INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements as at

31 December 2012

(with independent auditor’s report thereon)

Contents

KPMG Albania Sh.p.k
"Dëshmorët e Kombit" Blvd
Twin Towers Buildings
Building 1, 13th floor
Tirana, Albania

Telephone +355(4)2274 524
+355(4)2274 534
Telefax +355(4)2235 534
E-mail al-office@kpmg.com
Internet www.kpmg.al

Independent Auditors' Report

To the shareholders of
Intesa Sanpaolo Albania Sh.a.

Tirana, 6 March 2013

We have audited the accompanying financial statements of Intesa Sanpaolo Albania Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2012, the statements of 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.

Auditors' 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 our 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, we consider 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 give a true and fair view of the financial position of the Bank as at 31 December 2012, and of 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 as at and for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 16 March 2012.

KPMG Albania Shpk

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"Deshmoret e Kombit" Blvd.
Twin Towers Buildings
Building 1, 13th floor
Tirana, Albania

Intesa Sanpaolo Bank Albania Sh.a.

Statement of financial position
As at 31 December 2012
(in '000 Lek)

	Notes	2012	2011
Assets			
Cash and cash equivalents	7	16,257,130	8,892,780
Loans and advances to banks	8	13,330,531	16,530,111
Financial investments Available-for-sale	9	2,154,311	1,865,935
Financial investments Held-to-maturity	10	51,361,295	51,572,399
Loans and advances to customers	11	44,108,545	47,432,286
Property and equipment	12	1,416,355	1,530,969
Intangible assets	13	244,185	262,720
Deferred tax assets	18	198,573	42,079
Current tax assets		192,731	157,221
Other assets	14	668,429	746,950
Total Assets		**129,932,085**	**129,033,450**
Liabilities			
Due to banks	15	3,672,121	5,370,471
Due to customers	16	107,422,452	107,197,718
Current accounts		29,374,239	27,990,307
Time deposits		78,048,213	79,207,411
Subordinated debt	17	535,851	534,334
Current tax liabilities		58,242	58,242
Provisions	19	384,916	318,601
Other liabilities	20	951,343	995,005
Total Liabilities		**113,024,925**	**114,474,371**
Equity			
Share capital	21	5,562,518	5,562,518
Share premium	21	1,383,880	1,383,880
Legal and regulatory reserves	22	1,655,632	3,348,267
Available-for-sale reserve		(40,624)	(1,829,121)
Foreign currency translation reserve		3,930	234,251
Other comprehensive items	23	714,555	714,555
Retained earnings		7,627,269	5,144,729
Total Equity		**16,907,160**	**14,559,079**
Total Liabilities and Equity		**129,932,085**	**129,033,450**

The notes on pages 7 to 55 are an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.

Statement of comprehensive income
For the year ended 31 December 2012
(in '000 Lek)

	Notes	2012	2011
Interest income		8,396,007	8,168,581
Interest expense		(3,230,632)	(3,211,788)
Net interest income	24	**5,165,375**	**4,956,793**
Fee and commission income		708,061	764,348
Fee and commission expense		(166,656)	(178,331)
Net fee and commission income	25	**541,405**	**586,017**
Net trading income	26	560,307	346,295
Other operating expenses, net	27	(247,816)	(216,248)
Operating income		**6,019,271**	**5,672,857**
Net impairment loss on financial assets	11,23	(2,964,623)	(981,800)
Net impairment loss on off balance sheet	19	7,184	(20,117)
Personnel expenses	28	(922,668)	(931,551)
Operating lease expenses	32	(165,940)	(159,739)
Depreciation and amortization	12,13	(311,649)	(335,953)
Amortization of leasehold improvements	14	(22,277)	(32,219)
Other administration expenses	29	(647,367)	(576,047)
Provisions for risk and expenses	19	(87,775)	(90,327)
Total expenses		**(5,115,115)**	**(3,127,753)**
Net income before taxes		**904,156**	**2,545,104**
Income tax expense	30	(106,319)	(77,838)
Profit for the period		**797,837**	**2,467,266**
Other comprehensive income			
Change in fair value of Available-for-sale investment securities	23	280,978	(698,219)
Amount transferred to profit and loss of Available-for-sale investment securities	23	1,507,519	-
Foreign currency translation difference	23	(230,321)	82,010
Income tax effect		-	-
Other comprehensive income/(loss) for the period, net of tax		**1,558,176**	**(616,209)**
Total comprehensive income for the period, net of tax		**2,356,013**	**1,851,057**

The notes on pages 7 to 55 are an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.

Statement of changes in equity

For the year ended 31 December 2012

(in '000 Lek)

	Share capital	Share premium	Legal and Regulatory Reserves	Available-for-sale reserve	Foreign Currency Translation reserve	Comprehensive item (Note 23)	Retained earnings	Total
Balance as at 1 January 2011	**5,562,518**	**1,383,880**	**1,752,404**	**(1,130,902)**	**152,241**	**714,555**	**4,277,810**	**12,712,506**
Profit for the year	-	-	-	-	-	-	2,467,266	**2,467,266**
Other comprehensive income, net of tax								
Net change in fair value of AFS investment securities	-	-	-	(698,219)	82,010	-	-	**(616,209)**
Total other comprehensive income/(loss)	**-**	**-**	**-**	**(698,219)**	**82,010**	**-**	**-**	**(616,209)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(698,219)**	**82,010**	**-**	**2,467,266**	**1,851,057**
Transaction with owners, recorded directly in equity								
Appropriation of retained earnings	-	-	1,595,863	-	-	-	(1,595,863)	**-**
Foreign currency translation difference	-	-	-	-	-	-	(4,484)	**(4,484)**
Total contributions by and distribution to owners	**-**	**-**	**1,595,863**	**-**	**-**	**-**	**(1,600,347)**	**(4,484)**
Balance as at 31 December 2011	**5,562,518**	**1,383,880**	**3,348,267**	**(1,829,121)**	**234,251**	**714,555**	**5,144,729**	**14,559,079**

Intesa Sanpaolo Bank Albania Sh.a.

Statement of changes in equity
For the year ended 31 December 2012
(in '000 Lek)

	Share capital	Share premium	Legal and Regulatory Reserves	Available-for-sale reserve	Foreign Currency Translation reserve	Comprehen sive item (Note 23)	Retained earnings	Total
Balance as at 1 January 2012	**5,562,518**	**1,383,880**	**3,348,267**	**(1,829,121)**	**234,251**	**714,555**	**5,144,729**	**14,559,079**
Profit for the year	-	-	-	-	-	-	797,837	**797,837**
Other comprehensive income								
Net change in fair value of AFS investment securities	-	-	-	280,978	-	-	-	**280,978**
Net amount reclassified to profit and loss change in fair value of AFS investment securities	**-**	**-**	**-**	1,507,519	(230,321)	**-**	**-**	**1,277,198**
Total other comprehensive income		**-**	**-**	**1,788,497**	**3,930**	**-**	**-**	**1,558,176**
Total comprehensive income for the year	**-**	**-**	**-**	**1,788,497**	**3,930**	**-**	**797,837**	**2,356,013**
Transaction with owners, recorded directly in equity								
Appropriation of retained earnings	-	-	(1,692,635)	-	-	-	1,692,635	**-**
Foreign currency translation difference	-	-	-	-	-	-	(7,932)	**(7,932)**
Total contributions by and distribution to owners	**-**	**-**	**(1,692,635)**	**-**	**-**	**-**	**1,684,703**	**(7,932)**
Balance as at 31 December 2012	**5,562,518**	**1,383,880**	**1,655,632**	**(40,624)**	**3,930**	**714,555**	**7,627,269**	**16,907,160**

The notes on pages 7 to 55 are an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.

Statement of cash flows

For the year ended 31 December 2012

(in '000 Lek)

	2012	2011
Cash flows from operating activities		
Profit for the period	**797,837**	**2,467,266**
Adjustments to reconcile change in net assets to net cash provided by operating activities:	-	
Depreciation of property and equipment	196,291	216,305
Amortization of intangible assets	115,358	119,648
Depreciation of leasehold improvements	22,277	32,219
Disposals of property and equipment	1,097	5,030
Disposals of intangible assets	-	14,852
Amortization of investments HTM-treasury bills	285,494	(79,672)
Amortization of investments HTM-other than treasury bills	(68,145)	78,284
Amortization of AFS investment securities	2,092	6,273
Impairment on financial securities	1,507,519	-
Impairment on loans and advances to customer	1,457,104	981,800
Impairment on off balance sheet	(7,184)	20,177
Change in interest receivable	(254,561)	(134,406)
Change in interest payable	13,534	(54,420)
Foreign exchange difference	(238,252)	77,791
Changes in operating assets and liabilities		
Changes in loans and advances to banks	3,169,687	(5,981,007)
Change in loans and advances to customers	2,158,274	(2,596,612)
Change in other assets	56,244	(415,110)
Change in deferred tax assets	(156,494)	(1,507)
Change in due to banks	(1,698,095)	3,720,646
Change in due to customers	209,955	2,648,051
Change in other liabilities and provisions	22,652	364,070
Change in deferred tax liabilities	-	(182,584)
Change in current taxes	(35,511)	165,989
Net cash provided by/(used in) operating activities	**6,759,336**	**(994,183)**
Cash flows from investing activities		
Purchase of property and equipment	(94,050)	(111,652)
Proceeds from sale of property and equipment	11,276	16,154
Purchase of intangible assets	(96,823)	(105,049)
Purchase of financial investments	(15,734)	(1,832,089)
Net cash used in investing activities	**(195,331)**	**(2,032,636)**

Intesa Sanpaolo Bank Albania Sh.a.

Statement of cash flows (continued)

For the year ended 31 December 2012

(in '000 Lek)

	2012	2011
Cash flows from financing activities		
Increase of subordinated debt	2,508	608
Net Cash from financing activities	**2,508**	**608**
Net increase/(decrease) in cash during the year	**7,364,350**	**(558,945)**
Cash and cash equivalents at beginning of the year	8,892,780	9,451,725
Cash and cash equivalents at end of period	**16,257,130**	**8,892,780**
Operational cash flows from interest:		
Interest paid	3,216,589	3,264,143
Interest received	8,360,885	8,039,060

During the year 2012 the Bank paid for current year, a total amount of Lek 262,813 thousand as Corporate Income Tax (2011: Lek 261,928 thousand).

The notes on pages 7 to 55 are an integral part of these financial statements.

