UNION BANK SH.A.

Financial Statements

as at 31 December 2012

(with Independent Auditors' Report thereon)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	1
STATEMENT OF COMPREHENSIVE INCOME	2
STATEMENT OF CHANGES IN EQUITY	3
STATEMENT OF CASH FLOWS	4
NOTES TO THE FINANCIAL STATEMENTS	5 – 44

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 and management of
Union Bank sh.a.

Tirana, 29 March 2013

We have audited the accompanying financial statements of Union Bank 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 present fairly, in all material respects, 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 29 March 2012.

KPMG Albania Shpk

KPMG Albania Sh.p.k.
"Deshmoret e Kombit" Blvd.
Twin Towers Building
Building I, 13th floor
Tirana, Albania

(Amounts in LEK'000)

	Notes	31 December 2012	31 December 2011
Assets			
Cash and balances with Central Bank	5	2,908,914	2,519,660
Placements and balances with banks	6	2,632,691	2,677,364
Treasury Bills held-to-maturity	7	2,390,938	2,099,146
Treasury Bonds held-to-maturity	8	6,147,510	3,996,577
Loans and advances to customers	9	13,183,400	11,339,905
Intangible assets	10	127,628	87,231
Property and equipment	11	186,378	201,078
Non-current assets held for sale	12	299,810	253,143
Other assets	13	198,256	236,130
Deferred tax asset	27	3,334	5,708
Total assets		**28,078,859**	**23,415,942**
Liabilities			
Due to banks and financial institutions	14	1,314,148	1,301,077
Due to customers	15	24,031,899	19,548,619
Treasury bills sold under repurchased agreements	16	261,372	252,219
Other liabilities	17	131,887	125,810
Deferred tax liability	27	16,499	16,499
Subordinated Debt	18	1,047	1,042
Total liabilities		**25,756,852**	**21,245,266**
Shareholders' equity			
Share capital	19	2,299,633	2,159,743
Share premium		175,600	175,600
Accumulated loss		(153,226)	(164,667)
Total shareholders' equity		**2,322,007**	**2,170,676**
Total liabilities and shareholders' equity		**28,078,859**	**23,415,942**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 44.

These financial statements have been approved by Executive Management on 28 March 2013 and signed on its behalf by:

Gazmend Kadriu
Chief Executive Officer

UNION BANK TIRANE

Arten Zikaj
Chief Financial Officer

(Amounts in LEK'000)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	**20**	1,763,805	1,527,131
Interest expense	**21**	(944,430)	(805,876)
Net interest income		**819,375**	**721,255**
Fee and commission income	**22**	156,879	168,651
Fee and commission expenses	**23**	(35,084)	(28,943)
Net fee and commission income		**121,795**	**139,708**
Net foreign exchange gain	**24**	72,156	68,831
Other (expense) / income, net		1,343	(3,939)
		73,499	**64,892**
Operating income		**1,014,669**	**925,855**
Allowances for losses on loans and advances	**9**	(148,447)	(20,992)
Amortization for intangible assets	**10**	(22,832)	(20,115)
Depreciation of property and equipment	**11**	(39,008)	(41,756)
Impairment of assets held for sale	**12**	(5,912)	-
Personnel costs	**25**	(325,077)	(299,616)
Other operating expenses	**26**	(459,578)	(412,121)
Total operating expenses		**(1,000,854)**	**(794,600)**
Profit before tax		**13,815**	**131,255**
Income tax	**27**	(2,374)	(8,520)
Profit of the year		**11,441**	**122,735**
Other comprehensive income, net of income tax		**-**	**-**
Total comprehensive income for the year		**11,441**	**122,735**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 44.

(Amounts in LEK'000)

	Share capital	Share premium	Accumulated loss	Total
Balance at 1 January 2011	**2,049,331**	**175,600**	**(287,402)**	**1,937,529**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital	110,412	-	-	**110,412**
Total contributions by and distributions to owners	110,412	-	-	**110,412**
Total comprehensive income for the year				
Profit for the year	-	-	122,735	**122,735**
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the year	-	-	122,735	**122,735**
Balance at 31 December 2011	**2,159,743**	**175,600**	**(164,667)**	**2,170,676**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital	139,890	-	-	**139,890**
Total contributions by and distributions to owners	139,890	-	-	**139,890**
Total comprehensive income for the year				
Profit for the year	-	-	11,441	**11,441**
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the year	-	-	11,441	**11,441**
Balance at 31 December 2012	**2,299,633**	**175,600**	**(153,226)**	**2,322,007**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 44

(Amounts in LEK'000)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities			
Profit before tax		13,815	131,255
Adjustments for non-cash items:			
Interest income	**20**	(1,763,805)	(1,527,131)
Interest expense	**21**	944,430	805,876
Depreciation of property and equipment	**11**	39,008	41,756
Amortization of intangible assets	**10**	22,832	20,115
Impairment loss	**9**	148,447	20,992
Impairment of assets held for sale		5,912	-
Revaluation effect of cash and cash equivalents		(3,844)	(26,212)
Revaluation effect of subordinated debt		5	1
Written of property and equipment		534	3,380
Net loss from sale of property and equipment		-	1,725
		(592,666)	**(528,243)**
Increase in placements and balances with banks		(35,606)	(75,242)
Increase in loans and advances to customers		(2,025,853)	(1,350,430)
Decrease/(Increase) in other assets		37,874	(189,198)
Increase/ (Decrease) in due to banks and financial institutions		20,454	(1,137,911)
Increase in due to customers		4,419,428	2,671,536
Increase in Treasury bills sold under repurchased agreements		10,176	251,050
Increase in other liabilities		6,077	52,144
Interest received		1,703,736	1,587,072
Interest paid		(888,984)	(800,027)
Net Cash generated from operating activities		**2,654,636**	**480,751**
Cash flows from investing activities			
Purchases of intangible assets	**10**	(63,229)	(28,800)
Purchases of property and equipment	**11**	(24,842)	(25,864)
Proceeds from disposals of property plant and equipment		-	2,104
Proceeds from sale of non-current assets held for sale		-	17,965
Purchases of treasury bills		(134,579)	223,297
Purchases of government bonds		(2,108,409)	(2,100,898)
Net Cash used in investing activities		**(2,331,059)**	**(1,912,196)**
Cash flows from financing activities			
Subordinated debt		-	-
Proceeds from capital injection		139,890	110,412
Net Cash generated from financing activities		**139,890**	**110,412**
Cash and cash equivalents at the beginning of the year		**4,125,888**	**5,420,709**
Net cash provided by operating activities		2,654,636	480,751
Net cash used in investing activities		(2,331,059)	(1,912,196)
Net Cash generated from financing activities		139,890	110,412
Revaluation effect of cash and cash equivalents		3,844	26,212
Cash and cash equivalents at the end of the year	**28**	**4,593,199**	**4,125,888**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 44.

(Amounts in LEK '000 unless otherwise stated)

1. INTRODUCTION

Union Bank Sh.a. (the "Bank") is a financial institution registered as a commercial bank on 9 January 2006 based on Decision no. 101, dated 28 December 2005, of the Supervisory Board of the Bank of Albania ("BoA"). The bank's activity is subject to Law no. 8269 "On the Bank of Albania" dated 23 December 1997, Law No. 9662 "On Banks in the Republic of Albania" dated 18 December 2006 and all rules and regulations approved by the Supervisory Board of the BoA.

The Bank is a commercial bank, which provides banking services to individuals and enterprises in the Republic of Albania. The Bank is registered as a joint stock company, with the registration number 33563, dated 26 May 2005, on which date the Bank started its commercial activities. The Bank obtained its license for banking activities on 9 January 2006.

The Headquarters of the Bank are located in Tirana, Albania. As at 31 December 2012 the Bank had 289 employees (2011: 276).

