Annual report 2012

Fibank
First Investment Bank

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Managing Board

Stanislav Bozhkov (Deputy Chairman)
Member of the Managing Board
and Deputy Executive Director of Fibank AD

Milka Todorova (Member)
Director of Retail Banking
Department of Fibank AD

Chavdar Zlatev (Member)
Director of Corporate Banking
Department of Fibank AD

Vassil Christov (Chairman)
Member of the Managing Board
and Executive Director of Fibank AD

Ianko Karakolev (Member)
Chief Financial Officer and Director of Finance
and Accounting Department of Fibank AD

Message from the Managing Board

Dear shareholders, customers and colleagues,

Despite the challenges on the financial and economic activity, year 2012 had still a positive economic growth in Albania. It is felt the weakening of the fiscal and monetary stimuli, as well as the slowdown of private investment and consumption due to the impact of the global economic crises that continued to be present.

As an innovative bank in the Albanian Market, Fibank continued its consistent policy of business development with emphasis on customer service and increased attention to risk management, in accordance with the external environment and market conditions.

The results of this policy were positive for Fibank Albania financial indicators with a positive result on net profit of EUR 700 thousand. Assets reached to EUR 96 million at the end of the year with a capital adequacy ratio of 16.6% and a liquidity ratio of 38.6%.

In accordance with customer expectations, Fibank continues to develop its services, products and quality of service. The emphasis that we place on servicing both individuals and businesses has resulted in the development of the right products for them with advantageous features.

In the card business we mainly focused on promoting credit card for different segments but this year we put efforts into a new segment - the young people and students. Promotions and trainings to the students about credit cards and their usage became also part of Fibank social responsibility by contributing to the financial education of the market. During 2012 client satisfaction continued to be our team's top priority which is reflected on our new services, like additional currency to the card fleet and offering different notification services.

Year 2012 was a successful one and we are well aware that this could not have happened without all of you who put your confidence in us. We thank our customers for their loyalty, our shareholders for their support, our partners and all our employees for their high level of professionalism. In 2013 we will again strive to achieve even higher results, provide the best banking services, ensure the highest quality of service and assist the Albanian economy. Our accomplishments are also important to the country and society.

The Managing Board of Fibank Albania

Message from CEO

Dear All,

I have the pleasure to write the message for a successful year 2012 for Fibank Albania. It was a very challenging year but we did it! We have positive results and Fibank continued to perform really good in the Albanian market as an innovative, stable and qualitative bank.

Fibank continued its policy of business development focusing on very good products for different types of customers and on customer service quality. We increased our customer base and the range of offered products to all of them.

I am taking the opportunity to thank all our customers and I reassure them about our commitment for offering all products and services they need at the highest quality. They will always find in Fibank not only a banking service provider but also a financial adviser and a valuable guide in the economic field for their respective industry or specific needs.

An important asset of Fibank Albania is its team. Each employee was willing to give her / his own contribution on the entire teamwork. I would like to emphasize the team's role as the main factor of Fibank Albania success.

Furthermore, it is important to appreciate the role of Fibank AD for its support to our business welfare. Thanks to the expertise of a very successful and consolidated bank we can implement their knowhow, their best practices in place and we can depend on their high level of professionalism for every single detail on our business processes.

I believe year 2013 will be even more positive for Fibank Albania as all the above mentioned factors will continue to contribute to an upgraded level on professionalism and quality.

Bozhidar TODOROV
Chief Executive Officer

Macroeconomic development

During 2012 the Albanian economy faced a challenging global environment as a consequence of a difficult economic situation in the world and particularly in the euro area. The real GDP growth for the year 2012, according to INSTAT, was 1.6% (y-o-y). Although this moderate growing, Albanian economy has been one of the top performers among EU candidate countries.

During this period, the Albanian economy experienced slow foreign demand growth, increased risk premium in financial markets and tendencies of some financial market agents to reduce their exposure to the Albanian economy.

