	-	-	-	-
- cash deposits	622,290	838,642	24,657	13,178	800	1,499,568
- other assets	31,312	39,948,469	2,447,571	69,945	-	42,497,297
Total loans and advances to customers	**20,712,245**	**90,396,713**	**11,948,043**	**2,044,791**	**2,895,382**	**127,997,174**

Information about collateral at 31 December 2012 is as follows:

	Individual	Corporate	SME	Micro - Business	Employees	Total
Unsecured loans	13,514,768	5,851,875	70,003	1,561,503	889,724	21,887,874
Loans guaranteed by other banks	-	1,137,756	-	-	-	1,137,756
Loans guaranteed by other parties, including credit insurance	442,910	17,257,627	40,333	9,288	11,202	17,761,361
Loans collateralised by:						
- residential real estate	7,067,425	9,936,570	2,443,802	903,215	1,504,345	21,855,358
- other real estate	1,028,757	17,079,934	7,111,193	536,519	46,331	25,802,733
- tradable securities	-	-	-	-	-	-
- cash deposits	1,170,647	906,722	24,888	-	13,961	2,116,218
- other assets	-	41,871,499	2,369,516	244,874	-	44,485,889
Total loans and advances to customers	**23,224,507**	**94,041,983**	**12,059,735**	**3,255,400**	**2,465,564**	**135,047,189**

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

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Total*
Neither past due nor impaired					
Grade 2C	3,505,579	-	-	-	3,505,579
Grade 3B	1,528,004	-	-	-	1,528,004
Grade 4A	59	-	-	-	59
Grade 4B	-	496,720	-	-	496,720
Grade 5B	112,949	1,455,086	-	-	1,568,035
Grade 5C	666,602	-	-	-	666,602
Grade 6A	81,837	824,158	-	-	905,995
Grade 6B	623,385	591,076	-	-	1,214,461
Grade 6C	1,607,543	509,228	-	-	2,116,772
Grade 7A	1,636,618	861,157	-	-	2,497,775
Grade 7B	2,944,056	876,474	-	-	3,820,530
Grade 7C	2,517,995	586,991	-	-	3,104,987
Grade 8A	23,302,244	313,223	-	-	23,615,467
Grade 8B	4,748,027	453,865	-	-	5,201,892
Grade 8C	5,408,567	65,293	-	-	5,473,859
Grade 9A	6,998,346	-	-	-	6,998,346
Grade 9B	2,344,346	983,473	-	-	3,327,820
Grade 9C	1,833,173	-	-	-	1,833,173
Grade 10A	23	56	-	-	79
Grade (unrated)	4,558,392	1,991	1,256,391	19,959,145	25,775,919
Total neither past due nor impaired	**64,417,747**	**8,018,791**	**1,256,391**	**19,959,145**	**93,652,074**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Total*
Past due but not impaired					
- less than 30 days overdue	6,072,446	1,058,606	184,719	1,143,799	8,459,570
- 30 to 60 days overdue	4,582,183	641,563	75,134	284,791	5,583,671
- 60 to 90 days overdue	1,862,673	73,571	73,521	264,798	2,274,563
- 90 to 180 days overdue	129,715	128,188	54,217	292,206	604,326
- 90 to 360 days overdue	505,374	73,274	6,227	66,759	651,634
- over 360 days overdue	651,727	214,245	34,506	30,250	930,728
Total past due but not impaired	**13,804,118**	**2,189,447**	**428,324**	**2,082,603**	**18,504,492**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	-	1,121	22,379	23,500
- 30 to 60 days overdue	-	-	653	2,457	3,110
- 60 to 90 days overdue	-	-	581	525	1,106
- 90 to 180 days overdue	5,715,910	123,957	2,287	18,427	5,860,580
- 90 to 360 days overdue	1,420,724	92,021	110,630	679,595	2,302,969
- over 360 days overdue	5,039,207	1,523,828	244,806	841,501	7,649,343
Total individually impaired loans (gross)	**12,175,841**	**1,739,806**	**360,077**	**1,564,884**	**15,840,608**
Less impairment provisions	(8,795,547)	(1,356,849)	(295,046)	(1,449,321)	(11,896,763)
Total loans and advances to customers	**81,602,159**	**10,591,195**	**1,749,746**	**22,157,311**	**116,100,411**

Starting from December 2013, the Bank has implemented a new rating system for non-retail customers (Corporate & SME). Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the loan agreement. These loans are graded in intervals from 1A to 10C in the Bank's internal credit risk grading system (2012: Grade 5).