Directors and Management as at 31 December 2012

Board of Directors (Supervisory Board)

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranian	Member
Agim Xhaja	Member
Paul Nabavi	Member
Gazmend Kadriu	Member
Genc Turku	Member

Audit Committee

Varuzhan Piranian	Head of Audit Committee
Mirela Lika	Member
Erton Kaleshi	Member

Executive Management

Gazmend Kadriu	Chief Executive Officer
Suela Bokshi	Chief Operations Officer
Ardian Petollari	Chief Business Officer
Arten Zikaj	Chief Financial Officer
Enkeleda Hasho	Chief Credit Officer

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency

These financial statements are presented in Albanian Lek ("LEK"), which is the Bank's functional currency. All financial information presented in LEK has been rounded to the nearest thousand, except when otherwise indicated.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs 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.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (continued)

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

Management believes that the underlying assumptions are appropriate and that the financial statements therefore present the financial position and results fairly.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency entities at the spot exchange rates at the date of the transactions. Monetary assets and denominated in foreign currencies at the reporting date are retranslated to the functional 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 translated to the functional currency at the spot exchange rate at the date that the fair value 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. Net foreign exchange gains or losses include all foreign exchange differences related to spot transactions with settlement dates two business days after the trade date, although such transactions are recognised on the settlement date.

3.2 Interest

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. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

3.3 Fees and commission

Fees and commission income and expense 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. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Lease payments

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

3.5 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.

3.5.1 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.

3.5.2 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. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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.

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.

3.5.3 Tax exposures

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 judgements about future events. New information may become available that causes the Bank to change its judgement 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.

3.6 Financial assets and financial liabilities

3.6.1 Recognition

The Bank initially recognises loans and advances, deposits, and subordinated liabilities on the date that they are originated. Regular way 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 recognised initially on the trade date, which is the date that 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 transaction costs that are directly attributable to its acquisition or issue.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial assets and financial liabilities (continued)

3.6.2 Classification

Financial assets

The Bank classifies its financial assets in one of the following categories:

- loans and receivables
- held to maturity.

See Notes 3.7, 3.8 and 3.9.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost. See Note 3.14.

3.6.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, 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.

Financial liabilities

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

3.6.4 Offsetting

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

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

3.6.5 Amortised cost measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial assets and financial liabilities (continued)

3.6.6 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial assets and financial liabilities (continued)

3.6.7 Identification and measurement of impairment (continued)

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). Based on historical data for each of these groups a loss factor is calculated. These expected loss factors are adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends, and then they are applied to estimate impairment loss on each group. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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.

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 an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. 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.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible (see Note 31). Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3.7 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central bank and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Loans and advances

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

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

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

3.9 Investment securities held-to-maturity

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as 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, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 3.6.7). A sale or reclassification of a 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 would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

3.10 Property and equipment

3.10.1 Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and when the Bank has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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 within other income in profit or loss.

3.10.2 Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(Amounts in LEK '000 unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Property and equipment (continued)

3.10.3 Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognised in profit or loss.

Depreciation is calculated using the reducing balance method at the following annual rates:

	Rate per annum
Computers	25%
Office furniture	20%
Electronic equipment	20%
Fixtures and fittings	20%

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful lives of the leasehold improvements range from 3 to 15 years. Work in progress is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.11 Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software 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.

Amortisation is recognised in profit or loss over the estimated useful life of the asset, from the date that it is available for use. Work in progress is not amortised.

Software is amortised using the reducing balance method with an annual amortization rate of 25%, while other intangible assets, including licenses and fees paid for access to electronic systems and services used by the Bank, are amortized using the straight line method with an annual rate of 15%.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.12 Non-current assets held for sale

Non-current assets are classified as held for sale as their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. If an extension of the sale period occurs it does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 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. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.14 Deposits, repurchase agreements, and subordinated liabilities

Deposits, repurchase agreements 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), the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Bank's financial statements.

3.15 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. The unwinding of the discount is recognised as finance cost.

3.16 Employee benefits

Defined contribution plans

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

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.

3.17 New standards and interpretations 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. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

- IFRS 9 *Financial Instruments* (Effective for annual periods beginning on or after 1 January 2015; to be applied prospectively. Earlier application is permitted.) This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement,* about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 New standards and interpretations not yet adopted (continued)

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Bank's financial assets are expected to change. The Bank will prepare an analysis of the impact this will have on the financial statements, and is planning to complete this analysis before the date of initial application. The Bank has not yet decided on the date that it will initially apply the new Standard.

- IFRS 13 *Fair Value Measurement* (Effective for annual periods beginning on or after 1 January 2013; to be applied prospectively. Earlier application is permitted). IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Bank is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgements, 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 Audit Committee 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 judgements 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 31).

4.1 Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.6.7.

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

4. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Impairment (continued)

A collective component of the total allowance is established for groups of homogeneous loans that are not individually impaired.

Collective allowance for groups of assets that are not considered individually significant and those that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Bank considers the market's assessment of creditworthiness as reflected in the bond yields, the rating agencies' assessments of the creditworthiness, the ability of the country to access the capital markets for new debt issuance, the probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness and the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about governments' and agencies' willingness to use those mechanisms. This includes an assessment as to the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

4.2 Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.6.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.

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

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value of treasury bills and bonds held-to-maturity is disclosed in note 32.

(Amounts in LEK '000 unless otherwise stated)

5. CASH AND BALANCES WITH CENTRAL BANK

Cash and balances with the Central Bank are detailed as following:

	31 December 2012	31 December 2011
Cash on hand	799,151	595,410
Central Bank:		
Current account	79,968	21,882
Compulsory reserves	2,029,125	1,901,681
Accrued interest	670	687
Total	**2,908,914**	**2,519,660**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a compulsory reserve account. This reserve is not available for use in the Bank's day to day operations, however according to the applicable regulations the Bank can make use of up to 40% of the compulsory reserve, provided that the monthly average balance of accounts with the Central Bank (current account plus compulsory reserve) does not fall below the compulsory reserve level.

6. PLACEMENTS AND BALANCES WITH BANKS

Placements and balances with banks are detailed as follows:

	31 December 2012	31 December 2011
Current accounts:		
Resident	-	-
Non-resident	1,417,251	581,830
	1,417,251	**581,830**
Deposits:		
Resident	457,140	275,740
Non-resident	698,610	1,667,160
	1,155,750	**1,942,900**
Other accounts	59,673	151,511
Accrued interest	17	1,123
Total	**2,632,691**	**2,677,364**

Deposits with resident and non-resident banks mature in the range of 2 to 7 days (2011: 4 days to 3 months) and bear interest in the range of 0.15%p.a. to 0.4%p.a. (2011: 0.15%p.a. to 4.75%p.a.).

7. TREASURY BILLS HELD-TO-MATURITY

Treasury Bills held-to-maturity ("T-Bills") at 31 December 2012 are issued by the Albanian Government.

T-Bills by original maturity are presented as follows:

	31 December 2012			31 December 2011		
	Nominal value	**Remaining discount**	**Book Value**	**Nominal value**	**Remaining discount**	**Book Value**
3 months	100,000	(1,141)	98,859	-	-	-
6 months	93,255	(2,211)	91,044	-	-	-
12 months	2,261,391	(60,356)	2,201,035	2,158,433	(59,287)	2,099,146
Total	**2,454,646**	**(63,708)**	**2,390,938**	**2,158,433**	**(59,287)**	**2,099,146**

(Amounts in LEK '000 unless otherwise stated)

8. TREASURY BONDS HELD-TO-MATURITY

Treasury Bonds held-to-maturity ("Bonds") are issued by the Albanian Government. The interests are paid semi-annually.

Treasury Bonds by original maturity are presented as follows:

31 December 2012

	Nominal value	Remaining discount	Accrued interest	Book Value
24 months	4,560,000	-	89,027	4,649,027
36 months	800,000	-	22,700	822,700
60 months	668,770	(1,199)	8,212	675,783
Total	**6,028,770**	**(1,199)**	**119,939**	**6,147,510**

31 December 2011

	Nominal value	Remaining discount	Accrued interest	Book Value
24 months	3,383,571	-	70,289	3,453,860
36 months	120,000	-	2,573	122,573
60 months	416,790	(1,613)	4,967	420,144
Total	**3,920,361**	**(1,613)**	**77,829**	**3,996,577**

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2012	31 December 2011
Loans	9,247,579	7,354,523
Overdrafts	4,308,229	4,241,626
Other advances to customers	64,655	46,020
	13,620,463	**11,642,169**
Accrued interest	111,344	92,676
Allowances for losses on loans and advances	(499,271)	(349,812)
Deferred income	(49,136)	(45,128)
Total	**13,183,400**	**11,339,905**

Loans and advances to customers earn interest as follows:

Currency	**2012**	**2011**
LEK	3.50% - 20.0% p.a.	3.5% - 20.0% p.a.
EUR	2.79% - 15.5% p.a.	3.1% - 15.5% p.a.
USD	3.40% - 11.0% p.a.	1.8% - 10.8% p.a.