These financial statements have been approved by Board of Directors of the Bank on 6 March 2013.

After their issuance, any amendment is in the power of Bank's shareholders. On behalf of the Bank, these financial statements are signed by:

Alexander Resch
Chief Executive Officer

Adela Xhemali
Chief Financial Officer

1. Reporting entity

Intesa Sanpaolo Bank Albania, (hereinafter called the "Bank"), incorporated on May 1998, was authorised to undertake banking activity in Albania according to the law no. 8365, "For the banking system in Albania", dated 2 July 1998 and substituted by law no. 9662 "On the Banks in Albania" dated 18 December 2006 enforced in June 2007. The Bank started operations on 24 September 1998.

The Bank with its principal location in Tirana and registered office at "Ismail Qemali" street, no.27, operates through a network of 31 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Gjirokastra, Korca, Lushnja, etc, (2011: 31 branches and agencies).

The Bank had 544 employees as at 31 December 2012 (2011: 547).

Upon the final approval from the Bank of Albania, effective 13 October 2008, the Bank's previous name was changed from American Bank of Albania to Intesa Sanpaolo Bank Albania.

The financial results of the Bank for the year ended 31 December 2011 comprise also its branch activities in Greece which operated as a separate fiscal entity. The operations of the Greek branch were closed as at 16 July 2011.

2. Basis of Preparation

(a) Statement of compliance

In compliance with the local accounting legislation, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for Available-for-sale financial instruments, which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Lek, which is the Bank's functional and presentational currency. Except as is indicated, financial information presented in Lek has been rounded to the nearest thousand.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas at estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 5.

3. Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from retranslation of transaction with owners are recorded directly in equity.

(b) Interests

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

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

(c) 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, investment management fees, sales commission and placement fees are recognised as the related services are performed.

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

(d) Net trading income

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

(e) Dividend income

Dividend income is recognised when the right to receive income is to be established. Usually, this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income on other financial instruments at fair value or other operating income based on the underlying classification of the equity instrument.

3. Significant accounting policies (continued)

(f) Leases and Leasehold improvements – the Bank as a lessee

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank has only operating lease agreements, payments of which are recognised in profit or loss on a straight-line basis over the term of the lease. Restructuring costs made in the premises used under these agreements are accounted for as other assets and amortised over the term of the lease on a straight-line basis.

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

(g) Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

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

(iii) Tax exposure

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits and borrowings on the date that they are originated. Regular purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. 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. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial Assets

The Bank classifies its financial assets in one of the following categories:
- loans and receivables;
- held to maturity; or
- available-for-sale.

See notes 3 (i), (j) and (k).

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

See notes 3 (o), (p) and (q).

(iii) De-recognition

Financial Assets

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the 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 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.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately either as assets or liabilities, as appropriate. In transfers in which 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.

The Bank writes off certain loans when they are determined to be uncollectible. The recovery of a written off item is recorded under the other operating income/expenses in profit or loss (see note 27).

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

Financial liabilities

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

(iv) Off-setting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realize 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 Bank similar transactions such as in the trading activity.

(v) Amortised cost measurement

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

(vi) 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 simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(vii) 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. A financial assets or a group of financial assets is individually impaired when objective evidence or judgmental criteria demonstrate that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or deliquency by a borrower in interest of principal payments, restructuring of a loan or advance by the Bank because of financial difficulties experienced by the client and on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the dissappearance of an active market for a security, or other nationally or locally observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group, or a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

The Bank considers evidence of impairment for loans and advances and Available-for-sale investment securities at both specific asset and collective level. All individually significant loans and advances and Available-for-sale investment securities are assessed for individual impairment. Those found not to be individually impaired are then collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

With regard to provisions management, the Bank can decide on the classification of the exposure based on subjective evidence, independently of the criteria defined above, applying other not commonly met criteria which could appear in some individual cases.

Thus, past due loans and advances more than 90 days and exceeding the materiality criteria, are subject to individual assessment. The impairment is measured as a difference between carrying value of the loan, and present value of estimated future cash flows, which consider the cash flows originated by collateral recoveries and/or guarantees securing the exposure.

All loans for which "no objective evidence of impairment is identified", are subject to collective assessment. In assessing collective impairment the Bank uses group exposures, which are assessed by pools on the basis of similar credit risk characteristic features in consistency with their type, target and risk profile. Identification of pools and default percentages is performed separately for Retail and Corporate loans and is based on an analysis of all disbursed exposures since 1 January 2010 which has been classified as "Lost" as per banking supervision regulation or written off. The Bank considers default and concentration percentages in assigning its three most significant industry default rates, used to define main pools. All remaining pools are combined into a remaining pool. Bank policy is to review and revise pools and default rates every year.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Expected cash flows of loans and advances are represented by the discounted value of collateral. Collateral is discounted with specific ratios and recovery timing depending on the collateral type. Carrying amount is the sum of regular principal, past due principal, regular interest, past due interest, penalties and court fees after deducting unamortised adjustment.

When possible the Bank seeks to restructure/renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then the asset is assessed for individual impairment. All the customers with any restructured credit facility are subject to individual impairment testing and remain so for a period of at least 2 years from the restructuring, independently from the payments performed pursuant to the new terms of repayments. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or Available-for-sale investment securities, if any. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on Available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

3. Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired Available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired Available-for-sale equity security is recognised in other comprehensive income.

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances with banks, 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 statement of financial position.

(j) Loans and advances

Loans and advances to banks and to customers 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. Loans and advances are initially measured at fair value and subsequently measured at amortised cost plus incremental direct transaction costs, using the effective interest method. After initial measurement, they are subsequently measured at amortised costs using effective interest rate, less allowance for impairment. The amortization is included in the interest income in profit or loss. The losses arising from impairment are recognised in the profit or loss in net impairment loss on financial assets. There are no impairments recognised for loans and advances to banks as detailed in the credit risk disclosures under note 4.

3. Significant accounting policies (continued)

(k) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, 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 non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, 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 less any impairment losses. Any sale or reclassification of more than insignificant amount of Held-to-maturity investments 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 following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as Available-for-sale investments or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. Unquoted debt 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. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on Available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss. Other fair value changes are recognised in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit and loss.

(l) Property and equipment

(i) Recognition and measurement. Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised with other income in profit or loss.

(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.

(iii) Depreciation is recognised in profit or loss using straight-line method over the estimated useful life of each part of an item of property and equipment. Land and Fine Arts are not depreciated. Changes in the expected useful life are accounted for by charging the amortization period or method as appropriate and treated as changes in accounting estimate. The estimated useful live for the current and comparative periods are as follows:

• Buildings	20 years
• IT and Electrical Equipment	4 to 8 years
• Furniture	3 to 10 years
• Other non electrical assets	5 years

3. Significant accounting policies (continued)

(m) Intangible assets

Software, licenses and trademarks compose intangible assets and are stated at cost less accumulated amortization. Subsequent expenditure on intangible assets is 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. Amortization is charged on a straight-line basis in profit or loss over the estimated useful lives, from the date that is available for use. The estimated useful live for the current and comparative periods are as follows:

• Software	4 years
• Licenses and trademarks	10 years

(n) 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 exceeds its recoverable amount.

The recoverable amount of an asset 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 are recognised in profit or loss. 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.

(o) Deposit and subordinated liabilties

Deposits and subordinated liabilities are the Bank's sources of debt funding. When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

(p) Repurchase agreements and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralised financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised in the statement of financial position or derecognised from the statement of financial position, unless control of the contractual rights that comprise these securities is relinquished. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised as interest income or interest expense, over the life of each agreement.

Cash collateral on reverse repurchases / repurchases agreements

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Detailed information has been disclosed in notes 10 and 15.

3. Significant accounting policies (continued)

(q) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(r) 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.

(s) Employee benefits

(i) Defined contribution plans

The Bank makes only 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. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred.

(ii) 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.

(t) New standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2015 financial statements and could change the classification and measurement of financial assets. The IASB currently has an active project to make limited amendment to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting. The Bank does not plan to adopt this standard early and the extent of the impact has not yet been determined.

4. Financial Risk Management

The Bank is exposed to the following risks from financial instruments:

(a) credit risk
(b) liquidity risk
(c) market risk
(d) operational risk

4. Financial Risk Management (continued)

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

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Governance Committees (Executive Committee, Executive Directors Committee, Credit Risk Committee, Financial Risk Committee, Operational Risk Committee, Local Credit Committee, Asset Quality Committee and Other Committees) that have the authority for decision making on their specified areas.
Risk Management Division is responsible for developing and monitoring the Bank's risk management policies in these areas. All Bank's 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 analyze 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.

(a) Credit Risk

In the normal course of its business, the Bank is exposed to credit risk on its loans and advances to customers and financial institutions, investment securities and other off-balance sheet items. Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and on funds with other financial institutions and other off-balance sheet items. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

Management of credit risk
The Board of Directors of the Bank has delegated responsibility of decision-making to the CEO. The latter has delegated and distributed the authority of decision making to the Local Credit Committee. The Risk Management Division, reporting to the CEO, is responsible for the oversight and management 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.
- *Reviewing and assessing credit risk.* Bank's Credit Risk Department assesses all credit exposures, prior to commitment with customers by the Bank. 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 classifications* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment may be required against specific credit exposures.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)
(a) Credit Risk (countinued)

According to Bank's methodology all exposures are classified on Performing and Non Performing exposures (including Past Due, Restructured, Substandard and Doubtful).

The Bank does the classification in Non Performing portfolio by analyzing the exposures based on a set of rules harmonised with the Group guidelines. These rules include objective evidence being: breach of contract, such as default or delinquency in interest or principal payments; significant financial difficulty of the borrower; and other significant financial information available for the customer.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types. Detailed analyses are provided monthly to the Asset Quality Committee on the credit quality of customers' loan portfolio and specific actions are proposed. □ *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

Maximum Exposure to Credit Risk without taking account of any collateral and other credit enhancements (gross of any impairment)

The following table shows the current maximum exposure to credit risk for the applicable components of statement of financial position:

	Gross Maximum Exposure	
	31 December 2012	**31 December 2011**
Cash Balances with Central Bank (excluding cash on hand)	15,022,002	7,704,636
Due from banks	13,330,531	16,530,111
Loans and advances to customers	49,260,743	51,552,478
Financial assets- Available-for-sale	2,154,311	1,865,935
Financial assets- Held-to-maturity	51,361,295	51,572,399
Total	**131,128,882**	**129,225,559**
Un-drawn credit commitments	3,980,320	3,742,979
Letters of credit	1,382,914	3,527,847
Guarantees in favor of customers	4,071,983	3,752,284
Other	717,820	-
Total credit related commitments	**10,153,037**	**11,023,110**
Total Credit Risk Exposure	**141,281,919**	**140,248,669**

The maximum credit exposure of any single client, or group of clients, as at 31 December 2012 is Lek 3,657,357 thousand (2011: Lek 3,277,538 thousand) before taking account of collaterals or other credit enhancements.