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Corporate	*Small Enterprises*	*Micro SMEs*	*Households*	*Total*
Neither past due nor impaired					
Grade 1	-	178,029	-	-	178,029
Grade 1.5	2,291,300	582,114	-	-	2,873,415
Grade 2	1,273,604	1,210,237	-	-	2,483,841
Grade 2.5	8,542,145	1,246,237	-	-	9,788,382
Grade 3	7,156,436	880,940	-	-	8,037,376
Grade 3.5	31,910,595	1,044,165	-	-	32,954,760
Grade 4	3,392,283	1,408,830	-	-	4,801,113
Grade 4.5	6,951,023	1,212,147	-	-	8,163,170
Grade 5	150,194	152,896	-	-	303,090
Grade (unrated)	5,039,243	44,859	1,932,201	19,730,812	26,747,115
Total neither past due nor impaired	**66,706,824**	**7,960,454**	**1,932,201**	**19,730,812**	**96,330,291**
Past due but not impaired					
- less than 30 days overdue	16,480,478	1,180,941	317,751	1,727,264	19,706,435
- 30 to 90 days overdue	2,418,883	818,892	125,086	531,125	3,893,986
- 90 to 180 days overdue	567,745	172,944	121,548	341,443	1,203,680
- 90 to 360 days overdue	-	314,391	11,398	-	325,790
- over 360 days overdue	304,050	128,010	46,995	-	479,054
Total past due but not impaired	**19,771,156**	**2,615,179**	**622,777**	**2,599,833**	**25,608,944**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	1,052,421	63,331	17,836	304,150	1,437,738
- 30 to 90 days overdue	1,360,017	1,489	9,950	132,719	1,504,174
- 90 to 180 days overdue	1,825,829	47,867	20,962	105,336	1,999,994
- 90 to 360 days overdue	946,141	300,239	135,812	448,037	1,830,228
- over 360 days overdue	2,379,597	1,118,077	468,962	2,369,184	6,335,820
Total individually impaired loans (gross)	**7,564,004**	**1,531,002**	**653,522**	**3,359,427**	**13,107,954**
Less impairment provisions	(6,109,300)	(1,270,965)	(652,084)	(3,215,660)	(11,248,009)
Total loans and advances to customers	**87,932,684**	**10,835,670**	**2,556,416**	**22,474,411**	**123,799,181**

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impaired loans and securities

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

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. As at 31 December 2013 restructured loans were LEK 17,230,452 thousand (2012:LEK 18,566,725 thousand).

Allowances for impairment

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

Write-off policy

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

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

	Loans and advances to customers	
	Gross	**Net**
31 December 2013		
Individually impaired	15,840,609	6,436,375
Total	**15,840,609**	**6,436,375**
31 December 2012		
Individually impaired	13,107,954	3,651,696
Total	**13,107,954**	**3,651,696**

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

(amounts in LEK'000, unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Against individually impaired	Against collectively impaired	Total
Property	4,740,155	29,928,331	34,668,485
Pledge	1,303,450	10,727,575	12,031,025
Cash	-	1,499,568	1,499,568
Guarantee	32,056	800,778	832,834
Total	**6,075,661**	**42,956,252**	**49,031,912**

The collateral pledged against individually impaired loans as at 31 December 2012 was LEK **3,714,710** thousand.
The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2013:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate	32,822,426	169,565,188	3,503,453	2,991,271
Small Enterprises	5,837,966	24,444,880	737,160	417,209
Micro SMEs	623,923	2,084,005	134,982	80,041
Households	9,103,916	26,638,658	1,407,761	988,427