The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals or are granted to personnel under special conditions.

Loan by type of customer are presented as follows:

	31 December 2012		31 December 2011	
	Amount	**%**	**Amount**	**%**
Business Enterprises	9,758,954	72%	8,856,842	76%
Individuals	3,861,509	28%	2,785,327	24%
Total	**13,620,463**	**100%**	**11,642,169**	**100%**

Movements in the allowance for impairment on loans are as follows:

	31 December 2012	31 December 2011
As at 1 January	349,812	332,649
Net impairment charge for the year	148,447	20,992
Translation differences	1,012	(3,829)
Balance at the end of the year	**499,271**	**349,812**

(Amounts in LEK '000 unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The following table presents the distribution of the Bank's credit exposure by industry sector for loans and advances to customers:

	31 December 2012 Amount	**%**	**31 December 2011 Amount**	**%**
Trade	3,274,611	24%	3,175,723	27%
Real Estate	2,389,477	17%	1,708,465	15%
Other services	2,050,375	15%	2,116,487	18%
Construction	1,954,853	14%	1,553,403	13%
Consumer	1,472,032	11%	1,076,862	9%
Hotels and restaurants	869,002	6%	542,371	5%
Processing industry	420,232	3%	466,648	4%
Education	370,203	3%	328,302	3%
Transportation, storing, telecommunication	352,897	3%	244,933	2%
Production, transmission of electricity, gas, water	289,491	2%	283,806	2%
Financial services	118,119	1%	100,357	1%
Agriculture and forestry	59,171	1%	44,812	1%
Total	**13,620,463**	**100%**	**11,642,169**	**100%**

10. INTANGIBLE ASSETS

	Software	**Other intangible assets**	**Intangible assets in progress**	**Total**
At 1 January 2011				
Cost	122,202	24,312	4,012	150,526
Accumulated amortization	(60,256)	(11,724)	-	(71,980)
Net book amount	**61,946**	**12,588**	**4,012**	**78,546**
Year ended December 2011				
Opening net book amount	61,946	12,588	4,012	78,546
Additions	25,906	-	2,894	28,800
Amortization charge	(16,468)	(3,647)	-	(20,115)
Closing net book amount	**71,384**	**8,941**	**6,906**	**87,231**
At 31 December 2011				
Cost	148,108	24,312	6,906	179,326
Accumulated amortization	(76,724)	(15,371)	-	(92,095)
Net book amount	**71,384**	**8,941**	**6,906**	**87,231**
Year ended December 2012				
Opening net book amount	71,384	8,941	6,906	87,231
Additions	1,539	13,944	47,746	63,229
Amortization charge	(18,124)	(4,708)	-	(22,832)
Closing net book amount	**54,799**	**18,177**	**54,652**	**127,628**
At 31 December 2012				
Cost	149,647	38,256	54,652	242,555
Accumulated amortization	(94,848)	(20,079)	-	(114,927)
Net book amount	**54,799**	**18,177**	**54,652**	**127,628**

"Other intangible assets" includes payments made to First Data Hellas ("FDH") for developing the ATM network supporting systems and the installation, customization, certification and on-line links between FDH's ATM host system and the Bank's system, as well as payments made for SWIFT and CIS joining, interface and access fees.

(Amounts in LEK '000 unless otherwise stated)

11. PROPERTY AND EQUIPMENT

	Computers	Electronic equipment	Office Furniture	Fixtures and Fittings	Fixed assets in progress	Leasehold improvements	Total
At 1 January 2011							
Cost	145,713	84,461	39,586	13,544	10,856	150,630	444,790
Accumulated depreciation	(89,689)	(39,557)	(18,203)	(4,083)	-	(69,079)	(220,611)
Net book amount	**56,024**	**44,904**	**21,383**	**9,461**	**10,856**	**81,551**	**224,179**
Year ended December 2011							
Opening net book amount	56,024	44,904	21,383	9,461	10,856	81,551	224,179
Additions	10,198	2,897	2,806	-	7,403	2,560	25,864
Disposals	(621)	(965)	(166)	(4,643)	(224)	(10,542)	(17,161)
Depreciation charge	(14,533)	(9,191)	(4,476)	(1,815)	-	(11,741)	(41,756)
Depreciation charge for disposals	451	409	92	2,728	-	6,272	9,952
Closing net book amount	**51,519**	**38,054**	**19,639**	**5,731**	**18,035**	**68,100**	**201,078**
At 31 December 2011							
Cost	155,290	86,393	42,226	8,901	18,035	142,648	453,493
Accumulated depreciation	(103,771)	(48,339)	(22,587)	(3,170)	-	(74,548)	(252,415)
Net book amount	**51,519**	**38,054**	**19,639**	**5,731**	**18,035**	**68,100**	**201,078**
Year ended December 2012							
Opening net book amount	51,519	38,054	19,639	5,731	18,035	68,100	201,078
Additions	11,693	6,253	1,940	1,079	(4,974)	8,851	24,842
Disposals	(474)	(1,144)	(55)	-	-	-	(1,673)
Depreciation charge	(15,010)	(8,379)	(4,111)	(1,146)	-	(10,362)	(39,008)
Depreciation charge for disposals	338	762	39	-	-	-	1,139
Closing net book amount	**48,066**	**35,546**	**17,452**	**5,664**	**13,061**	**66,589**	**186,378**
At 31 December 2012							
Cost	166,509	91,502	44,111	9,980	13,061	151,499	476,662
Accumulated depreciation	(118,443)	(55,956)	(26,659)	(4,316)	-	(84,910)	(290,284)
Net book amount	**48,066**	**35,546**	**17,452**	**5,664**	**13,061**	**66,589**	**186,378**

Leasehold improvements relate to the expenditures made by the Bank for the reconstruction of leased premises used for the branches.

(Amounts in LEK '000 unless otherwise stated)

12. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell them for the best offer within a year from their acquisition.

Non-current assets held for sale as at 31 December 2012 are measured with the lower of its carrying amount and fair value less costs to sell, amounting to LEK 299,810 thousand (2011: LEK 253,143 thousand). As at 31 December 2012 an impairment of LEK 5,912 thousand is recognized for these non-current assets.

13. OTHER ASSETS

Other assets are comprised of the following:

	31 December 2012	31 December 2011
Monetary values in transit	135,864	181,438
Sundry debtors	29,986	17,683
Prepayments	13,646	19,038
Accrued income	11,550	14,854
Inventory	3,767	1,845
Payment in transit	2,745	577
Guarantee deposit paid	698	695
Total	**198,256**	**236,130**

Monetary values in transit represent transactions with banks and financial institutions, with agreed settlement dates in the first days of the subsequent year.

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Amounts due to banks and financial institutions are detailed as follows:

	31 December 2012	31 December 2011
Current accounts:		
Resident	14,356	340,342
Non-resident	46,202	33,739
	60,558	**374,081**
Term deposits:		
Resident	815,109	863,035
Non-resident	33,300	52,793
	848,409	**915,828**
Borrowings:		
Resident	400,000	-
Non-resident	-	-
	400,000	**-**
Other accounts:		
Resident	20	20
Non-resident	1,396	-
	1,416	**20**
Accrued interest	3,765	11,148
Total	**1,314,148**	**1,301,077**

Term deposits from resident financial institutions mature in the range of 10 days to 12 months (2011: in 12 months) and bear interest from 1.4%p.a. to 4.2%p.a. (2011: 3.3%p.a. to 4.5%p.a.). These funds are deposited by Unioni Financiar Tirane ('UFT' or the main shareholder of the Bank) and represent mainly collateral for loans issued by the Bank to related parties.

(Amounts in LEK '000 unless otherwise stated)

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS (CONTINUED)

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', a related party, of LEK 22,715 thousand (2011: LEK 11,114 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates ranging from 3.7%p.a. to 4%p.a. (2011: 4.2%p.a.).