Where the financial assets are recorded at fair value, the amounts shown represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of the customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar credit risks, which are mitigated by the same control processes and policies. Every month the Bank assesses the financial commitments for impairment. Subject to individual impairment assessment are commitments granted to non-performing customers or customers with any of credit facilities restructured.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Credit Quality by class of financial assets

The tables below show the credit quality of the financial assets exposed to credit risk, based on the Bank's internal ratings. In the past due loans below include exposures more than 90 days past due and collectively impaired (2011: 60 days). The collective impairment is allocated as per default rate of the group with similiar credit risk characteristics where customers belong.

The financial assets in the tables below are gross of impairment allowances for both financial years ended as at 31 December 2012 and 31 December 2011:

31 December 2012	Neither past due nor individually impaired	Past due, not individually impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	15,022,002	-	-	15, 022,002
Due from Banks	13,330,531	-	-	13,330,531
Loans and advances to customers:		-	-	
Commercial lending	25,108,442	7,908,537	6,430,556	39,447,535
Mortgage lending	4,829,648	1,408,584	599,987	6,838,219
Consumer lending	1,284,761	1,251,930	517,258	3,053,949
Deferred disbursement fee	(73,600)	(1,602)	(3,758)	(78,960)
Financial Assets-Available-for-sale		-	-	
Listed companies	2,036,973	-	-	2,036,973
Unlisted companies	117,339	-	-	117,339
Financial Assets-Held-to-maturity				
Listed companies	7,223,941	-	-	7,223,941
Unlisted companies	44,137,354	-	-	44,137,354
Total	**113,017,391**	**10,567,448**	**7,544,043**	**131,128,882**

31 December 2011	Neither past due nor individually impaired	Past due, not individually impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	7,704,636	-	-	7,704,636
Due from Banks	16,530,111	-	-	16,530,111
Loans and advances to customers:				
Commercial lending	29,564,995	3,927,958	9,562,181	43,055,134
Mortgage lending	4,988,898	616,233	1,289,579	6,894,710
Consumer lending	1,249,929	58,671	399,255	1,707,855
Deferred disbursement fee	(97,855)	(6,796)	(570)	(105,221)
Financial Assets-Available-for-sale				
Listed companies	1,287,521	-	-	1,287,521
Unlisted companies	578,414	-	-	578,414
Financial Assets-Held-to-maturity				
Listed companies	7,619,640	-	-	7,619,640
Unlisted companies	43,952,759	-	-	43,952,759
Total	**113,379,048**	**4,596,066**	**11,250,445**	**129,225,559**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Loans and advances to customers are the only class of financial assets resulting with a category of past due but not individually impaired group. The rest of financial assets have no past due category. Past due respective aging analysis as at 31 December 2012 and 2011 are shown in the tables below:

31 December 2012	**91 to 180 days**	**more than 180 days**	**Total**
Loans and advances to customers:			
Commercial lending	1,049,227	6,859,310	7,908,537
Mortgage lending	342,650	1,065,934	1,408,584
Consumer lending	925,310	326,620	1,251,930
Deferred disbursement fee	(848)	(754)	(1,602)
Total	**2,316,339**	**8,251,110**	**10,567,449**

31 December 2011	**91 to 180 days**	**more than 180 days**	**Total**
Loans and advances to customers:			
Commercial lending	746,830	2,916,686	3,663,516
Mortgage lending	319,465	184,404	503,869
Consumer lending	9,882	44,047	53,929
Deferred disbursement fee	(5,441)	-	(5,441)
Total	**1,070,736**	**3,145,137**	**4,215,873**

Carrying amount by class of financial assets whose terms have been renegotiated

The table below shows the carrying amount of restructured loans and advances to customers by product:

	31 December 2012	**31 December 2011**
Commercial lending	768,521	807,977
Mortgage lending	17,694	128,367
Consumer lending	3,648	7,657
Total	**789,863**	**944,001**

Impaired loans and securities

Impaired loans and securities are the ones 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 agreement(s). The Bank classifies loans and advances to customers in performing and non performing category in accordance with Bank's IFRS methodology; meanwhile it performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective loans carrying amount.

Loans that do not show objective evidence for individual impairment are assessed collectively for impairment using the Bank's historical default rates and recovery for the groups of loans with similar risk characteristics. Collective impairment is allocated for the customers tested individually but resulting with no need for individual impairment.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

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.

The table below shows the net loans and advances to customers categorised on two main groups: Individually and Collectively Impaired.

	Net Exposure to Loans and advances to customers	
Individually impaired	**31 December 2012**	**31 December 2011**
Gross amount	15,521,647	11,250,445
Allowance for impairment	(4,494,538)	(3,440,886)
Carrying amount	**11,027,109**	**7,809,559**
Collectively impaired		
Gross amount	33,739,096	40,302,032
Allowance for impairment	(657,660)	(679,305)
Carrying amount	**33,081,436**	**39,622,727**
Total carrying amount on Loans and advances to customers	**44,108,545**	**47,432,286**

Separate movements for both individual and collective impairments are presented in note 11.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans by risk classification:

	Individually Impaired Loans and advances to customers	
	Gross	**Net**
31 December 2012		
Past Due	1,446,904	1,277,474
Substandard	6,134,246	4,781,767
Doubtful	7,150,633	4,278,473
Restructured	789,863	689,395
Total	**15,521,646**	**11,027,109**
31 December 2011		
Past Due	612,364	454,076
Substandard	223,937	182,659
Doubtful	9,470,233	6,487,305
Restructured	943,911	685,520
Total	**11,250,445**	**7,809,560**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Write-off policy

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

The estimated cash flows derived from the collaterals and/or guarantees securing the exposures are considered as future cash flows of the credit lines. Some of the valuation parameters used for the calculation are:

-Realizable value of collaterals, which is estimated by reducing the appraised collateral value with a "discount factor". This takes into account the characteristics of similar groups of collaterals. It presumes the average recoverable value of specific collateral, based on Bank's experience on the collateral's recovering process.

-Timing of the expected cash flow, which represent the expected recovery time (in years) of a specific type of collateral.

The recovery costs are deducted from estimated future cash flows. Collateral generally is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2012 or 2011. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are also updated every three years. An estimate of the undiscounted and discounted fair value of collaterals and other security enhancements held against financial assets is shown below:

	Collateral of Loans and advances to customers 31 December 2012		Collateral of Loans and advances to customers 31 December 2011	
	Gross	**Net**	**Gross**	**Net**
Against individually impaired				
Property	8,653,260	4,156,094	22,898,844	13,329,717
Equity	-	-	131,036	37,391
Cash	83,754	26,085	151,382	143,130
Pledge & Guarantees	2,685,418	140,816	4,625,958	1,767,280
Other	48,857	46,781	255,177	-
Total	**11,471,289**	**4,369,776**	**28,062,397**	**15,277,518**

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net amount shows the present value of the same collaterals under this test.
The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired. These collaterals do not undergo the same testing procedures as for the above group, hence only their gross value is presented. The information on the table below provides information on how much the collectively impaired loans and advances to customers are secured against their respective collaterals.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

	Collateral of Loans and advances to customers	
Against Collectively Impaired	**31 December 2012**	**31 December 2011**
Property	90,583,031	84,916,011
Pledge and Guarantees	20,081,374	17,352,530
Cash	4,520,794	3,179,641
Equity	-	1,298,042
Debt Securities	2,124,717	5,212
Other	1,518,998	1,129,865
Total	**118,828,914**	**107,881,301**

It is the Bank's policy to dispose of assets possessed through the recovering process. The amounts collected from the proceeds are used to reduce or liquidate the carrying amount of the non performing loans.

In case of collateral properties under the ownership of the Bank, their conversion into cash is the first aim of the Bank goal performed through a good and proper marketing on the sale. If there is no satisfying offer collected, the Bank practice is to keep the asset in its inventory for sale until receiving the best offer. Depending on the Bank operation's need and the suitability of the asset to fulfill those needs, management decides to take use of it; consequently a reclassification into operational fixed assets of the Bank is performed. The nature and the respective amounts of these collateral properties are disclosed in note 14.

The Bank monitors concentration of credit risk by sector and location. An analysis of credit risk at the reporting date is shown below:

	Net Loans and advances to customers	
Concentration by sector	**31 December 2012**	**31 December 2011**
Services	12,464,049	12,290,647
Wholesale	9,914,017	11,893,141
Construction	6,696,796	7,439,071
Manufacturing	5,526,910	4,622,097
Real Estate	336,188	1,304,919
Other	638,774	1,875,588
Corporate	**35,576,734**	**39,425,463**
Mortgage	6,009,139	6,640,060
Consumer	2,522,672	1,366,763
Retail	**8,531,811**	**8,006,823**
Carrying amount	**44,108,545**	**47,432,286**

	Loans and advances to banks	
Concentration by sector	**31 December 2012**	**31 December 2011**
Bank	13,330,531	16,530,111
Carrying amount	**13,330,531**	**16,530,111**

	Investment securities	
Concentration by sector	**31 December 2012**	**31 December 2011**
Sovereign	49,442,581	47,126,968
Bank	4,073,025	6,311,366
Carrying amount	**53,515,606**	**53,438,334**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the bank entity holding the security as an asset. An analysis of investment securities credit quality of the maximum credit exposure, based on rating agency Moody's ratings where applicable is as follows:

	Investment securities	
Sovereign	**31 December 2012**	**31 December 2011**
Rated Aaa	417,589	416,630
Rated Aa3	369,327	327,685
Rated A2	-	2,546,552
Rated Baa2	3,529,609	-
Rate Ba1	-	344,272
Rated B1	44,254,693	42,939,076
Rates non available	871,364	552,753
	49,442,582	**47,126,968**
Bank		
Rated Aaa	561,550	1,872,025
Rate Aa3	-	537,700
Rate A1	-	1,076,913
Rate A1/*-	-	541,568
Rate A2	-	765,808
Rate A2/*-	-	461,068
Rate A3	1,170,534	197,984
Rate Baa1	707,785	232,794
Rate Baa2	209,691	-
Rate Baa3	228,439	-
Rate Ba1	444,856	
Rate Ba1 /*-	-	79,845
Rate Ba2	129,781	
Rate Ca	620,388	545,661
	4,073,024	**6,311,366**
Total carrying amount	**53,515,606**	**53,438,334**

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed. The settlement risk with financial institutions and government counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring.