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate	72,503,333	452,384,024	15,686,775	14,805,696
Small Enterprises	10,936,997	50,131,418	1,183,627	814,541
Micro SMEs	1,412,906	8,260,039	280,990	176,584
Households	9,407,340	36,000,758	1,666,182	1,084,144

(amounts in LEK'000, unless otherwise stated)

11. DEFERRED INCOME TAX ASSETS

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

	31 December 2013	31 December 2012
Balance at the beginning of the year	(2,461)	(126,939)
Deferred tax benefit relating to the origination and reversal of temporary differences (note 32)	73,153	124,478
Balance at the end of the year	**70,691**	**(2,461)**

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

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

	31 December 2013	31 December 2012
Deferred tax asset		
Accelerated accounting depreciation	70,691	81,412
Deferred tax liability		
Allowance for impairment losses	-	(83,873)
Net deferred tax assets/liabilities	**70,691**	**(2,461)**

12. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries includes investments carried at cost in Raiffeisen Leasing sh.a. and Raiffeisen Invest sh.a.

Raiffeisen Leasing sh.a.

Based on the decision of the Bank's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen - Leasing International Gesellschaft m.b.H, the Bank has incorporated a leasing company in the Republic of Albania in the form of a joint stock company, whose primary objective is to exercise financial leasing. As at 31 December 2013 the Bank holds 75% of the shares 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.

Raiffeisen Invest sh.a

The Bank has purchased 100% of the shares of Raiffeisen Invest sh.a., for an amount of LEK 109,648 thousand. The purchase has been approved by the Albanian Financial Supervisory Authority based on decision nr.30, dated 26 March 2009, registered on the Albanian National Register on 23 April 2009. The subsidiary's primary objective is to act as a management company to manage voluntary pension funds through collecting and investing funds based on the Law no. 10197, dated 10 December 2009 "On Voluntary Pension Funds", as well as in accordance with the principle of risk-spreading (diversification), for the purpose of providing retirement benefits for the persons that participate in the pension fund. The Company may provide also pensions delivery and to establish and/or manage the Collective Investment Undertakings based on the Law no. 10198, dated 10 December 2009 "On collective investment undertakings".

(amounts in LEK'000, unless otherwise stated)

13. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

14. INTANGIBLE ASSETS

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

	Software	Licences	Total
Cost			
At 1 January 2012	1,017,549	280,422	1,297,971
Additions	692,210	45,218	737,428
At 31 December 2012	**1,709,759**	**325,640**	**2,035,399**
At 1 January 2013	**1,709,759**	**325,640**	**2,035,399**
Additions	305,737	19,424	325,161
Disposals	(96,255)	(8,181)	(104,436)
Transfer	(2,534)	2,534	-
At 31 December 2013	**1,916,706**	**339,417**	**2,256,123**
Amortization			
At 1 January 2012	(480,945)	(220,787)	(701,732)
Amortization charge	(75,396)	(40,178)	(115,574)
At 31 December 2012	**(556,341)**	**(260,965)**	**(817,306)**
At 1 January 2013	(556,341)	(260,965	(817,306
Amortization charge	(101,365)	(8,945)	(110,310
Disposals	96,131	8,181	104,312
At 31 December 2013	**(561,575**	**(261,729**	**(823,304**
Net book value			
At 1 January 2013	**1,153,418**	**64,675**	**1,218,093**
At 31 December 2013	**1,355,131**	**77,689**	**1,432,820**

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

(amounts in LEK'000, unless otherwise stated)