15. DUE TO CUSTOMERS

Customer accounts for enterprises, private entrepreneurs and individuals consisted of current and deposit accounts as follows:

	31 December 2012	**31 December 2011**
Government and public administration		
Local currency	23,940	-
Foreign currency	170,107	21,823
	194,047	**21,823**
Current accounts:		
Local currency	1,674,591	1,864,414
Foreign currency	1,257,963	935,680
	2,932,554	**2,800,094**
Saving accounts:		
Local currency	830,438	507,954
Foreign currency	1,403,917	1,427,244
	2,234,355	**1,935,198**
Term deposits:		
Local currency	9,928,851	7,239,248
Foreign currency	8,122,387	6,995,757
	18,051,238	**14,235,005**
Other customer accounts:		
Local currency	119,289	68,705
Foreign currency	195,852	223,512
	315,141	**292,217**
Prepaid interest on customer deposits	(23,570)	-
Accrued interest	328,134	264,282
Total	**24,031,899**	**19,548,619**

Current and saving accounts bear interest in the range of 0.1% p.a. to 0.4% p.a. (2011: 0.2% p.a. to 0.4% p.a.) and term deposits bear interest as follows:

Currency	**2012**	**2011**
LEK	2.70%p.a. to 7.90%p.a.	2.90%p.a. to 8.40%p.a.
EUR	1.20%p.a. to 4.60%p.a.	1.20%p.a. to 5.50%p.a.
USD	0.90%p.a. to 3.50%p.a.	0.20%p.a. to 2.90%p.a.
GBP	1.20%p.a. to 4.60%p.a.	0.90%p.a. to 1.05%p.a.

Other customer accounts represent blocked accounts for tender or contract guarantees, other bank guarantees and initial capital blocked by customers in the process of the establishment of their own companies.

(Amounts in LEK '000 unless otherwise stated)

15. DUE TO CUSTOMERS (CONTINUED)

Customer accounts and deposits could be further analyzed by products as follows:

			31 December 2012			**31 December 2011**
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Current accounts (including Government and administration)	**1,698,531**	**1,428,070**	**3,126,601**	**1,864,414**	**957,503**	**2,821,917**
Saving accounts	**830,438**	**1,403,917**	**2,234,355**	**507,954**	**1,427,244**	**1,935,198**
Term deposits:						
One month	37,592	63,584	101,176	64,175	109,933	174,108
Three months	329,599	541,509	871,108	402,736	485,426	888,162
Six months	461,776	473,813	935,589	400,086	606,219	1,006,305
Twelve months	3,472,945	3,213,325	6,686,270	3,261,341	3,421,625	6,682,966
Fourteen months	2,041,360	1,461,631	3,502,991	1,659,100	1,118,810	2,777,910
Twenty-four months	594,578	230,236	824,814	403,379	429,840	833,219
Twenty-five months	1,421,665	1,061,593	2,483,258	-	-	-
Other	1,569,336	1,076,696	2,646,032	1,048,431	823,904	1,872,335
Total deposits	**9,928,851**	**8,122,387**	**18,051,238**	**7,239,248**	**6,995,757**	**14,235,005**
Other customer accounts:						
On demand	16,222	5,598	21,820	12,883	6,460	19,343
Three months	-	6,282	6,282	-	-	-
Six months	300	363	663	300	-	300
Twelve months	31,038	105,220	136,258	12,726	110,331	123,057
Other	71,729	78,389	150,118	42,796	106,721	149,517
Total other customer accounts	**119,289**	**195,852**	**315,141**	**68,705**	**223,512**	**292,217**
Total	**12,577,109**	**11,150,226**	**23,727,335**	**9,680,321**	**9,604,016**	**19,284,337**

"Other" includes deposits with initial maturities of 4 months, 7 months and 21 months.

(Amounts in LEK '000 unless otherwise stated)

16. TREASURY BILLS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2012	31 December 2011
Treasury bills sold under repurchased agreements	261,226	251,050
Accrued interest	146	1,169
Total	**261,372**	**252,219**

Treasury bills sold under repurchase agreements "Repos" are short term liquidity management instruments issued by the Central Bank to inject liquidity in the banking system. Repos bear interest at market rates ranging from 4.07% p.a. to 4.12% p.a (2011: 5.45% p.a. to 5.5% p.a) and are denominated in LEK.

17. OTHER LIABILITIES

Other liabilities are comprised of the following:

	31 December 2012	31 December 2011
Payment in transit	75,050	80,166
Invoices to be received	36,638	27,960
Other	15,045	13,277
Other provisions for risk and expenses	2,132	2,132
Deferred income and accrued expenses	2,608	1,350
Sundry creditors	414	925
Total	**131,887**	**125,810**

Payment in transit accounts represent outbound international money transfers with agreed settlement dates in the first days of the subsequent year.

18. SUBORDINATED DEBT

The amount of subordinated debt represents the remaining balance of a loan provided by the Bank's shareholders in previous years, to enable the Bank to maintain the minimum regulatory capital requirements until the subscription and contribution of EBRD for new shares issued. Following the subscription of such shares on 8 October 2008 and pursuant to regulatory requirements, the remaining balance of the subordinated loan was treated as a commitment for capital injections and is expected to be utilized as paid-in capital in future periods.

19. SHARE CAPITAL

Based on Shareholders' Decision dated 28 September 2012, the subscribed capital was increased by 200 thousand shares using the following contributions of UFT (the main shareholder of the Bank):

- 28 September 2012: contribution in 50,000 shares with a total nominal value of EUR 500 thousand;
- 31 December 2012: contribution in 50,000 shares with a total nominal value of EUR 500 thousand;
- 26 March 2013: contribution in 100,000 shares with a total nominal value of EUR 1,000 thousand (see note 34).

At 31 December 2012, the subscribed capital was LEK 2,438,857 thousand (2011: LEK 2,159,197 thousand) divided into 1,897,143 shares (2011: 1,697,143 shares) with a nominal value of EUR 10 each, while the movements in the paid up share capital in 2012 and 2011 were as follows:

	31 December 2012		31 December 2011	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	1,697,143	2,159,743	1,617,143	2,049,331
Capital injection during the year	100,000	139,890	80,000	110,412
Paid-up share capital	**1,797,143**	**2,299,633**	**1,697,143**	**2,159,743**

(Amounts in LEK ‘000 unless otherwise stated)

19. SHARE CAPITAL (CONTINUED)

The structure of subscribed capital is as follows:

	2012	**2011**
Unioni Financiar Tirane (UFT) Sh.p.k	84.90%	83.12%
European Bank for Reconstruction and Development (EBRD)	11.18%	12.50%
Edmond Leka	1.96%	2.19%
Niko Leka	1.96%	2.19%

Paid-up share capital represents ordinary share capital and has no preferences or restrictions attached thereto.

20. INTEREST INCOME

Interest income was earned on the following assets:

	2012	**2011**
Loans and advances to customers	1,171,569	1,073,022
Investment securities	554,651	384,987
Loans and advances to banks & financial institutions	37,585	69,122
Total	**1,763,805**	**1,527,131**

21. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	2012	**2011**
Due to customers	895,350	732,959
Loans and advances from financial institutions	36,654	66,933
Repurchase agreements	12,400	5,955
Subordinated debt	26	29
Total	**944,430**	**805,876**

22. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	2012	**2011**
Banking services	123,226	132,629
Other	30,011	31,910
Lending activity	3,642	4,112
Total	**156,879**	**168,651**

23. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	2012	**2011**
Fee charged for services offered from the agents	21,019	18,146
Banking services	5,160	4,450
Other	4,692	3,458
Treasury operations	4,213	2,889
Total	**35,084**	**28,943**

24. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain includes gains less losses from trading activities and foreign currency differences arising on retranslation. Net foreign exchange gain in 2012 is LEK 72,156 thousand (2011: LEK 68,831 thousand).