(b) Liquidity Risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty of easily unwinding positions in financial assets without negatively and significantly affecting their price due to the inadequate market depth or temporary market disruptions.

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 stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan which are subject to review by Group structures and approval by ISBA Financial Risk Committee and Board of Directors. There are departments ensuring the appropriate application of liquidity policy being the Finance and Capital Market Division, responsible for liquidity management, and the Risk Management Division, responsible for monitoring indicators and verifying the adherence of the limits.

The Bank monitors liquidity on a daily basis in order to manage its obligations when they fall due and activate emergency procedures in case of escalation. Furthermore, it prepares on regular basis liquidity scenarios, based on the historical trend of its own liquidity situation and also on other situations provided by the Group guidelines, such as market or firm specific crisis situations.

For liquidity ratio purposes required by the Group, net liquid assets are considered as including cash and cash equivalents, investment grade debt securities, for which there is an active and liquid market, and eligible securities less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of Albania, which should be above 20% in all currencies. As amended on November 2011, such limit should be above 25% for all currencies and above 20% separately for the local currency and foreign currencies. The Central Bank of Albania regulation provides that the Bank shall keep 10% of its customer deposits as an obligatory reserve with the Central Bank.

The short term liquidity ratios have been well within limits during all the year 2012, except for the liquidity indicator limit of Central Bank in foreign currency, which during the period January – April 2012 did not fulfill the proposed minimum criteria of 20%. The Bank was within this limit from May 2012 onwards.
In addition Bank's structural liquidity ratios are calculated by the Group with reference to Bank of Italy liquidity regulations and methodology with results well within the limits required.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (countinued)

(b) Liquidity Risk (continued)

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, based on the Bank's internal local regulation and Group Liquidity Guidelines, as at 31 December 2012 and 31 December 2011. It considers the undiscounted cash flows in/out of the Bank for on and off financial assets and liabilities, according to bank's base scenario which includes both contractual maturities for term items and behavioral assumptions for undefined maturity items. Assumptions consist of: active market securities haircut by 25% of the value, behavioral coefficients applied for sight deposits to customers, and drawdown percentages for off balance sheets categories as committed credit lines and guarantees.

31 December 2012	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
ASSETS (Cash flow IN)	**52,462,299**	**3,951,507**	**17,898,131**	**38,622,411**	**8,362,377**	**121,296,725**
Net Cash	1,234,582					**1,234,582**
Minimum reserve requirements	9,980,041					**9,980,041**
Advances to banks	1,521,609					**1,521,609**
Held to Maturity Investments securities- Treasury Bills	10,482,674					**10,482,674**
Other Held-to-maturity and Available-for-sale Investment Securities – Active Market	7,714,619					**7,714,619**
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	523,968	566,302	6,706,732	23,809,495	1,205,550	**32,812,047**
Loans to banks	15,248,121	1,057,796	114,122	568,198	-	**16,988,237**
Loans and advances to customers (gross performing loans)	5,756,685	2,327,409	11,077,277	14,244,718	7,156,827	**40,562,916**
31 December 2012	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Liabilities (Cash flow out)	**(15,847,692)**	**(15,782,355)**	**(44,063,822)**	**(14,346,904)**	**(23,479,230)**	**(113,520,003)**
Deposits from banks and customers- Current accounts	**(2,493,441)**	**(1,422,984)**	**(2,845,967)**	**(5,691,935)**	**(23,479,230)**	**(35,933,557)**
Current accounts with banks	(358,966)					(358,966)
Current accounts with customers	(2,134,475)	(1,422,984)	(2,845,967)	(5,691,935)	(23,479,230)	**(35,574,591)**
Deposits from banks	**(3,314,485)**					(3,314,485)
of which: cash on repo and on securities lent	(1,188,140)					(1,188,140)
Deposits from customers- Time deposits	(10,039,666)	(14,351,338)	(41,210,585)	(8,066,594)		**(73,668,183)**
Subordinated debt	-	(8,033)	(7,270)	(588,375)		**(603,678)**
TOTAL GAP ON-BALANCE SHEET	**36,614,607**	**(11,830,848)**	**(26,165,691)**	**24,275,507**	**(15,116,853)**	**7,776,722**
Off Balance sheet (Cash flow in)						
Off Balance sheet (Cash flow out)	(556,753)	(182,263)	(820,184)			(1,559,200)
TOTAL GAP OFF-BALANCE SHEET	**(556,753)**	**(182,263)**	**(820,184)**			**(1,559,200)**
TOTAL GAP 31 Dec 2012	**36,057,854**	**(12,013,111)**	**(26,985,875)**	**24,275,507**	**(15,116,853)**	**6,217,522**
CUMULATED GAP 31 Dec 2012	**36,057,854**	**24,044,743**	**(2,941,132)**	**21,334,375**	**6,217,522**	

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS (CASH FLOW IN)	**47,999,949**	**7,022,603**	**21,289,083**	**37,199,634**	**8,644,749**	**122,156,018**
Net Cash	1,188,726	-	-	-	-	**1,188,726**
Minimum reserve requirements	10,197,755	-	-	-	-	**10,197,755**
Advances to banks	266,991	-	-	-	-	**266,991**
Held to Maturity Investments securities- Treasury Bills	14,029,346	-	-	-	-	**14,029,346**
Other Held-to-maturity and Available-for-sale Investment Securities – Active Market	5,683,563	-	-	-	-	**5,683,563**
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	78,789	1,560,154	13,752,823	13,639,815	1,811,860	**30,843,441**
Loans to banks	13,048,852	3,545,584	120,177	160,090	-	**16,874,703**
Loans and advances to customers (gross performing loans)	3,505,927	1,916,865	7,416,083	23,399,729	6,832,889	**43,071,493**
31 December 2011	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
LIABILITIES (CASH FLOW OUT)	**(20,773,104)**	**(17,494,556)**	**(43,111,017)**	**(9,689,314)**	**(23,691,448)**	**(114,759,439)**
Deposits from banks and customers- Current accounts	**(3,163,074)**	**(1,403,084)**	**(2,806,168)**	**(5,612,337)**	**(23,150,889)**	**(36,135,552)**
Current accounts with banks	(1,058,448)	-	-	-	-	**(1,058,448)**
Current accounts with customers	(2,104,626)	(1,403,084)	(2,806,168)	(5,612,337)	(23,150,889)	**(35,077,104)**
Deposits from banks	**(4,314,787)**	**-**	**-**	**-**	**-**	**(4,314,787)**
of which: cash on repo and on securities lent	(3,001,580)	-	-	-	-	**(3,001,580)**
Deposits from customers- Time deposits	(13,295,243)	(16,081,950)	(40,295,379)	(4,002,599)	-	**(73,675,171)**
Subordinated debt	-	(9,522)	(9,470)	(74,378)	(540,559)	**(633,929)**
TOTAL GAP ON-STATEMENT OF FINANCIAL POSITION	**27,226,845**	**(10,471,953)**	**(21,821,934)**	**27,510,320**	**(15,046,699)**	7,396,579
Off Balance sheet (Cash flow in)	-	-	-	-	-	-
Off Balance sheet (Cash flow out)	(613,243)	(223,023)	(1,003,606)	-	-	(1,839,872)
TOTAL GAP OFF-STATEMENT OF FINANCIAL POSITION	**(613,243)**	**(223,023)**	**(1,003,606)**	**-**	**-**	**(1,839,872)**
TOTAL GAP 31 December 2011	**26,613,602**	**(10,694,976)**	**(22,825,540)**	**27,510,320**	**(15,046,699)**	**5,556,707**
CUMULATED GAP 31 December 2011	**26,613,602**	**15,918,626**	**(6,906,914)**	**20,603,406**	**5,556,707**	

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

The information provided relates to cash flows deriving from financial liabilities, therefore it considerably differs from the face of the statement of financial position. The analysis does not include non financial liabilities and equity and comprises cash flows of contractual interest.

The table below shows the Bank's financial contingent liabilities and financial commitments.

31 December 2012	1 Month	1-3 Months	3-12 Months	1-5 Years	>5Years	Total
Commitments	12,846,896	-	-	-	-	**12,846,896**
Guarantees	5,454,897	-	-	-	-	**5,454,897**
31 December 2011						
Commitments	4,642,443	-	-	-	-	**4,642,443**
Guarantees	7,280,131	-	-	-	-	**7,280,131**

The Bank expects only a small part of the commitments to be demanded within one month and guarantees to be closed at maturity date. Refer also to note 31 Commitment and contingencies.

Reconciliation between contingent liabilities and commitments maturity table and note 31 Commitment and contingencies is as follows:

	31 December 2012	31 December 2011
Commitments	**12,846,896**	**4,642,443**
Un-drawn credit facilities	12,846,896	4,642,443
Guarantees	**5,454,897**	**7,280,131**
Letters of credit	1,382,914	3,527,847
Guarantees in favor of customers	4,071,983	3,752,284

c) Market Risk

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

Management of market risks

Upon application of IFRS as the accounting framework, the Bank has classified its investment securities portfolio in accordance with IAS 39 as either Held-to-Maturity or Available-for-sale portfolio.

4. Financial Risk Management (continued)

(c) Market Risk (continued)

Exposure to Foreign Exchange rate risk

"Foreign exchange rate risk" is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Bank's statement of financial position. The key sources of exchange rate risk consist in:

- Foreign currency loans and deposits held by corporate and retail customers;
- Investment securities in foreign currencies;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, administrative costs, etc in foreign currencies.

The Bank's exposure to exchange rate risk is monitored on a daily basis by Market and Operational Risk Department ensuring compliance with internal and regulatory limits. Internal regulations set limits for each open currency position, global open position, maximum loss and Value at Risk ("VaR"), meanwhile banking system regulatory framework refers to a maximum limit of 20% of open position in each currency and 30% of overall open currency position.