15. PREMISES AND EQUIPMENT

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

	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost						
At 1 January 2012	1,223,542	2,143,772	306,446	155,817	608,168	4,437,745
Additions	423	235,969	35,326	311,932	40,350	624,000
Disposals	(316)	(155,976)	(1,710)	-	(52,152)	(210,154)
Transfers	142,540	75,499	6,917	(242,815)	17,860	-
At 31 December 2012	**1,366,189**	**2,299,264**	**346,979**	**224,934**	**614,226**	**4,851,592**
At 1 January 2013	1,366,189	2,299,264	346,979	224,934	614,226	4,851,592
Additions	36,495	155,595	22,368	112,608	28,660	355,727
Disposals	(11,827)	(316,921)	(12,427)	-	(26,610)	(367,784)
Transfers	96,025	185,797	2,239	(293,433)	9,372	-
At 31 December 2013	**1,486,883**	**2,323,736**	**359,159**	**44,109**	**625,648**	**4,839,534**
Accumulated depreciation						
At 1 January 2012	(424,209)	(1,650,085)	(164,825)	-	(400,711)	(2,639,830)
Depreciation charge	(91,343)	(218,706)	(49,860)	-	(83,723)	(443,632)
Disposals	316	155,230	1,710	-	49,542	206,798
At 31 December 2012	**(515,236)**	**(1,713,561)**	**(212,975)**	**-**	**(434,892)**	**(2,876,664)**
At 1 January 2013	(515,236)	(1,713,561)	(212,975)	-	(434,892)	(2,876,664)
Depreciation charge	(98,868)	(250,979)	(43,153)	-	(65,599)	(458,598)
Disposals	10,668	315,390	12,427	-	24,566	363,050
At 31 December 2013	**(603,436)**	**(1,649,149)**	**(243,701)**	**-**	**(475,925)**	**(2,972,212)**
Net Book Value						
At 31 December 2012	**850,953**	**585,703**	**134,004**	**224,934**	**179,334**	**1,974,928**
At 31 December 2013	**883,446**	**674,586**	**115,459**	**44,109**	**149,723**	**1,867,322**

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

(amounts in LEK'000, unless otherwise stated)

16. OTHER ASSETS

	31 December 2013	31 December 2012
Inventories	1,117,080	806,755
Prepaid expenses and accruals	86,246	86,452
Sundry debtors, net	31,147	22,251
Money gram	13,863	11,057
Total	**1,248,336**	**926,515**

As at 31 December 2013 the Bank's repossessed collateral is LEK 1,117,080 thousand (2012: LEK 806,755 thousands). Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Sundry debtors comprise the following:

	31 December 2013	31 December 2012
Sundry debtors	42,731	33,835
Provisions for losses from other debtors	(11,584)	(11,584)
Total Sundry debtors, net	**31,147**	**22,251**

Movements in the provisions for sundry debtors are as follows:

	2013	2012
Balance at the beginning of the year	**11,584**	**13,554**
Foreign exchange effect	-	(1,970)
Balance at the end of the year	**11,584**	**11,584**

17. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2013	31 December 2012
Current accounts		
Resident banks and financial institutions	256,840	138,380
Non-resident banks and financial institutions	13,990	421,744
Accrued interest	2,357	2,458
	273,187	**562,582**
Deposits		
Central Bank	210,000	-
Resident banks and financial institutions	3,332,134	260,941
Non-resident banks and financial institutions	232,252	-
Accrued interest	1,611	198
	3,775,998	**261,140**
Total	**4,049,185**	**823,722**

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

(amounts in LEK'000, unless otherwise stated)

18. DUE TO CUSTOMERS

	31 December 2013	31 December 2012
Current accounts	61,425,655	49,396,029
Deposits	181,592,691	231,275,045
Other accounts	3,367,013	3,725,662
Total	**246,385,359**	**284,396,736**

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2013 were as follows:

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

(amounts in LEK'000, unless otherwise stated)