(Amounts in LEK '000 unless otherwise stated)

25. PERSONNEL COSTS

	2012	2011
Salaries and other compensations	292,480	269,890
Social insurance	32,597	29,726
Total	**325,077**	**299,616**

26. OTHER OPERATING EXPENSES

	2012	2011
Rent	127,316	115,776
Other external services	70,528	66,856
Deposit insurance premium	55,367	42,832
Communication expenses	37,640	37,486
Marketing	35,536	30,188
Security services	29,828	30,701
Software maintenance	28,400	16,153
Utilities, energy, water etc.	19,422	18,867
Maintenance and repairs	16,245	16,052
Office supply	14,825	13,796
Transportation and business trip expenses	7,119	6,380
Consulting and legal fees	5,649	5,966
Insurance	5,392	6,634
Trainings	1,052	866
Board remuneration	3,995	2,734
Representation	1,264	834
Total	**459,578**	**412,121**

27. INCOME TAX

	2012	2011
Current tax expense	-	-
Deferred tax expense	2,374	8,520
Total tax expense	**2,374**	**8,520**

Income tax in Albania is assessed at the rate of 10% (2011: 10%) of taxable income. The following represents a reconciliation of the accounting profit to the taxable profit:

	2012	2011
Profit before tax	**13,815**	**131,255**
Impairment of non-current assets	5,912	-
Loan loss allowances in excess of limits	-	4,435
Adjustment for start up costs	(2,327)	(3,507)
Un-deductible expenses:	9,912	11,290
Staff expenses	3,574	3,467
Other	5,888	5,276
Fine, penalties	450	2,547
Taxable profit	**27,312**	**143,473**
Utilization of tax losses carried forward	**(27,312)**	**(143,473)**
Taxable profit	**-**	**-**
Current tax at 10%	**-**	**-**

(Amounts in LEK '000 unless otherwise stated)

27. INCOME TAX (CONTINUED)

	2012	2011
Losses carried forward from 2010 at beginning of the year	**54,747**	**198,220**
Utilization of tax losses	(27,312)	(143,473)
Unutilized tax losses from 2010 (expire in 2013)	**27,435**	**54,747**

The carry forward period for any tax losses in accordance with the Albanian Tax Law is three years. Deferred tax assets recognized in respect of tax losses extended to the management future estimate of probable taxable profit that will be available against which the losses can be utilized.

The movements in deferred tax assets and liabilities are presented as follows:

	31 December 2012	31 December 2011
Deferred tax asset at the beginning of the year	5,708	17,789
Recognized in statement of comprehensive income	(2,374)	(12,081)
Deferred tax asset at the end of the year	**3,334**	**5,708**
Deferred tax liability at the beginning of the year	16,499	20,060
Recognized in statement of comprehensive income	-	(3,561)
Deferred tax liability at the end of the year	**16,499**	**16,499**

Deferred tax assets and liabilities are attributable to the following items:

	31 December 2012	31 December 2011
Deferred tax asset:		
Start-up costs	-	233
Non-current assets held for sale	591	-
Tax losses carried forward	2,743	5,475
	3,334	**5,708**
Deferred tax liability:		
Allowances for losses on loans and advances	16,499	16,499
	16,499	**16,499**

Based on the local accounting law, starting from 1 January 2008 the Bank must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances on loans and advances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors and are not in excess of the limits determined by the Central Bank. However, the impact of these changes in the legislation, on the financial statements of the Bank, are still uncertain and guidelines on the tax impact for IFRS reporting not yet clear.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	31 December 2012	31 December 2011
Cash on hand	799,151	595,410
Accounts with Central Bank	79,968	21,882
Accounts with financial institutions with maturity of less than 3 months	2,573,001	2,524,730
Treasury bills with maturity of less than 3 months	1,141,079	983,866
Total	**4,593,199**	**4,125,888**

(Amounts in LEK '000 unless otherwise stated)

29. RELATED PARTIES

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not the merely to the legal form.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The shareholding structure of the Bank as at 31 December 2012 and 2011 is presented in Note 19.

Associated entities include Union Distribucion Servis Albania Shpk, Media Union Shpk, Union Travel Shpk, Albanian Courier Shpk, Intergrafika Shpk, United Transport, Union Group Shpk, Uni-Com Sha, Albanian Courier Service Shpk, Auto Master Sha, United Motors Shpk, S-Systems Sha, Klubi i Automobilit te Shqiperise, Atex Shpk, Union Distribucion Shpk, Auto City Sha, Pluton Investor Shpk, Arch Investor Shpk, Union Of Financial Corners, Plus Communication, Auto Net Shpk, Press Point Albania Shpk, Press Point El, Uni-Cons Shpk, Auto Master Service Shpk, Union Smart Security Shpk, Union Net Shpk, Paylink Sha.

As at each reporting date the Bank has the following balances with its related parties:

	As at 31 December 2012	As at 31 December 2011
Assets:		
Loans and advances to customers:		
Parent company	-	-
Associated entities	1,036,104	1,322,518
Management personnel of the entity or its parent and their relatives	107,359	50,148
Other Assets:		
Parent company	761	994
Associated entities	377	282
Management personnel of the entity or its parent and their relatives	659	9
Liabilities:		
Due to banks and FI:		
Parent company	832,566	1,214,481
Associated entities	23,707	11,301
EBRD	-	-
Due to customers:		
Associated entities	231,647	398,162
Management personnel of the entity or its parent and their relatives	240,475	222,178
Other Liabilities:		
Parent company	223	625
Associated entities	3,843	2,983
Management personnel of the entity or its parent and their relatives	-	-
EBRD	140	69
Subordinated debt:		
Parent company	1,047	1,042

Loans to associated entities in the amount of LEK 625,494 thousand (2011: LEK 1,002,943 thousand) are covered by cash collateral and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

(Amounts in LEK '000 unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2012	31 December 2011
Off Statement of Financial Position		
Un-drawn credit facilities from the Bank:		
Associated entities	5,363	15,366
Management personnel of the entity or its parent and their relatives	19,145	19,040
Guarantees received:		
Parent company	497,579	1,366,606
Associated entities	565,773	691,031
Management personnel of the entity or its parent and their relatives	415,060	365,275
Guarantees given:		
Parent company	20	20
Associated entities	34,637	34,854
Commitments given:		
Associated entities	-	73,147

The Bank has entered into the following transactions with related parties:

	2012	2011
Interest income:		
Parent company	86	465
Associated entities	85,841	97,130
Management personnel of the entity or its parent and their relatives	6,995	4,495
Interest expense:		
Parent company	31,982	59,450
Associated entities	5,985	11,959
Management personnel of the entity or its parent and their relatives	4,648	4,367
EBRD	-	12,259
Fees and commission income:		
Parent company	9,033	4,772
Associated entities	3,509	4,928
Management personnel of the entity or its parent and their relatives	568	348
Fees and commission expense:		
EBRD	-	1,418
Operating income:		
Associated entities	-	1,494
Operating expense:		
Parent company	2,674	2,361
Associated entities	42,635	36,023
Management personnel of the entity or its parent and their relatives	134,821	118,216
Other shareholders	787	69

(Amounts in LEK ‘000 unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	31 December 2012	31 December 2011
Guarantees given in favor of customers	446,193	637,027
Un-drawn credit facilities	746,276	860,981

Guarantees and commitments

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees received from customers and credit institutions include cash collateral, mortgages pledged in favor of the bank from its borrowers.

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Legal

The Bank was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2012. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Bank’s management is of the opinion that no material losses will be incurred in relation to legal claims.

Operating lease commitments

The Bank has entered into non-cancelable lease commitments. Such commitments are composed as follows:

	31 December 2012	31 December 2011
Not later than 1 year	87,071	80,013
Later than 1 year and not later than 5 years	195	361
Total	**87,266**	**80,374**

31. FINANCIAL RISK MANAGEMENT

The Bank’s activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are inevitable consequence of being in business. The Bank’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank’s financial performance.

The Bank’s risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems.

The most important types of risk are discussed below.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank is subject to credit risk through its lending activities, and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees in this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations.