The estimation methodologies of VaR calculation introduced in the internal procedures are based on variance-covariance value at risk methodology. A simulation was done on two years historical currency position data in order to judge on the accuracy of the model. Back testing was performed and the aforementioned limits were decided. The current daily calculations are performed applying decay weights on each of the currency positions with a time window of 125 days and a decay factor of 0.992, in line with the Group Guidelines. In addition, variance–covariance matrixes are calculated for each day in order to consider the correlation between the different foreign currencies. The VaR, estimated at 99% confidence level and 1 day holding period, was Lek 0.8 Million as at31 December 2012, with an average of Lek 0.8 Million during the year (2011: Lek 1.1 Million and average Lek 0.9 Million).

The effectiveness of VaR calculations was monitored daily via back testing, comparing the estimates of value at risk with the losses calculated for back testing, and even though the model does not predict precisely the amount of daily profit or loss, the results evidenced a VaR level to be within the limit during 2012 (no breaches during 2011), and a Stop Loss limit to be within the limit during 2012 (five times during 2011).

The Bank has been within the limits of the Central Bank of Albania regulation during year 2012. Financial assets denominated in foreign currencies are disclosed in each relevant note to the financial statements.

4. Financial Risk Management (continued)
(c) Market Risk (continued)

(amounts in foreign currency translated to lek '000)

Assets	**LEK**	**USD**	**EUR**	**OTHER**	**TOTAL**
Cash and cash equivalents	531,452	4,539,212	10,670,070	516,396	16,257,130
Loans and advances to banks	3,812,862	2,010,617	7,507,053	-	13,330,531
Financial Investments Available-for-sale	117,339	1,734,873	-	302,100	2,154,311
Financial Investments Held-to-maturity	42,286,047	4,203,644	4,543,677	327,927	51,361,295
Loans and advances to customers	10,444,815	3,360,758	30,302,539	432	44,108,545
Property and equipments	1,416,355	-	-	-	1,416,355
Intangible assets	244,185	-	-	-	244,185
Deferred tax assets	198,573	-	-	-	198,573
Current tax assets	192,731	-	-	-	192,731
Other assets	236,024	20,225	410,470	1,711	668,429
Total Assets (1)	**59,480,383**	**15,869,329**	**53,433,808**	**1,148,567**	**129,932,085**
Liabilities	-	-	-	-	-
Due to Banks	3,491,948	36,257	143,916	-	3,672,121
Due to customers	41,326,564	15,323,088	49,635,798	1,137,002	107,422,452
Subordinated debt	-	-	535,851	-	535,851
Provisions	96,373	148,775	139,768	-	384,916
Other liabilities	713,741	150,857	144,205	781	1,009,585
Net Equity	16,947,784	2,727	-	(43,351)	16,907,160
Total Liabilities and Equity (2)	**62,576,411**	**15,661,704**	**50,599,538**	**1,094,432**	**129,932,085**
Net FX Position at 31 December 2012 (1)-(2)	**(3,096,029)**	**207,625**	**2,834,270**	**54,134**	**-**
Off balance sheet Assets	4,708,555	11,543,466	119,510,859	299,565	136,062,445
Off balance sheet Liabilities	4,751,882	11,324,105	119,686,893	299,565	136,062,445
Net Off BSH FX Position at 31 December 2012	**(43,328)**	**219,361**	**(176,033)**	**-**	**-**
Total Net FX Position at 31 December 2012	**(3,139,357)**	**426,986**	**2,658,236**	**54,134**	**-**
Assets as at 31 December 2011	56,177,060	17,666,002	54,032,143	1,158,245	129,033,450
Liabilities and equity as at 31 December 2011	60,558,042	15,920,324	51,538,883	1,016,200	129,033,450
Net Off BSH FX Position at 31 December 2011	**(204,200)**	**487,828**	**(266,746)**	**(16,882)**	**-**
Total Net FX Position at 31 December 2011	**(4,585,182)**	**2,233,506**	**2,226,514**	**125,162**	**-**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

(c) Market Risk (continued)

Exposure to Interest Rate risk

The principal Interest Rate risk to which Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. This risk arises primarily from securities portfolios, retail and corporate banking. Interest rate risk is managed principally through periodic monitoring of interest rate spreads between Bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

The method used to measure Interest Rate risk of the Bank's assets and liabilities is the sensitivity analysis. Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the interest rates. In respect of interest rate risk, the adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. This measure highlights the effect of variations in market interest rates on the portfolio being measured without assuming future changes in the mix of assets and liabilities. The sensitivity of equity is calculated by revaluing the Available-for-sale securities portfolio. The Bank's financial assets and liabilities have variable interest rate or have a re-pricing date of less than one year, except for certain non Albanian investment securities, which have coupon rate between 0.9 - 7% for USD denominated securities (2011:0 - 10%:), between 1 -7.5% for EUR denominated securities (2011:3.2 – 4.0%) and between 0.9 -5.5% for GBP denominated securities (2011:5.3-5.5%).

Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity analysis of ± 100 basis points, registered a value of Lek –714 million (for +100 basis points) at 31 December 2012 (December 2011: Lek -733 million). The table below shows the currency breakdown of the shift sensitivity for the year end 2012 and for 2011.

Shift sensitivity31 December 2012	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p	(119014)/131,765	(119,014)/131,765	-
USD	+100 b.p. / -100 b.p	(345,828)/387,090	(316,319)/372,647	(29,509)/14,443
LEK	+100 b.p. / -100 b.p	(230,143)/242,421	(230,143)/242,421	-
Other (GBP & CHF)	+100 b.p. / -100 b.p	(19,071)/18,752	(1,300)/1,245	(17,771)/17,507
Shift sensitivity 31 December 2011	**Increase in basis points**	**Total**	**Sensitivity of Profit & Loss**	**Sensitivity of Equity**
EUR	+100 b.p. / -100 b.p	(104,911)/110,211	(104,911)/110,211	-
USD	+100 b.p. / -100 b.p	(414,085)/478,502	(382,815)/447,178	(31,270)/31,324
LEK	+100 b.p. / -100 b.p	(188,504)/194,790	(188,504)/194,790	-
Other (GBP & CHF)	+100 b.p. / -100 b.p	(26,159)/28,002	(11,047)/11,730	(15,112)/16,272

4. Financial Risk Management (continued)

(d) Operational Risks

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events and it includes legal risk, which is the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.

The Bank's Board of Directors has approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk.

The Bank's Risk Management Division is responsible for the identification, assessment, management and mitigation of its operational risks, the verification of mitigation effectiveness and reporting to the Bank Senior Management and Group Risk Management with the aim of assessing the potential economic impact of particularly serious operational events.

The Bank has the same responsibilities towards Central Bank of Albania, referring to the regulation on management of operational risk, entered in force on January 2011. It prepares reports on the exposure of key indicators and classifications of effective operational losses as per business lines according to the regulatory requirements.

Regulatory Capital

The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing contemporary the impact of the level of capital on shareholders' return. The Bank recognizes 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.

Capital Adequacy Ratio

In implementing current capital requirements, Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off balance sheet items, at a minimum level of 12%. During financial year 2012 the Bank has achieved an adequacy ratio well above the minimum required and as at 31 December 2012 it amounted to 20.3 % (2011: 19.3%).

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off balance sheet items, is another limit set by Banks' supervisory authority at a percentage of 6%. Even this ratio, during the year 2012 has followed same tendency to much higher levels compared to the regulatory limit and as at the 31 December 2012 it amounted to 19.4 % (2011: 18.4%).

Throughout the period, there were no material changes in the Bank's management of capital and all externally imposed capital requirements were complied with.

5. Use of estimates and judgments

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

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

Management discusses with the Group Management the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed below. These disclosures supplement the commentary on financial risk management (see note 4).

(a) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilisation, etc) and other concentrations of risks and economic data. The impairment losses on loans and advances are disclosed in more details in note 11.

(b) Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position can not be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data when possible, and if they are not available, judgment is required to establish fair values. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The valuation of financial instruments is disclosed in details in note 6.

(amounts in '000 Lek, unless otherwise stated)

5. Use of estimates and judgments (continued)

(b) Fair value of financial instruments (continued)

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The analysis of financial instruments recorded at fair value by hierarchy level is presented below:

31 December 2012	Level 1	Level 2	Level 3	Total
Financial investments Available-for-sale				
Quoted investments				
Governments debt securities	369,327	-	-	**369,327**
Other debt securities	1,132,180	535,467	-	**1,667,647**
Unquoted investments	-	-	-	**-**
Total	**1,501,507**	**535,467**	**-**	**2,036,974**

31 December 2011	Level 1	Level 2	Level 3	Total
Financial investments Available-for-sale				
Quoted investments				
Governments debt securities	327,685	-	-	**327,685**
Other debt securities	959,836	-	-	**959,836**
Unquoted investments	-	512,829	-	**512,829**
Total	**1,287,521**	**512,829**	**-**	**1,800,350**

(c) Deferred tax assets

Deferred tax assets arising from tax losses and temporary differences are recognised as an asset when it is probable that future taxable income would be sufficient to allow the benefit of the loss to be realised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits and future tax planning strategies. Please refer to note 3 (g) for more details.

(amounts in '000 Lek, unless otherwise stated)

6. Financial Assets and Liabilities

Accounting classification and fair values:

	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
31 December 2012							
Cash and cash equivalents	7	-	16,257,130	-	-	**16,257,130**	**16,257,130**
Loans and advances to banks	8	-	13,330,531	-	-	**13,330,531**	**13,330,531**
Loans and advances to customers	11	-	44,108,545	-	-	**44,108,545**	**44,108,545**
Investment securities:							
Measured at fair value	9	-	-	2,036,973	-	**2,036,973**	**2,036,973**
Measured at amortized cost	10	51,361,295	-	117,338	-	**51,478,633**	**53,993,285**
Totali		**51,361,295**	**73,696,206**	**2,154,311**	**-**	**127,211,812**	**129,675,949**
Deposits from banks	15	-	-	-	3,672,121	**3,672,121**	**3,672,121**
Deposits from customers	16				107,422,453	**107,422,453**	**107,574,442**
Subordinated liabilities	17	-	-	-	535,851	**535,851**	**535,851**
Totali		**-**	**-**	**-**	**111,630,425**	**111,630,425**	**111,782,414**

Available-for-sale and Held-to-maturity Albanian Government securities are fixed and floating rate bonds with coupon of 1Year Treasury Bills plus spread. The measurement of the Fair Value for these securities is performed using the mark to market model valuation technique, by discounting all future cash flows deriving from such instruments. The rest of the Available-for-sale and Held-to-maturity foreign securities denominated in foreign currencies represent Banks and Financial Institutions securities and their fair value is provided from an International Rating Agency (Moody's rating).