18. DUE TO CUSTOMERS (CONTINUED)

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

			31 December 2013			31 December 2012
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
Current accounts	28,233,930	33,191,546	61,425,476	24,677,831	24,711,842	49,389,673
Accrued interest	15	164	180	8	6,347	6,356
	28,233,945	**33,191,710**	**61,425,656**	**24,677,839**	**24,718,189**	**49,396,029**
Deposits						
On demand	4,236,078	3,552,227	7,788,305	3,597,584	3,190,206	6,787,790
1 month - 3 months	9,323,643	6,689,160	16,012,803	9,446,450	11,015,498	20,461,948
3 months - 6 months	5,803,545	6,444,692	12,248,237	8,604,049	8,979,692	17,583,741
6 months - 12 months	10,634,258	9,551,129	20,185,387	14,195,087	14,881,820	29,076,907
12 months - 24 months	63,342,397	53,136,189	116,478,586	85,570,120	60,372,686	145,942,806
24 months - 36 months	2,389,522	1,237,146	3,626,668	3,365,933	1,485,379	4,851,312
36 months	496,445	256,636	753,081	608,475	257,137	865,612
60 months	520,779	1,700,801	2,221,580	852,829	571,041	1,423,870
Accrued interest on deposits	1,634,504	643,540	2,278,044	3,030,592	1,250,467	4,281,059
	98,381,171	**83,211,520**	**181,592,691**	**129,271,119**	**102,003,926**	**231,275,045**
Other accounts						
Guarantee deposits	1,322,291	1,345,946	2,668,237	1,091,399	1,871,210	2,962,609
Dormant customer accounts	122,304	9,526	131,830	122,308	9,792	132,100
Other	554,514	1,744	556,259	629,033	1,919	630,952
Accrued interest	7,352	3,336	10,687	11,080	2,797	13,877
	2,006,461	**1,360,552**	**3,367,013**	**1,842,740**	**1,882,922**	**3,725,662**
Total	**128,621,577**	**117,763,782**	**246,385,360**	**155,791,698**	**128,605,037**	**284,396,736**

(amounts in LEK'000, unless otherwise stated)

19. OTHER LIABILITIES

	31 December 2013	31 December 2012
Other creditors	258,278	529,500
Accrued expenses	327,744	324,635
Due to employees	242,842	276,083
Withholding Tax payable	86,389	123,122
Provision for Contingent Liabilities	116,688	77,137
Deferred income	40,421	34,246
Due to Social Insurance	29,756	29,454
Provision for litigations	18,470	23,190
Suspense accounts	2,028,915	15,046
VAT payable	4,594	-
Total	**3,154,097**	**1,432,413**

- Included in "Other creditors" is the amount of LEK 26,376 thousand (2012: LEK 342,431 thousand) of unpaid invoices to suppliers.

- Included in "Accrued expenses" is the amount of LEK 213,924 thousand (2012: LEK 200,671 thousand) of accrued deposit insurance premium payable for customers' deposits.

- Suspense accounts comprise clearing accounts for debit and credit cards, payments and other items.

- Provision for contingent liabilities represents impairment of irrevocable commitments and contingencies. The movements in the provisions for contingent liabilities are as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	77,137	80,530
Provisions expense for the period	43,387	12,810
Reversal of provisions for the year	(3,835)	(16,203)
Balance at the end of the year	**116,688**	**77,137**

- The Bank was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2013. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims.

The movements in the provisions for litigations are as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	**23,190**	31,778
Reversal of provisions for the year	(4,720)	(8,588)
Balance at the end of the year	**18,470**	**23,190**

20. SUBORDINATED DEBT

During 2013, Raiffeisen International AG granted to the Bank a subordinated debt of LEK 70,000 thousand (2012: none) . The debt carries an interest rate of Euribor plus a margin of 5,43% p.a. and matures on 11 July 2018. The debt ranks after all other creditors in case of liquidation.

(amounts in LEK'000, unless otherwise stated)

21. SHARE CAPITAL

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

22. OTHER RESERVES

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

23. INTEREST INCOME

Interest income by category is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Loans and advances to customers	10,041,286	11,180,126
Investment securities	5,613,907	7,118,233
Bank deposits	80,658	414,412
Reverse repurchase agreement bought	90	1,196
Total	**15,735,941**	**18,713,967**

24. INTEREST EXPENSE

Interest expense by category is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Customers	4,831,208	8,029,358
Repurchase agreement sold	2,264	42,724
Banks	190,205	22,545
Total	**5,023,677**	**8,094,627**

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Funds transfers	1,198,040	914,517
Lending activities	200,695	233,135
Other banking services	180,078	220,736
Total	**1,578,813**	**1,368,388**