The Board of Directors has delegated responsibility for the oversight of credit risk to its Bank Credit Committee. A separate Bank Credit Department, reporting to the Bank Executive Management is responsible for 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.
- Establishing the authorization structure for the approval and renewal of credit facilities. Credit facilities approvals and renewals require approval by Credit Department, Head of Credit Department, Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances).
- Developing and maintaining the Bank's risk grading 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 grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Bank's Executive Management.
- Reviewing compliance of business units with agreed exposure limits. Regular reports on the credit quality of local portfolios are provided to Bank Credit Department who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Department and Credit Committee. Each business unit has a responsible officer who reports on all credit related matters to local management and the Bank Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. In addition, regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Maximum credit exposure

Maximum exposure to credit risk before collateral held or other credit enhancements are as follows:

	31 December 2012	31 December 2011
Treasury Bills held-to-maturity	2,390,938	2,099,146
Placements and balances with banks	2,632,691	2,677,364
Loans and advances to customers	13,183,400	11,339,905
Treasury Bonds held-to-maturity	6,147,510	3,996,577
Financial guarantees	446,193	637,027
Commitments to extend credit	746,276	860,981
Maximum exposures to credit risk	**25,547,008**	**21,611,000**

Exposure to credit risk is also managed in part by obtaining collateral and guarantees. The principal collateral types are:

- Mortgage over residential properties
- Pledges over business assets and inventories
- Deposits and accounts placed (cash collateral)
- Personal guarantee for the loan

In addition to the term loans and business overdrafts that are secured by the above type of collateral, overdrafts on payroll accounts are extended to individuals as well. No pledges are taken for these advances as the monthly salary offsets the used part of the limit given. Financial guaranties and stand-by letters of credit are cash-collateralized.

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It consists in the specific loss component that relates to individually significant exposures.

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances are summarized as follows:

As at 31 December 2012			**Loans and advances to customers**		**Placements and balances with banks**
	Retail	**Corporate**	**Advances**	**Total Loans**	
Neither past due nor impaired	2,734,965	3,714,857	2,210,684	8,660,506	2,632,691
Past due but not impaired	480,353	933,139	1,762,772	3,176,264	-
Individually impaired	142,810	1,260,066	443,025	1,845,901	-
Total Gross	**3,358,128**	**5,908,062**	**4,416,481**	**13,682,671**	**2,632,691**
Less: allowance for individually impaired loans	56,174	214,650	89,128	359,952	
Less: allowance for collectively impaired loans	27,385	70,913	41,021	139,319	-
Total Allowance for impairment	**83,559**	**285,563**	**130,149**	**499,271**	**-**

As at 31 December 2011			**Loans and advances to customers**		**Placements and balances with banks**
	Retail	**Corporate**	**Advances**	**Total Loans**	
Neither past due nor impaired	2,026,430	3,591,537	3,176,750	8,794,717	2,677,364
Past due but not impaired	313,261	828,216	967,520	2,108,997	-
Individually impaired	68,739	530,306	186,958	786,003	-
Total Gross	**2,408,430**	**4,950,059**	**4,331,228**	**11,689,717**	**2,677,364**
Less: allowance for individually impaired loans	51,593	132,520	71,227	255,340	-
Less: allowance for collectively impaired loans	18,969	46,612	28,891	94,472	-
Total Allowance for impairment	**70,562**	**179,132**	**100,118**	**349,812**	**-**

The total impairment charge for loans and advances is LEK 499,271 thousand (2011: LEK 349,812 thousand).

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances neither past due nor impaired

As per Bank's internal credit rating, loans and advances that are neither past due nor impaired are classified as below:

As at 31 December 2012

Rating	Loans and advances to customers				Placements and balances with banks
	Retail	Corporate	Advances	Total Loans	
Good	2,734,553	3,714,857	1,997,691	8,447,101	2,632,691
Acceptable	412	-	212,993	213,405	-
Close monitoring	-	-	-	-	-
Unacceptable	-	-	-	-	-
Total	**2,734,965**	**3,714,857**	**2,210,684**	**8,660,506**	**2,632,691**

As at 31 December 2011

Rating	Loans and advances to customers				Placements and balances with banks
	Retail	Corporate	Advances	Total Loans	
Good	1,990,429	3,555,785	2,966,242	8,512,456	2,677,364
Acceptable	34,893	27,383	-	62,276	-
Close monitoring	1,108	8,369	210,508	219,985	-
Unacceptable	-	-	-	-	-
Total	**2,026,430**	**3,591,537**	**3,176,750**	**8,794,717**	**2,677,364**

Loans and advances past due but not impaired

Below is the ageing analysis of loans past due but not individually impaired.

As at 31 December 2012

	Loans and advances to customers			
Time band	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	321,942	683,755	107,255	1,112,952
Past due 31-60 days	100,352	48,346	382,252	530,950
Past due 61-90 days	49,192	184,163	1,164,978	1,398,333
Past due 91-180 days	8,867	16,875	32,867	58,609
Past due over 180 days	-	-	75,420	75,420
Total	**480,353**	**933,139**	**1,762,772**	**3,176,264**
Estimation of fair value of collateral	**2,191,108**	**3,711,350**	**3,864,096**	**9,766,554**

Loans and advances past due over 90 days are collateralized by cash amounting at LEK 62,311 thousand (2011: LEK 334,957 thousand).

As at 31 December 2011

	Loans and advances to customers			
Time band	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	241,836	685,128	134,801	1,061,765
Past due 31-60 days	47,807	27,591	116,201	191,599
Past due 61-90 days	22,226	75,333	98,417	195,976
Past due 91-180 days	898	35,729	543,963	580,590
Past due over 180 days	494	4,435	74,138	79,067
Total	**313,261**	**828,216**	**967,520**	**2,108,997**
Estimation of fair value of collateral	**1,941,218**	**4,059,601**	**1,629,389**	**7,630,208**

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 1,845,901 thousand (2011: LEK 786,003 thousand).

The breakdown of the gross amount of the individually impaired loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

As at 31 December 2012	**Loans and advances to customers**			
	Retail	**Corporate**	**Advances**	**Total Loans**
Individually impaired	142,810	1,260,066	443,025	1,845,901
Collateral	324,012	9,077,646	631,114	10,032,772
As at 31 December 2011	**Loans and advances to customers**			
	Retail	**Corporate**	**Advances**	**Total Loans**
Individually impaired	68,739	530,306	186,958	786,003
Collateral	205,526	6,727,390	272,635	7,205,551

Included in collateral used to secure the corporate loans is an amount of LEK 5,376,408 thousand, which represents a portion of the real estate collaterals received from a single borrower of the Bank that is not a first mortgage. Therefore, the Bank will not have the first claim in the event of a default by that borrower.

Loans and advances renegotiated

Restructuring activities include extended payment agreements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts.

The total restructured portfolio is of LEK 198,779 thousand (2011: LEK 130,345 thousand)

Write-off policy

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

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The collateral structure referring to loans past due but not impaired is similar to the collaterals structure referring to impaired loans presented below.

	Against individually impaired	**Against collectively impaired**	**Total**
Property	9,804,866	23,045,964	**32,850,830**
Pledge	227,906	9,446,988	**9,674,894**
Cash	-	2,541,805	**2,541,805**
Total	**10,032,772**	**35,034,757**	**45,067,529**

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core business lines. On an operational basis, the Bank monitors the performance of its customer deposits, and on that basis adjusts the balance of its current assets' access to funding, in order to maintain a satisfactory payment capability. On a more strategic level, the Bank through its Asset and Liability Committee ("ALCO") manages this risk by continually monitoring expected cash flows from financial instruments and adjusting its investments to match the timing of payments and receipts.

When an operating branch is subject to a liquidity limit imposed, the branch is responsible for managing its overall liquidity within regulatory limit in co-ordination with Bank's Treasury Department. Treasury Department monitors compliance for all operating branches with limits set on daily basis.

All liquidity policies and procedures are subject to annual review and approval by Board and ALCO respectively. Daily reports cover the liquidity position of both the Bank and operating branches.

The Bank relies on deposits from customer and banks, Repos and short term borrowings as its primary source of funding. The short term nature of these source of funding increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

One of the key measures used by the Bank for managing liquidity risk is the ratio of liquid assets to short term liabilities. This ratio was always above limits set by Central Bank in each and all currencies converted.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

The monitoring and control function for the Bank's investments are performed by ALCO. Bank's ALCO policy includes sets of daily, weekly and monthly reports to be prepared and analyzed. Daily report, "Liquidity Position Report", controls respectively daily inflows/outflows of liquidity till 1-year maturity, under business usual scenario. Monthly reports include ratio and gap analyses under separate bank specific and market crisis scenarios. Reports are produced for each single currency LEK, USD and EUR and for the total balance sheet as well.