Loans and advances to customers have a book value, which is also their fair value as the whole portfolio is based on floating interest rates and they are re-priced on quarterly, semiannually and yearly basis. The fair value of time deposits from customers is re-priced using the net present value. The interest rates applied are the market interest rates published from Central Bank of Albania. These rates are an estimate of the market rates (refer also to note 3 on Accounting Policies on fair value measurement). The fair value of current accounts, savings accounts is considered to approximate their carrying amount.

(amounts in '000 Lek, unless otherwise stated)

6. Financial Assets and Liabilities (continued)

Accounting classification and fair values (continued)

31 December 2011	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair Value
Cash and cash equivalents	7	-	8,892,780	-	-	8,892,780	8,892,780
Loans and advances to banks	8	-	16,530,111	-	-	16,530,111	16,530,111
Loans and advances to customers	11	-	47,432,286	-	-	47,432,286	47,432,286
Investment securities							
Measured at fair value	9	-	-	1,800,350	-	1,800,350	1,800,350
Measured at amortised cost	10	51,572,399	-	65,585	-	51,637,984	52,580,385
Totali		**51,572,399**	**72,855,177**	**1,865,935**	**-**	**126,293,511**	**127,235,912**
Due to banks	15	-	-	-	5,370,471	5,370,471	5,370,471
Due to customers	16	-	-	-	107,197,718	107,197,718	107,267,491
Subordinated liabilities	17	-	-	-	534,334	534,334	534,334
Totali		**-**	**-**	**-**	**113,102,523**	**113,102,523**	**113,172,296**

Fair Value for Available-for-sale and Held-to-maturity Albanian Government securities as at 31 December 2012 and 2011 is measured using the mark to market model valuation technique by discounting all future cash flows deriving from such instruments.

(amounts in '000 Lek, unless otherwise stated)

7. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2012 and 31 December 2011 can be detailed as follows:

	31 December 2012	31 December 2011
Cash on hand	1,235,128	1,188,144
Balances with banks	1,519,805	262,597
Unrestricted balances with central bank	2,678	4,153
Money market placements	13,499,519	7,437,886
Total	**16,257,130**	**8,892,780**

8. Loans and advances to banks

Loans and advances to banks as at 31 December 2012 and 31 December 2011 are composed as follows:

	31 December 2012	31 December 2011
Compulsory reserve	9,979,412	10,184,537
Correspondent banks deposits	3,351,119	6,345,574
Total	**13,330,531**	**16,530,111**

9. Financial Investments Available-for-sale

Financial Investments Available-for-sale as at 31 December 2012 and 31 December 2011 can be detailed as follows:

	31 December 2012	31 December 2011
Albanian Government:	**117,338**	**65,585**
Listed Companies:	**2,036,973**	**1,287,521**
-Banks & Financial Institutions	1,667,646	959,836
-EU Government	369,327	327,685
-Other International Institutions	-	-
Unlisted Companies:	**-**	**512,829**
-Banks & Financial Institutions	-	512,829
Total	**2,154,311**	**1,865,935**

The Bank reviews its debts securities classified as Available-for-sale investments at each reporting date to assess whether there is any objective evidence that they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances to customers.

Following the testing performed on the Available-for-sale securities, management deemed necessary to impair a group of Available–for-sale securities, for Lek 1,507,519 thousand. As at 31 December 2012 impairment losses on Available-for-sale securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss (see note 23).

(amounts in '000 Lek, unless otherwise stated)

10. Financial Investments Held-to-maturity

Financial Investments Held-to-maturity as at 31 December 2012 and 31 December 2011 can be detailed as follows:

	31 December 2012	31 December 2011
Foreign Government and others:	**4,818,562**	**3,860,207**
-US and EU government	4,818,562	3,860,207
Listed companies: Banks	**2,405,379**	**3,759,433**
Unlisted companies: Banks	**-**	**1,079,268**
Albanian Government bonds	**44,137,354**	**42,873,491**
Total	**51,361,295**	**51,572,399**

As at 31 December 2012, Albanian Held-to-maturity investments securities of Lek 1,380,000 thousand (2011: Lek 3,450,000 thousand) have been pledged as collateral for Reverse REPO Agreements. These transactions are conducted under terms that are usual to the customary to standard lending, securities borrowing and lending activities as well as requirements determined by Central Bank of Albania. As at 31 December 2012, the average yield of Held-to-maturity investment securities pledged as collateral for the Reverse REPO Agreements amounts to 7.41 % (2011: 7.36%).

11. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2012	31 December 2011
Loans to customers	30,905,695	29,252,299
Overdrafts to customers	18,434,008	22,405,400
Gross amount	**49,339,703**	**51,657,699**
Deferred disbursement fee	(78,960)	(105,221)
Allowance for impairment	(5,152,198)	(4,120,192)
Total	**44,108,545**	**47,432,286**

(amounts in '000 Lek, unless otherwise stated)

11. Loans and advances to customers (continued)

Movement in the allowance for impairment losses on loans and advances to customers is as follows:

	2012	**2011**
Specific Allowance for impairment		
Balance at 1 January	**3,440,887**	**2,708,321**
Impairment loss for the year	-	
Charge for the year	1,795,077	1,240,670
Recoveries	(313,999)	(517,700)
Effect of movements in foreign exchange	412	33,040
Write-offs	(427,839)	(23,444)
Balance at 31 December	**4,494,538**	**3,440,887**
Collective Allowance for impairment		
Balance at 1 January	**679,305**	**421,190**
Impairment loss for the year	-	
Charge for the year	80,543	259,908
Recoveries	(104,517)	(1,078)
Effect of movements in foreign exchange	2,329	(715)
Write-offs	-	-
Balance at 31 December	**657,660**	**679,305**
Total Allowance for Impairment	**5,152,198**	**4,120,192**

(amounts in '000 Lek, unless otherwise stated)

12. Property and Equipment

Property and Equipment as at 31 December 2012 and 31 December 2011 is as follows:

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipment	Total
Cost						
Balance as at 1 January 2011	**1,632,305**	**1,020,939**	**204,339**	**280,864**	**52,253**	**3,190,700**
Additions	5,027	77,509	4,892	10,101	14,122	111,651
Disposals	(20,716)	(79,396)	(25,876)	(13,697)	-	(139,685)
Effect of movements in foreign exchange	-	81	26	8	-	115
Balance as at 31 December 2011	**1,616,616**	**1,019,133**	**183,381**	**277,276**	**66,375**	**3,162,781**
Additions	-	73,311	5,815	14,923	-	94,049
Disposals	-	(15,336)	(968)	(3,715)	(94)	(20,113)
Balance as at 31 December 2012	**1,616,616**	**1,077,108**	**188,228**	**288,484**	**66,281**	**3,236,717**

Disposal for period ending 31 December 2012 are mainly due to the regular process of physical inventory write off. The assessment of the Bank for the reporting period concluded that there is no indication that any asset is impaired. As at 31 December 2012 the Bank had no contractual commitments on Property and Equipment and there is no pledge on Property and Equipment.

(amounts in '000 Lek, unless otherwise stated)

12. Property and Equipment (continued)

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipment	Total
Accumulated Depreciation						
Balance as at 1 January 2011	**417,988**	**722,931**	**172,320**	**220,552**	**-**	**1,533,791**
Depreciation for the year	81,137	99,172	9,782	26,214	-	216,305
Disposals	(7,769)	(73,389)	(25,039)	(12,304)	-	(118,501)
Effect of movements in foreign exchange	24	54	135	4	-	217
Balance as at 31 December 2011	**491,380**	**748,768**	**157,198**	**234,466**	**-**	**1,631,812**
Depreciation for the year	80,831	87,410	7,482	20,568	-	196,291
Disposals	-	(6,092)	(689)	(960)	-	(7,741)
Balance as at 31 December 2012	**572,211**	**830,086**	**163,991**	**254,074**	**-**	**1,820,365**
Carrying amount						
At 1 January 2011	**1,214,317**	**298,008**	**32,019**	**60,312**	**52,253**	**1,656,909**
At 31 December 2011	**1,125,236**	**270,361**	**26,183**	**42,810**	**66,375**	**1,530,969**
At 31 December 2012	**1,044,405**	**247,022**	**24,237**	**34,410**	**66,281**	**1,416,355**

As at 31 December 2012 the fully depreciated items represent an amount of Lek 768,068 thousand (2011: Lek 592,897 thousand).

(amounts in '000 Lek, unless otherwise stated)

13. Intangible Assets

Intangible assets as at 31 December 2012 and 31 December 2011 are as follows:

	Software and Licenses	Advances for software	Total
Cost			
Balance as at 1 January 2011	**748,604**	**21,405**	**770,009**
Acquisitions	105,049	-	105,049
Disposals	(65,380)	(9,422)	(74,802)
Effect of movements in foreign exchange	75	-	75
Balance as at 31 December 2011	**788,348**	**11,983**	**800,331**
Acquisitions	37,856	58,967	96,823
Disposals	-	-	-
Effect of movements in foreign exchange	-	-	-
Balance as at 31 December 2012	**826,204**	**70,950**	**897,154**
Amortization and Impairment Losses			
Balance as at 1 January 2011	**477,868**	**-**	**477,868**
Amortization for the year	119,648	-	119,648
Disposals	(59,950)		(59,950)
Effect of movements in foreign exchange	45	-	45
Balance as at 31 December 2011	**537,611**	**-**	**537,611**
Amortization for the year	115,358	-	115,358
Disposals	-	-	-
Effect of movements in foreign exchange	-	-	-
Balance as at 31 December 2012	**652,969**	**-**	**652,969**
Carrying amount			
At 1 January 2011	**270,736**	**21,405**	**292,141**
At 31 December 2011	**250,737**	**11,983**	**262,720**
At 31 December 2012	**173,235**	**70,950**	**244,185**

Acquisitions during 2012 represent investments in licenses and software. As at 31 December 2012 the fully depreciated items represent an amount of Lek 271,279 thousand (2011: Lek 224,052 thousand).