(amounts in LEK'000, unless otherwise stated)

26. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2013	Year ended 31 December 2012
Payments transfer business	341,402	252,973
Loan and guarantee business	5,405	7,841
Other banking services	50,363	56,920
Total	**397,170**	**317,734**

27. NET TRADING INCOME

	Year ended 31 December 2013	Year ended 31 December 2012
Income from transactions with securities	2,293,983	2,038,736
Foreign exchange gains	590,098	543,251
Total	**2,884,081**	**2,581,987**

28. NET OTHER OPERATING EXPENSE

	Year ended 31 December 2013	Year ended 31 December 2012
Other revenues	237,528	41,469
Other expenses	(380,448)	(143,193)
Total	**(142,920)**	**(101,724)**

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

29. DEPOSIT INSURANCE PREMIUM

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

(amounts in LEK'000, unless otherwise stated)

30. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries	(2,035,611)	(2,137,947)
Social insurance	(253,743)	(249,065)
Personnel training	(42,734)	(34,062)
Other personnel costs	(20,149)	(34,525)
Total	**(2,352,237)**	**(2,455,599)**

31. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Year ended 31 December 2013	Year ended 31 December 2012
Office space expenses	(619,109)	(595,876)
IT cost	(520,540)	(429,521)
Advertising, PR and promotional expenses	(286,362)	(300,625)
Legal, advisory and consulting expenses	(234,907)	(261,407)
Sundry administrative expenses	(126,388)	(109,833)
Car expenses	(63,114)	(63,266)
Office supplies	(55,802)	(62,806)
Communication expenses	(48,501)	(49,369)
Travelling expenses	(26,508)	(33,341)
Security expenses	(19,598)	(20,661)
Total	**(2,000,829)**	**(1,926,705)**

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

(amounts in LEK'000, unless otherwise stated)

32. INCOME TAX

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

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax	494,042	582,558
Deferred tax	(73,153)	(124,478)
Income tax expense for the year	**420,890**	**458,080**

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

	Year ended 31 December			
	Effective tax rate	2013	Effective tax rate	2012
Profit before taxes		4,881,078		5,648,660
Prima facie tax calculated at 10%		488,108		564,866
Non tax deductible expenses at		42,114		34,134
Tax savings by tax-exempted income		(25,458)		(21,290)
Tax expense/income for former periods		(83,873)		(119,630)
Income tax expense	9%	**420,890**	8%	**458,080**

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

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

33. FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

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

(b) Credit risk

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

For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

33. 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 separate Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight of the Bank's credit risk, including:

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

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

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

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, the Board of Directors and Bank's Credit Committee. The Bank does use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.
The Bank's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8,9,10.

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

(c) Market risks

The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

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

Overall authority for market risk is vested in ALCO. Bank Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Exposure to foreign exchange risk

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

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

	At 31 December 2013			At 31 December 2012		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Albanian LEK	152,974,998	131,358,274	21,616,724	179,911,423	155,824,457	24,086,966
US Dollars	109,681,461	104,589,014	5,092,447	109,699,646	108,262,901	1,436,745
Euros	17,316,595	16,134,310	1,182,285	18,081,488	16,306,723	1,774,765
Other	5,573,942	5,507,264	66,678	5,119,728	4,826,377	293,351
Total	**285,546,996**	**257,588,862**	**27,958,134**	**312,812,285**	**285,220,458**	**27,591,827**

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

	At 31 December 2013	At 31 December 2012
In thousands of LEK	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 10% (2012: strengthening by 10%)	5,601,692	1,580,420
US Dollar weakening by 10% (2012: weakening by 10%)	(4,583,202)	(1,293,071)
Euro strengthening by 10% (2012: strengthening by 10%)	1,300,514	1,952,242
Euro weakening by 10% (2012: weakening by 10%)	(1,064,057)	(1,597,289)
Other strengthening by 10% (2012: strengthening by 10%)	73,346	322,686
Other weakening by 10% (2012: weakening by 10 %)	(60,010)	(264,016)

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Exposure to interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

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

If interest rates had been 100 basis points lower (2012: [100] basis points lower, with all other variables held constant, profit would have been LEK 4,286 thousand (2012: LEK 2,292 thousand) lower.