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

An analysis of financial assets and liabilities according to their maturities is as follows:

	31 December 2012						
	Up to 1 month	**1 to 3 months**	**3 to 6 Months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Assets							
Cash and balances with Central Bank	2,908,914	-	-	-	-	-	**2,908,914**
Placements and balances with banks	2,573,018	-	-	49,088	-	10,585	**2,632,691**
Treasury Bills held-to-maturity	499,330	641,749	419,958	829,901	-	-	**2,390,938**
Treasury Bonds held-to-maturity	199,327	176,272	119,448	1,604,891	4,047,572	-	**6,147,510**
Loans and advances to customers	1,687,361	1,040,873	1,329,897	2,549,981	4,569,716	2,005,572	**13,183,400**
Other assets	180,145	-	-	-	-	698	**180,843**
Total	**8,048,095**	**1,858,894**	**1,869,303**	**5,033,861**	**8,617,288**	**2,016,855**	**27,444,296**
Liabilities							
Due to banks and Financial institutions	801,025	1,396	-	511,727	-	-	**1,314,148**
Due to customers	7,001,758	2,302,281	2,924,021	7,998,801	3,805,038	-	**24,031,899**
Treasury bills sold under repurchase agreement	261,372	-	-	-	-	-	**261,372**
Other liabilities	129,279	-	-	-	-	-	**129,279**
Subordinated debt	-	-	-	1,047	-	-	**1,047**
Total	**8,193,434**	**2,303,677**	**2,924,021**	**8,511,575**	**3,805,038**	**-**	**25,737,745**
Liquidity risk at 31 December 2012	**(145,339)**	**(444,783)**	**(1,054,718)**	**(3,477,714)**	**4,812,250**	**2,016,855**	**1,706,551**
Cumulative	**(145,339)**	**(590,122)**	**(1,644,840)**	**(5,122,554)**	**(310,304)**	**1,706,551**	

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	31 December 2011						
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Assets							
Cash and balances with Central Bank	2,519,660	-	-	-	-	-	**2,519,660**
Placements and balances with banks	2,525,852	-	55,572	90,305	-	5,635	**2,677,364**
Treasury Bills held-to-maturity	399,234	486,288	505,244	708,380	-	-	**2,099,146**
Treasury Bonds held-to-maturity	332,798	317,426	172,638	658,539	2,515,176	-	**3,996,577**
Loans and advances to customers	1,274,338	896,481	1,170,506	2,841,090	3,484,377	1,673,113	**11,339,905**
Other assets	214,552	-	-	-	-	695	**215,247**
Total	**7,266,434**	**1,700,195**	**1,903,960**	**4,298,314**	**5,999,553**	**1,679,443**	**22,847,899**
Liabilities							
Due to banks and Financial institutions	415,828	-	-	885,249	-	-	**1,301,077**
Due to customers	6,756,764	2,068,630	2,450,288	7,534,381	738,556	-	**19,548,619**
Treasury bills sold under repurchase agreement	-	252,219	-	-	-	-	**252,219**
Other liabilities	125,810	-	-	-	-	-	**125,810**
Subordinated debt	-	-	-	-	1,042	-	**1,042**
Total	**7,298,402**	**2,320,849**	**2,450,288**	**8,419,630**	**739,598**	**-**	**21,228,767**
Liquidity risk at 31 December 2011	**(31,968)**	**(620,654)**	**(546,328)**	**(4,121,316)**	**5,259,955**	**1,679,443**	**1,619,132**
Cumulative	**(31,968)**	**(652,622)**	**(1,198,950)**	**(5,320,266)**	**(60,311)**	**1,619,132**	**-**

(c) Market risk

The Bank is exposed to the market a risk whenever the fair value or future cash flows of a financial instrument fluctuates because of changes in market prices. Market risks arise from open positions in interest rates and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. As the currency in which the Bank presents it financial statements is the LEK, the Bank's financial statements are affected by movements in the exchange rates between the LEK and other currencies.

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Currency risk (continued)

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of comprehensive income. These exposures comprise the monetary assets and liabilities of the Bank that are not denominated in the measurement currency of the Bank. The applicable exchange rates for the principal currencies are as follows:

	2012	**2011**
EUR:LEK	139.59	138.93
USD:LEK	105.85	107.54

The analysis of monetary assets and liabilities as at 31 December 2012 by the foreign currencies in which they were denominated is shown below:

	31 December 2012				
	LEK	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,382,547	186,624	1,254,230	85,513	**2,908,914**
Placements and balances with banks	-	1,202,421	1,423,455	6,815	**2,632,691**
Treasury Bills held-to-maturity	2,295,872	-	95,066	-	**2,390,938**
Treasury Bonds held-to-maturity	5,725,047	-	422,463	-	**6,147,510**
Loans and advances to customers	3,092,188	380,049	9,669,856	41,307	**13,183,400**
Other assets	28,063	2,384	15,403	134,993	**180,843**
Total	**12,523,717**	**1,771,478**	**12,880,473**	**268,628**	**27,444,296**
Liabilities					
Due to banks and financial institutions	402,485	330,980	580,682	1	**1,314,148**
Due to customers	12,780,566	1,404,795	9,724,699	121,839	**24,031,899**
T bills sold under repurchase agreement	261,372	-	-	-	**261,372**
Other liabilities	42,354	2,475	79,828	4,622	**129,279**
Subordinated debt	-	-	1,047	-	**1,047**
Total	**13,486,777**	**1,738,250**	**10,386,256**	**126,462**	**25,737,745**
Net commitments and FX Spot transactions	220,023	16,880	204,832	(152,245)	289,490
Net Position	**(743,037)**	**50,108**	**2,699,049**	**(10,079)**	**1, 996,041**

	31 December 2011				
	LEK	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,176,457	191,257	1,082,702	69,244	**2,519,660**
Placements and balances with banks	168,244	457,403	2,017,458	34,259	**2,677,364**
Treasury Bills held-to-maturity	2,099,146	-	-	-	**2,099,146**
Treasury Bonds held-to-maturity	3,576,434	-	420,143	-	**3,996,577**
Loans and advances to customers	2,286,247	405,610	8,648,048	-	**11,339,905**
Other assets	19,738	141,422	11,555	42,532	**215,247**
Total	**9,326,266**	**1,195,692**	**12,179,906**	**146,035**	**22,847,899**
Liabilities					
Due to banks and financial institutions	674	28,790	1,271,597	16	**1,301,077**
Due to customers	9,857,836	1,113,502	8,493,631	83,650	**19,548,619**
T bills sold under repurchase agreement	252,219	-	-	-	**252,219**
Other liabilities	42,838	8,719	73,431	822	**125,810**
Subordinated debt	-	-	1,042	-	**1,042**
Total	**10,153,567**	**1,151,011**	**9,839,701**	**84,488**	**21,228,767**
Net commitments and FX Spot transactions	289,972	(47,073)	332,097	(70,042)	**504,954**
Net Position	**(537,329)**	**(2,392)**	**2,672,302**	**(8,495)**	**2,124,086**

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Bank attempts to mitigate this risk by maintaining the Repricing Gap fully matched, so that both its assets and liabilities mature and re-price simultaneously. This limits the risk of the Bank becoming over-sensitive to interest rate changes.