(amounts in '000 Lek, unless otherwise stated)

14. Other Assets

Other assets as at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Non-current assets, held for sale	321,042	168,373
Sundry debtors	157,087	100,690
Unrealised Loss on Foreign Exchange contracts	54,764	208,973
ATM & POS transactions	36,830	69,128
Leasehold improvements	32,484	54,604
Prepayments	44,062	44,251
Cheques for collection	13,707	17,369
Others	8,453	83,562
Total	**668,429**	**746,950**

The movement of leasehold improvements item during the reporting period is presented as follows:

	31 December 2012	31 December 2011
At beginning of the period	**54,605**	**77,218**
Additions during period	178	12,621
Amortization of the period	(22,277)	(32,219)
Write – off	-	(3,015)
Effect of movements in foreign exchange	(22)	-
At end of the period	**32,484**	**54,605**

Non-current assets Held-for-sale include collateral values of some unrecoverable loans. Out of the total amount of Lek 321,042 thousand, as at 31 December 2012: Buildings (including land where they were constructed) amount to Lek 320,902 thousand (2011: Buildings amount to Lek 168,233 thousand) and electronic devices amount to Lek 140 thousand. The Bank has the ownership of these assets and has the intention to sell them.

(amounts in '000 Lek, unless otherwise stated)

15. Due to banks

Due to banks as at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Due to Central Bank	**177,440**	**139,959**
Correspondent banks		
Current accounts	**181,687**	**917,624**
Resident	3,798	17,956
Non-resident	177,889	899,668
Deposits	**2,125,880**	**1,312,916**
Resident	2,125,880	1,312,916
Non-resident	-	-
Repurchase Agreements	**1,187,114**	**2,999,972**
Total	**3,672,121**	**5,370,471**

Repurchase agreements as at 31 December 2012 and as at 31 December 2011 are comprised as follows:

	31 December 2012			
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
17 Jan 2013	4.00%	257,631	339	257,970
24 Jan 2013	4.00%	154,772	85	154,857
3 Jan 2013	4.01%	343,939	189	344,128
3 Jan 2013	4.00%	429,923	236	430,159
		1,186,265	**849**	**1,187,114**

	31 December 2011			
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
05 Jan 2012	4.78%	1,570,432	617	1,571,049
05 Jan 2012	4.77%	872,462	342	872,804
05 Jan 2012	4.77%	555, 901	218	556,119
Total		**2,998,795**	**1,177**	**2,999,972**

The Bank has placed Treasury Bills as collateral for an amount of Lek 1,380,000 thousand (2011: Lek 3,450,000 thousand) as previously described in note 10.

(amounts in '000 Lek, unless otherwise stated)

16. Due to customers

Due to customers as at 31 December 2012 and 31 December 2011 are composed as follows:

	31 December 2012			31 December 2011		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	2,639,882	5,791,647	8,431,529	2,884,391	5,502,575	8,386,966
Corporate	9,296,401	11,646,309	20,942,710	7,739,721	11,863,620	19,603,341
	11,936,283	**17,437,956**	**29,374,239**	**10,624,112**	**17,366,195**	**27,990,307**
Deposits						
Retail	28,254,333	44,712,491	72,966,824	25,130,646	46,177,357	71,308,003
Corporate	1,135,948	3,945,441	5,081,389	1,349,920	6,549,488	7,899,408
	29,390,281	**48,657,932**	**78,048,213**	**26,480,566**	**52,726,845**	**79,207,411**
Total	**41,326,564**	**66,095,888**	**107,422,452**	**37,104,678**	**70,093,040**	**107,197,718**

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

	31 December 2012			31 December 2011		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**11,936,283**	**17,437,956**	**29,374,239**	**10,624,112**	**17,366,195**	**27,990,307**
Deposits						
On demand	1,566,831	4,663,781	6,230,612	1,675,430	5,391,344	7,066,774
One month	3,554,212	3,302,491	6,856,703	6,684,871	9,298,219	15,983,090
Three months	1,579,207	4,180,411	5,759,618	4,644,951	9,392,223	14,037,174
Six months	3,841,051	6,779,016	10,620,067	4,589,074	10,478,044	15,067,118
Nine months	81,113	112,695	193,808	4,647,406	9,507,787	14,155,193
Twelve months	13,905,980	24,456,103	38,362,083	2,792,195	5,664,541	8,456,736
Twenty four months	4,110,857	2,795,695	6,906,552	1,118,644	2,444,236	3,562,880
Other	751,030	2,367,740	3,118,770	327,995	550,451	878,446
	29,390,281	**48,657,932**	**78,048,213**	**26,480,566**	**52,726,845**	**79,207,411**
Total	**41,326,564**	**66,095,888**	**107,422,452**	**37,104,678**	**70,093,040**	**107,197,718**

(amounts in '000 Lek, unless otherwise stated)

16. Due to customers (continued)

For current accounts and time deposits the annual published interest rates applicable for the various fixed terms were:

2012	**LEK (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	0.10 – 5.23	0.10 – 3.50	0.02 – 3.50
Time deposits – 1 month	0.80 – 1.75	0.10 – 0.20	0.20 – 0.40
Time deposits – 3 months	1.00 – 4.85	0.30 – 0.75	0.30 – 2.15
Time deposits – 6 months	1.20 – 5.20	0.40 – 0.95	0.40 – 2.40
Time deposits – 12 months	1.50 – 6.25	0.50 – 1.45	0.50 – 3.10
Time deposits – 24 months	6.00 – 7.00	1.45 – 2.00	2.90 – 3.50
Time deposits – 60 months	6.50 – 7.00		3.50 – 3.90
2011	**LEK (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	0.15 – 5.81	0.10 – 2.00	0.05 – 2.70
Time deposits – 1 month	1.75 – 5.50	0.10 – 2.10	0.20 – 3.85
Time deposits – 3 months	3.50 – 5.70	0.65 – 2.00	1.80 – 4.10
Time deposits – 6 months	5.00 – 6.60	0.85 – 2.30	2.00 – 4.20
Time deposits – 12 months	1.50 – 7.40	0.50 – 4.00	0.50 – 4.50
Time deposits – 24 months	6.55 – 8.40	1.45 – 3.20	3.30 – 4.50
Time deposits – 60 months	0.15 – 5.81	0.10 – 2.00	0.05 – 2.70

Different from the published rates, Bank's management has offered preferential rates to the VIP customers.

17. Subordinated debt

The balance of subordinated debt as at 31 December 2012 and 31 December 2011 is as follows:

	31 December 2012	**31 December 2011**
Subordinated Debt	530,442	527,934
Accrued Interest	5,409	6,400
Total	**535,851**	**534,334**

The subordinated debt of EUR 3,800,000, transferred to the Bank upon the merger with former BIA, relates to an agreement signed on 23 February 2007 between San Paolo IMI BANK IRELAND and former BIA.

The final maturity of the debt is on 28 February 2013 and interests are payable on 28 February and 28 August.

(amounts in '000 Lek, unless otherwise stated)

18. Deferred Tax

Recognised deferred tax assets and liabilities are attributable to the following:

	31 December 2012			31 December 2011		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Financial assets Available-for-sale	150,752	-	150,752	-	-	-
Tangible and intangible assets	47,821	-	47,821	42,079	-	42,079
Net deferred tax assets	**198,573**	**-**	**198,573**	**42,079**	**-**	**42,079**

Movements in temporary differences during the year are as follows:

31 December 2012	**Opening balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Financial Assets Available-for sale	-	150,752	-	150,752
Tangible and intangible assets	42,079	5,742	-	47,821
Total	**42,079**	**156,494**	**-**	**198,573**
31 December 2011				
Tangible and intangible assets	40,572	1,507	-	42,079
Loans and advances to customers	(182,584)	182,584	-	-
Total	**(142,012)**	**184,091**	**-**	**42,079**

As at 31 December 2012, due to the first time recognition of impairment loss for Available-for-sale Financial Assets a deferred tax asset was recognised (refer also to note 30).

19. Provisions

Movements in provisions during the year are as follows:

	Tax Litigation	**Other Litigatio ns**	**Other Provisions**	**Off-Balance sheet**	**Total**
Balance at 1 January 2012	**85,527**	**210,317**	**1,890**	**20,867**	**318,601**
Provisions made during the year	-	87,775	-	11,275	99,050
Transfers	-	1,881	(1,881)	-	-
Provision used during the year	-	(11,953)	-	(18,459)	(30,412)
Effect of movements in foreign exchange	-	(2,326)	(9)	12	(2,323)
Balance at 31 December 2012	**85,527**	**285,694**	**-**	**13,695**	**384,916**

(amounts in '000 Lek, unless otherwise stated)

20. Other liabilities

Other liabilities as at 31 December 2012 and 31 December 2011 are composed as follows:

	31 December 2012	31 December 2011
Invoices to be received	535,252	461,368
Sundry creditors	59,615	65,912
Suspense accounts	20,036	43,673
Bank cheques issued and payments in transit	230,503	209,993
Other tax liabilities	38,782	33,210
Due to third parties	13,276	12,367
Other accrued expenses/deferred income	53,879	168,482
Total	**951,343**	**995,005**

Other tax liabilities represent December 2012 monthly liabilities, calculated on personnel compensations and interest paid to individual customers for the matured deposits and Treasury Bills. Such obligations have been settled in the consequent month, January 2013.

21. Share capital and premium

Detailed information regarding share capital and premiums as at 31 December 2012 is presented below:

(amounts in original units)	Number of Shares	Nominal Value	Premium Paid	Total Shares Value
Share Capital at 31 December 2012	**15,581,282**	**357**	**-**	**5,562,517,674**
Premium at 31 December 2012	**1,250,000**	**-**	**1,107.104**	**1,383,880,000**

All the Bank's shares have the same rights; there are no preferences, restrictions or other differences, despite the fact of premiums paid by major shareholders.

The shareholder capital structure of the Bank as at 31 December 2012 and 31 December 2011 is presented below:

(amounts in original units)	Number of Shares	Nominal Value	Total Shares Value	Participation %
Share Capital at 31 December 2011	**15,581,282**	**357**	**5,562,517,674**	**100%**
Intesa Sanpaolo S.p.A.	15,364,880	357	5,485,262,160	98.61%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357	77,255,514	1.39%
Share Capital at 31 December 2012	**15,581,282**	**357**	**5,562,517,674**	**100%**
Intesa Sanpaolo S.p.A.	15,364,880	357	5,485,262,160	98.61%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357	77,255,514	1.39%

(amounts in '000 Lek, unless otherwise stated)

22. Legal and regulatory reserves

At 31 December 2011 the Bank created the credit risk reserve, in compliance with the banking local supervisory regulation for an amount of Lek 1,815,998 which was included in the Regulatory Reserve. During 2012, following the change in the regulatory framework the reserve was reclassified to Retained Earnings:

	31 December 2012	31 December 2011
Regulatory reserve	1,130,983	2,946,982
Legal reserve	524,649	401,285
Total	**1,655,632**	**3,348,267**

23. Other valuation reserves

Comprehensive items

The balance of Lek 714,555 thousand for both periods ending 31 December 2012 and 2011 represents the differences resulted from share capital conversion from USD to LEK. Out of this balance, the amount of Lek 297,666 thousand is received as at 1 January 2008 from the merge with former BIA, as raised by the same denomination currency change of the share capital.