If interest rates had been 100 basis points higher (2012: [100] basis points higher), with all other variables held constant, profit would have been LEK 5,521 thousand (2012: LEK 2,324 thousand) higher.

2013	**up to 1 Year scenarios**	
	100 bp Increase	100 bp decrease
Estimated Profit (loss) effect	5,521	(4,286)
2012	**up to 1 Year scenarios**	
	100 bp Increase	100 bp decrease
Estimated (Loss) profit effect	2,324	(2,292)

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

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risks (continued)

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

							31 December 2013
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	35,355,398	-	-	-	-	-	35,355,398
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	377	2,353,263	10,537,745	29,507,337	-	43,704,399
Held-to-maturity investment securities	4,031,145	2,206,147	9,201,401	23,796,971	26,624,099	-	65,859,763
Loans and advances to customers	15,218,282	22,132,211	18,352,689	60,988,276	1,194,935	(1,785,981)	116,100,412
Other assets	13,863	-	-	-	-	-	13,863
Total	**80,451,388**	**24,338,735**	**29,907,353**	**95,322,993**	**57,326,371**	**(1,785,981)**	**285,560,858**
Liabilities							
Due to banks and financial institutions	4,049,185	-	-	-	-	-	4,049,185
Due to customers	102,664,948	29,747,595	29,039,963	80,992,121	3,940,733	-	246,385,359
Other liabilities	3,154,097	-	-	-	-	-	3,154,097
Subordinated capital	-	-	-	-	7,154,318	-	7,154,318
Total	**109,868,230**	**29,747,595**	**29,039,963**	**80,992,121**	**11,095,051**	**-**	**260,742,960**
Gap at 31 December 2013	**(29,416,841)**	**(5,408,860)**	**867,390**	**14,330,872**	**46,231,320**	**(1,785,981)**	**24,817,899**

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

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

Residual contractual maturities of financial assets and liabilities

							31 December 2013
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	35,355,398	-	-	-	-	-	35,355,398
Restricted balances	24,527,024	-	-	-	-	-	24,527,024
Investments held for trading	1,305,677	377	2,353,263	10,537,745	29,507,337	-	43,704,399
Held-to-maturity investment securities	4,031,145	2,206,147	9,201,401	23,796,971	26,624,099	-	65,859,763
Loans and advances to customers	16,253,716	10,121,003	16,039,807	35,285,859	50,296,790	(11,896,763)	116,100,412
Income tax prepaid	197,371	-	-	-	-	-	197,371
Other assets	13,863	-	-	-	-	-	13,863
Total	**81,684,193**	**12,327,526**	**27,594,471**	**69,620,575**	**106,428,226**	**(11,896,763)**	**285,758,229**
Liabilities							
Due to banks and financial institutions	4,049,185	-	-	-	-	-	4,049,185
Due to customers	102,664,948	29,747,595	29,039,963	80,992,121	3,940,733	-	246,385,359
Other liabilities	3,154,097	-	-	-	-	-	3,154,097
Subordinated capital	-	-	-	-	7,154,318	-	7,154,318
Total	**109,868,230**	**29,747,595**	**29,039,963**	**80,992,121**	**11,095,051**	**-**	**260,742,959**
Liquidity risk at 31 December 2013	**(28,184,037)**	**(17,420,068)**	**(1,445,491)**	**(11,371,546)**	**95,333,175**	**(11,896,763)**	**25,015,270**
Cumulative	**(28,184,037)**	**(45,604,105)**	**(47,049,596)**	**(58,421,142)**	**36,912,033**	**25,015,270**	

(amounts in LEK'000, unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk

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

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

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

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

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

34. CAPITAL MANAGEMENT

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

Regulatory capital

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

Capital Adequacy Ratio

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

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

(amounts in LEK'000, unless otherwise stated)