The Bank's interest rate gap as at 31 December 2012 is analyzed below. As at 31 December 2012, majority of the Bank's short-term financial assets and liabilities, except for the loan portfolio, carry fixed interest rates. The majority of Bank's loans and advances to customers, representing 58.5% (2011: 57%) of total assets in the statement of financial position, carry floating interest rates.

i. Effective yield information

The average effective yields of significant categories of financial assets and liabilities of the Bank were as follows:

	Weighted average interest rate							
	LEK		**USD**		**EUR**		**Other**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Assets:								
Statutory reserves	2.8%	3.325%	-	0.09 %	-	0.875%	N/A	N/A
Placements and balances with banks	N/A	4.78%	0.21%	0.70%	0.40%	0.56%	N/A	N/A
Investment securities	7.78%	7.82%	N/A	N/A	6.99%	7.50%	N/A	N/A
Loans to customers	11.42%	12.01%	7.63%	7.80%	8.15%	8.16%	3.10%	N/A
Liabilities:								
Due to banks	4.03%	N/A	1.36%	N/A	3.57%	4.12%	N/A	N/A
Due to customers	6.53%	6.62%	2.51%	1.99%	3.70%	4.43%	1.65%	0.99%
T Bills under Repos	4.09%	5.48%	N/A	N/A	N/A	N/A	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	2.10%	2.99%	N/A	N/A

ii. Interest rate repricing analysis

The following table presents the interest rate repricing dates for the Bank's assets and liabilities. Variable-rate assets have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk (continued)

31 December 2012

	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	Non interest bearing	Total
Assets							
Cash and balances with Central Bank	1,091,314	-	-	-	-	1,817,600	**2,908,914**
Placements and balances with banks	2,572,492	-	-	49,088	10,585	526	**2,632,691**
Treasury Bills held-to-maturity	499,330	641,749	419,958	829,901	-	-	**2,390,938**
Treasury Bonds held-to-maturity	150,000	150,000	180,000	1,600,000	3,947,571	119,939	**6,147,510**
Loans and advances to customers	1,701,982	1,496,605	2,692,393	6,331,473	1,509,354	(548,407)	**13,183,400**
Other assets	-	-	-	-	-	180,843	**180,843**
Total	**6,015,118**	**2,288,354**	**3,292,351**	**8,810,462**	**5,467,510**	**1,570,501**	**27,444,296**
Liabilities							
Due to banks and financial institutions	747,875	-	-	508,726	-	57,547	**1,314,148**
Due to customers	6,604,514	2,269,311	2,877,556	7,943,483	3,757,790	579,245	**24,031,899**
Treasury bills sold under repurchase agreement	261,226	-	-	-	-	146	**261,372**
Other liabilities	-	-	-	-	-	129,279	**129,279**
Subordinated debt	-	-	1,047	-	-	-	**1,047**
Total	**7,613,615**	**2,269,311**	**2,878,603**	**8,452,209**	**3,757,790**	**766,217**	**25,737,745**
Gap	**(1,598,497)**	**19,043**	**413,748**	**358,253**	**1,709,720**	**804,284**	**1,706,551**
Cumulative gap	**(1,598,497)**	**(1,579,454)**	**(1,165,706)**	**(807,453)**	**902,267**	**1,706,551**	

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk (continued)

31 December 2011

	Up to 1 month	**1-3 Month**	**3-6 Months**	**6-12 Months**	**Over 1 year**	**Non interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	957,788	-	-	-	-	1,561,872	**2,519,660**
Placements and balances with banks	2,491,344	-	55,572	90,305	5,635	34,508	**2,677,364**
Treasury Bills held-to-maturity	399,234	486,288	505,244	708,380	-	-	**2,099,146**
Treasury Bonds held-to-maturity	300,000	300,000	150,000	653,571	2,515,176	77,830	**3,996,577**
Loans and advances to customers	1,250,878	1,492,901	2,148,115	5,301,020	1,541,931	(394,940)	**11,339,905**
Other assets	-	-	-	-	-	215,247	**215,247**
Total	**5,399,244**	**2,279,189**	**2,858,931**	**6,753,276**	**4,062,742**	**1,494,517**	**22,847,899**
Liabilities							
Due to banks and financial institutions	119,573	-	-	874,150	-	307,354	**1,301,077**
Due to customers	6,533,237	2,039,357	2,410,462	7,487,197	734,371	343,995	**19,548,619**
Treasury bills sold under repurchase agreement	-	251,050	-	-	-	1,169	**252,219**
Other liabilities	-	-	-	-	-	125,810	**125,810**
Subordinated debt	1,042	-	-	-	-	-	**1,042**
Total	**6,653,852**	**2,290,407**	**2,410,462**	**8,361,347**	**734,371**	**778,328**	**21,228,767**
Gap	**(1,254,608)**	**(11,218)**	**448,469**	**(1,608,071)**	**3,328,371**	**716,189**	**1,619,132**
Cumulative gap	**(1,254,608)**	**(1,265,826)**	**(817,357)**	**(2,425,428)**	**902,943**	**1,619,132**	

(Amounts in LEK '000 unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Sensitivity analyses

The sensitivity analysis below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate in the net profit, assuming all the other variables are held constant:

	31 December 2012	**31 December 2011**
Interest rate increases by 2%	18,045	18,059
Interest rate increases by 1.5%	13,534	13,544
Interest rate increases by 1%	9,023	9,029
Interest rate decreases by 1%	(9,023)	(9,029)
Interest rate decreases by 1.5%	(13,534)	(13,544)
Interest rate decreases by 2%	(18,045)	(18,059)

The sensitivity rate, used when reporting foreign currency risk internally to key management personnel, represents management's assessment of the reasonably possible change in foreign exchange rates based on information available after the balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the change in exchange rates as described above.

Below is a stipulation of effects of changes in exchange rates in the net profit, assuming that all the other variables are held constant:

	31 December 2012	**31 December 2011**
Lek depreciates by 5%	136,954	133,071
Lek appreciates by 5%	(136,954)	(133,071)

(d) Operational risk

The operational risk is incurred on the delivery of all of the bank's products and services and arises on a daily basis as transactions are being processed. It may occur also as a result of inadequate information systems, technology failures, breaks of internal controls, and fraud or unforeseen catastrophes.

To cover for operational risk, the Bank has established a framework that incorporates clear definitions of operational risk throughout the organization, and a philosophy of business processes self-assessment. It has also developed, and is actively monitoring, the performance of key risk indicators.

The Bank's Operational Risk Committee (ORC) is periodically monitoring the occurrences of operational losses and has assigned responsibilities for mitigating losses and providing back-up solutions and risk coverage for activities subject to operational risk.

(Amounts in LEK '000 unless otherwise stated)

32. DISCLOSURE AND ESTIMATION OF FAIR VALUE

Fair value estimates are based on existing financial instruments on the bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

The table below summarizes the carrying amounts and fair values of financial assets and liabilities.

	As at 31 December 2012		As at 31 December 2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Treasury Bills held-to-maturity	2,390,938	2,393,327	2,099,146	2,102,136
Placements and balances with banks	2,632,691	2,632,691	2,677,364	2,677,364
Loans and advances to customers	13,183,400	13,183,400	11,339,905	11,339,905
Treasury Bonds held-to-maturity	6,147,510	6,200,044	3,996,577	3,992,917
Financial liabilities				
Due to other banks and financial institutions	1,314,148	1,302,274	1,301,077	1,279,073
Due to customers	24,031,899	23,442,439	19,548,619	20,464,416
Treasury bills sold under repurchase agreement	261,372	261,372	252,219	252,219
Subordinated debt	1,047	1,047	1,042	1,042

Treasury Bills held-to-maturity

Treasury Bills held-to-maturity include treasury bills issued by Government which are bought with the intention to hold them till maturity. Since no active market exists for treasury bills, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Placements and balances with banks

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

Loans and advances to customers

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

Treasury Bonds held-to-maturity

Treasury Bonds held-to-maturity include treasury bonds issued by Government which are bought with the intention to hold them till maturity. Since no active market exists for treasury bonds, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Due to banks and financial institutions

Due to banks and financial institutions have an estimated fair value approximately equal to its book value due either to their short term nature or to underlying interest rates which approximate market rates.

Due to customers

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

33. CAPITAL MANAGEMENT

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 8365 date 02.07.1998 "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

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

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

Risk-Weighted Assets (RWAs)

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

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

The Bank's policy is to maintain a strong capital base so as to sustain future development of the business and to maintain market confidence. The impact of the level of capital on future shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing within regulatory and prudential limits and the advantages and security afforded by a sound capital position.

Although the Bank continues to have accumulated losses, it has realized profit in the last three years and expects to continue realizing profits.

The Bank monitors all externally imposed capital requirements throughout the period and anticipates future needs on an ongoing basis. A capital contribution of EUR 1,000 thousand was made on 26 March 2013 (see note 34). Furthermore, the Management expects future capital contributions of EUR 1,500 thousand during the year 2013, in order to support the banking activities and comply with the requirements of the Bank of Albania. The financial statements for the year ended 31 December 2012 for regulatory purposes have not been finalized at the date of approval of these financial statements.

34. EVENTS AFTER THE REPORTING DATE

A capital contribution of EUR 1,000 thousand was made by UFT on 26 March 2013 (see note 19).

There are no other events after the reporting date that would require either adjustments or additional disclosures in the financial statements.