Available-for-sale reserves

Available-for-sale reserve represents the changes in the fair value of the Available-for-sale securities. The changes during the financial year ended as at 31 December 2012 amounted to Lek 1,788,497 thousand (2011: Lek 698,219 thousand). Due to the recognition of impairment loss on certain securities an amount of Lek 1,507,519 thousand was transferred to profit and loss accounts as at 31 December 2012.

Foreign currency translation reserves

As described also in note 3.a. translation reserves mainly comprise differences arising from the foreign exchange movements of the Available-for-sale reserve. During the financial year ended as at 31 December 2012 the movements amounted to Lek 230,321 thousand (2011: Lek 82,010 thousand).

Out of this amount, Lek 198,906 thousand represents the respective accumulated foreign currency translation reserve of the impaired Available-for-sale securities, which was closed accordingly through profit and loss accounts as at 31 December 2012.

(amounts in '000 Lek, unless otherwise stated)

24. Net Interest income

	2012	2011
Interest income		
Loans and advances to customers	3,897,871	3,710,468
Financial Investments Held-to-maturity	4,010,643	4,012,300
Loans and advances to banks	356,413	288,121
Financial Investments Available-for-sale	131,080	157,692
Total interest income	**8,396,007**	**8,168,581**
Interest expenses		
Time deposits	2,752,100	2,774,866
Deposits from banks	199,546	183,110
Current accounts	260,608	236,173
Subordinated loan	18,378	17,639
Total interest expenses	**3,230,632**	**3,211,788**
Net interest income	**5,165,375**	**4,956,793**

25. Net fee and commission income

	2012	2011
Collection and payment services	259,015	300,967
Active current accounts	199,996	192,245
Active ATMs and POSs	187,676	181,703
Guarantees given	26,534	37,113
Unused/advanced liquidated credit lines	26,498	41,472
Arrangement fees and others	8,342	10,848
Fee and commission income	**708,061**	**764,348**
Active ATMs and POSs	153,792	164,750
Banking services-foreign branches	11,462	10,632
Collection and payment services	547	715
Guarantees received	855	2,234
Fee and commission expenses	**166,656**	**178,331**
Net fee and commission income	**541,405**	**586,017**

The figures above do not include fees received for loans and advances to customers (transaction costs) which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method.

(amounts in '000 Lek, unless otherwise stated)

26. Net trading income

	2012	2011
Foreign exchange	361,024	346,295
Others	199,283	-
Total	**560,307**	**346,295**

27. Other operating (expenses)/ income, net

	2012	2011
Premium on deposits insurance	(211,553)	(198,924)
Loss-write off of fixed assets	-	(14,309)
Loss/gain on sale of fixed assets	(2,758)	8,533
Recoveries on written off loans	1,491	3,093
Sundry net operational losses	(34,996)	(14,641)
Total	**(247,816)**	**(216,248)**

28. Personnel expenses

	2012	2011
Salaries	731,397	734,856
Personnel on secondment	81,576	84,912
Social Insurance	77,336	78,673
Training & similar	23,985	25,381
Termination indemnities and others	8,374	7,729
Total	**922,668**	**931,551**

29. Other expenses

	2012	2011
Software maintenance	130,931	151,622
Telephone and electricity	115,470	92,161
Advertising & Publication	101,386	87,610
Maintenance & repair	68,890	63,709
Stationery	49,425	46,314
Consulting & Legal fees	53,519	41,517
Security	29,116	35,920
Transportation of counting valuables and others	38,826	31,797
Travel & business trips	18,154	17,428
Insurance	30,738	5,619
Other	10,912	2,349
Total	**647,367**	**576,047**

(amounts in '000 Lek, unless otherwise stated)

30. Income tax expenses

The components of income tax expense for the year ended 31 December 2012 and 2011 are:

	2012	**2011**
Current year	262,813	261,929
Current income tax in respect of prior years	-	-
Current tax expense	**262,813**	**261,929**
Deferred tax (origination and reversal of temporary differences)	(156,494)	(184,091)
Deferred tax expenses/(income)	**(156,494)**	**(184,091)**
Income tax expense	**106,319**	**77,838**

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2012 and 2011 is presented as follows:

	2012		**2011**	
Accounting Profit Before Tax		**904,156**		**2,545,103**
Income tax at domestic corporate tax rate	10.00%	90,416	10.00%	254,510
Tax effect of non-deductible expenses	19.07%	172,397	0.30%	7,418
Origination and reversal of temporary differences	(17.31%)	(156,494)	(7.20%)	(184,091)
Income Tax Expense	**11.76%**	**106,319**	**3.10%**	**77,838**

Profit before tax is based on the Income Tax Law no. 9228 date 29.04.2004 "Accounting and Financial Statement" and is calculated according to International Financial Reporting Standards. Based on the Instruction no.5, dated 30.01.2006 of the Law "On Income Tax" profit before tax is corrected with nondeductible expenses and the differences calculated from the depreciation method of the fixed assets**.** Due to the change of the Law "On Income Tax" (amended with the Law no. 10364 dated 16.12.2010), the temporary differences between the tax base liabilities and their carrying amount for IFRS reporting purposes, created for loan provision, were closed in 2011. During 2012, the first time recognition of impairment loss for Available-for-sale securities created temporary differences, which resulted in related deferred tax of Lek 152,752.

(amounts in '000 Lek, unless otherwise stated)

30. Income tax expense (continued)

Non-deductible expenses are detailed as follows:

	2012	2011
Financial assets Available-for-sale impairment	1,507,519	-
Depreciation and Amortization	74,912	11,784
Sundry operational losses	16,851	6,008
Rent apartments	10,776	12,597
Office expenses	8,760	10,011
Personnel costs	8,069	17,002
Representation	8,691	6,487
Others	88,397	10,294
Total Non-deductible Expenses	**1,723,974**	**74,183**

During 2012 the Bank prepaid income tax in the amount of Lek 264,982 thousand (2011: Lek 109,122 thousand).

31. Commitments and contigencies

Commitments and contingencies as at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Contingent Assets	**131,990,463**	**141,398,893**
Guarantees received from credit customers	110,560,827	122,368,120
Un-drawn credit facilities	3,980,320	3,742,979
Letters of credit	1,382,914	3,527,847
Money market future dated deals	8,993,173	1,028,082
Forward foreign exchange contracts	6,355,409	10,731,865
Other	717,820	-
Contingent Liabilities	**4,071,983**	**3,752,284**
Guarantees in favor of customers	4,071,983	3,572,284

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralised by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of loans granted.

Contingent assets like letters of credit and un-drawn credit facilities are off balance sheet items representing future commitments where Bank acts as the beneficiary.

(amounts in '000 Lek, unless otherwise stated)

31. Commitments and contingencies (continued)

Dispute with tax authorities

Currently, the Bank has a dispute with tax authorities with regard to Tax Inspection results in former BIA. The Bank is following all legal steps to defend itself as it believes the findings are not in accordance with the Albanian legislation. The case is presently under Court Proceedings in Tirana District Court.

Management believes that the tax risk provision is prudent; they have a strong case with which to defend such tax claims, given the uncertainty of the Albanian tax environment.

Other litigation

The Bank is subject to legal proceedings, claims, and litigation that arise in the ordinary course of business. Management believes that any existing or potential future litigation will not have a material adverse effect on Bank's financial position, results of operations, or cash flows.

32. Operating lease commitments and operating lease expenses

Operating lease rentals as at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Less than one year	143,592	87,807
Between one and five years	377,630	165,499
More than five years	55,214	73,853
Total	**576,436**	**327,159**

The Bank has rental agreements with renewal options for its offices in Albania. During 2012 the amount of Lek 165,940 thousand was recognised as an expense in profit or loss in respect of lease rentals (2011: Lek 159,739 thousand). Operating lease contracts are cancelable, if notified for a period of 180 days in advance.

(amounts in '000 Lek, unless otherwise stated)

33. Related parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control. A number of banking transactions are entered into with entities relate to the parent company Intesa Sanpaolo S.p.A in the normal course of business. The respective transactions include loans, deposits and others for administrators, shareholders and other closely related to them. Other related parties are parties of control or interests of Bank's shareholders, or close family members related to key management.

There are no doubtful debts related to outstanding balances of related parties, consequently no allowances for impairment. During the reporting period, there were neither long term benefits nor termination benefits paid to key management. The outstanding balances and transactions with related parties as at 31 December 2012 and 31 December 2011 are as follows:

	ISP Group companies		Key management personnel and Other related parties	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Assets at end of year	**10,292,746**	**6,974,932**	**166,106**	**180,824**
Loans and advances to Credit Institutions	10,292,746	6,974,932	-	-
Loans and advances to customers	-	-	166,106	180,824
Liabilities at end of year	**613,112**	**642,013**	**350,566**	**356,021**
Loans and advances from Credit Institutions	613,112	642,013	-	-
Customers deposits	-	-	350,566	356,021
Off balance sheet	**10,477,834**	**14,258,882**	**5,817**	**7,941**
Letter of Credit/ Guarantees given	97,713	-	-	-
Letter of Credit/ Guarantees received	2,163,854	4,531,730	-	-
Foreign Currency Contracts	8,216,267	9,727,152	-	-
Collaterals	-	-	5,817	7,941
Income for year ending	**246,978**	**72,793**	**9,374**	**12,576**
Interest income	244,424	72,793	8,950	12,003
Commission income	2,554	-	424	573
Expenses for year ending	**56,876**	**23,632**	**8,065**	**9,817**
Interest expense	18,635	23,632	8,065	9,817
Commission and others	38,241		-	
Compensation of Key Managers		**-**	**173,029**	**170,834**
Net Salary	**-**	-	104,431	99,035
Net Bonus paid	**-**	-	46,736	43,234
Social & Health Insurance	**-**	-	2,739	2,582
Other expenses	**-**	-	19,123	25,983

34. Subsequent events

The management of the Bank is not aware of any subsequent events that would require either adjustments or additional disclosures in the financial statements.