34. CAPITAL MANAGEMENT (CONTINUED)

Risk-Weighted Assets (RWAs)

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

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

	31 December 2013	31 December 2012
Total risk weighted assets	132,286,131	138,836,194
Total risk weighted off balance exposures	2,619,932	2,298,384
Total	**134,906,063**	**141,134,578**
Regulatory capital	30,408,383	23,011,552
Capital adequacy ratio	22.54%	16.30%

The modified capital adequacy ratio is 15.66% in 31 December 2013 (31 December 2012: 16.30%).
The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

35. CONTINGENCIES AND COMMITMENTS

			31 December 2013	31 December 2012
	LEK	**Foreign currency**	**Total**	**Total**
Contingent liabilities				
Bank Guarantees issued	586,576	6,225,899	6,812,475	7,443,731
Letters of Credit	45,084	4,483,308	4,528,392	4,394,759
Unused credit lines	3,701,366	2,060,521	5,761,887	6,998,171
Total	**4,333,026**	**12,769,728**	**17,102,754**	**18,836,661**

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

Operating lease commitments

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

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

(amounts in LEK'000, unless otherwise stated)

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	2013				2012
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**	
Loans to banks	-	-	57,425,624	**57,425,624**	**63,839,625**
Loans to customers	-	-	127,997,174	**127,997,174**	**123,799,181**
Trading Assets	-	43,704,399	-	**43,704,399**	**41,203,461**
Financial Investments	-	66,258,862	-	**66,258,862**	**81,375,669**
Due to banks and financial institutions	-	-	4,049,185	**4,049,185**	**823,722**
Due to customers	-	-	246,408,604	**246,408,604**	**288,489,150**

Cash and cash equivalents

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

Investment securities

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

Loans and advances to customers

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

Loans to banks /Due to banks and financial institutions

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

Due to customers

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand.

(amounts in LEK'000, unless otherwise stated)

37. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

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

	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	35,355,398	-	-	-	35,355,398
Restricted balances	24,527,024	-	-	-	24,527,024
Investments held for trading	-	-	43,704,399	-	43,704,399
Held-to-maturity investment securities	-	-	-	65,859,763	65,859,763
Loans and advances to customers	116,100,412	-	-	-	116,100,412
Total financial assets	**175,982,834**	**-**	**43,704,399**	**65,859,763**	**285,546,996**

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

	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	38,153,031	-	-	-	38,153,031
Restricted balances	28,243,158	-	-	-	28,243,158
Investments held for trading	-	-	41,203,461	-	41,203,461
Held-to-maturity investment securities	-	-	-	81,375,669	81,375,669
Loans and advances to customers	123,799,181	-	-	-	123,799,181
Investment securities available for sale		37,785	-	-	37,785
Total financial assets	**190,195,370**	**37,785**	**41,203,461**	**81,375,669**	**312,812,285**

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

38. RELATED PARTIES

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

(amounts in LEK'000, unless otherwise stated)

38. RELATED PARTIES (CONTINUED)

	31 December 2013	31 December 2012
Amounts due from		
Affiliated companies	21,081,424	22,048,778
Key management personnel	37,576	108,438
Assets total	**21,119,000**	**22,157,216**
Amounts due to		
Affiliated companies	7,406,591	401,644
Key management personnel	79,258	50,989
Liabilities total	**7,485,849**	**452,633**

	Year ended 31 December 2013	Year ended 31 December 2012
Net Interest income		
Affiliated companies	(33,120)	184,195
Net Fee and Commission expense		
Affiliated companies	(181,282)	(136,955)
Administrative expenses		
Affiliated companies	(436,844)	(369,215)
Wages, salaries and bonuses		
Key management personnel	(282,682)	(206,294)
Total	**(933,928)**	**(528,269)**

The aggregate value of the contingent liabilities of the Bank to the affiliated companies as at 31 December 2013 was LEK 3,844,093 thousand (31 December 2012: LEK 5,011,624 thousand) and represents Bank Guarantees, Letters of Credit and Commitments issued.

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

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

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