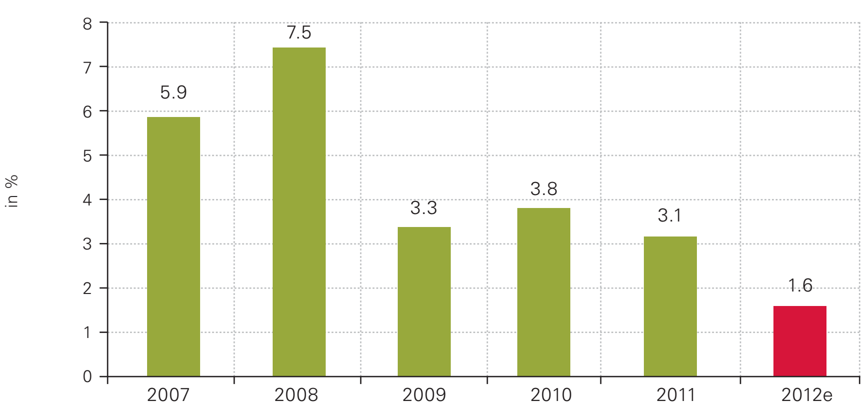
Main macroeconomic indicators

	2012	2011	2010	2009	2008
Real GDP (% yoy)	1.6	3.1	3.8	3.3	7.5
Nominal GDP (Euro bn)	10.2	9.8	9.4	8.8	8.9
Industrial output (% yoy)	3.0	3.0	2.0	1.0	4.5
Producer prices (avg. % yoy)	3.0	3.0	4.0	5.0	6.5
Consumer prices (avg. % yoy)	2.3	3.5	4.0	5.0	3.4
Consumer prices (eop % yoy)	2.5	1.7	3.5	3.5	2.2
Unemployment rate (avg. %)	13.4	14.0	13.5	13.0	12.8
General budget balance (% of GDP)	(3.5)	(3.5)	(5.7)	(7.0)	(5.5)
Public debt (% of GDP)	60.4	59.4	59.5	59.5	54.8
Current account balance (% of GDP)	(8.8)	(11.3)	(10.3)	(15.6)	(15.8)
Net foreign direct investment (% of GDP)	8.3	6.8	8.0	7.6	7.0
Official FX reserves (Euro bn)	1.9	1.9	1.9	1.6	1.7

The best performing sector of the economy were Post and Telecommunications by 21.6%, Industry group with 11.4% and other services with 9.1%. The sectors that continue to suffer were Construction and Transportation with a lower increase of 16.5% and 11.5% respectively. Agriculture group is increased by 5.6% (Year-on-Year).

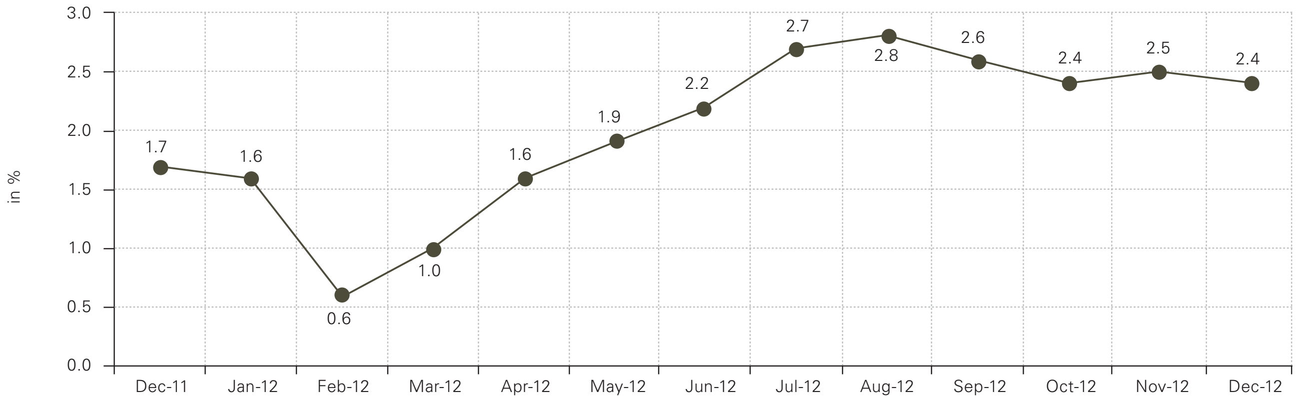
Despite the negative impact on economic growth rate, Albania's financial and macroeconomic stability was preserved.

Gross domestic product growth in %



Prudent policies have managed to keep the inflation rate within the long term target of 3.0%. Consumer Price Index (CPI) annual inflation rate increased gradually along the year, settling at 2.4% in December 2012.

Yearly changes of inflation 2011-2012



During the period January-September the Albania's FDI are increased by 21.0%. Struggling economies of Greece and Italy, which remain the main partners of our country, have had the main impact transmitting the crises into Albania. The trade deficit narrowed by 9.1% (y-o-y) due to good performance of exports which increased by 8.5%. The main trade partners remain Italy and Greece. Trade with Italy is 40.2%, while with Greece is 7.0%. Trade with the EU countries is 66.3%. Some of the partner countries with which our export and import is increased are: in exports, Austria, China, Russia, Turkey, Switzerland, etc. and in imports, Austria, Belgium, Kosovo, USA, Spain, etc.

Volume of exports of goods and services continue to underpin economic growth increasing by 8.5% (y-o-y) while imports decreased by 16.3%.

Moody's affirms Albania's B1 rating, outlook stable – confirmed rating, November 2012 S&P affirms Albania's B+/B ratings, outlook stable.

The Banking System

At the end of 2012, the Albanian banking sector continued to be composed by 16 commercial banks totally privately owned, with around 92% of the total assets invested by foreign capital.

The Albanian banking system remains well-capitalized, liquid and capable of meeting the economy's needs for credit.

During 2012 the assets of the banking system increased by 6.1% in nominal terms (data are as of end of November 2012). The deposits continue to have an important increase of 7.6%. The deposit volume growth is supported by private individual segment, which counts for 71.0% of the new volume in the market. 78.0% of new deposits volume was in term deposits thus reflecting the orientation of customers towards savings and the strengthening of their confidence in the banking sector. Deposit interest rates continued to fall, but they did not restrain the growth of savings at the banking system.

Banking system indicators

in% p.p	2012	2011	2010	%	%
Capital adequacy ratio	16.17	15.56	15.38	0.61	0.18
Return-on-equity (ROE)	3.78	0.76	7.58	3.02	(6.82)
Return-on-assets (ROA)	0.33	0.07	0.72	0.26	(0.65)
Efficiency ratio	84.43	91.29	75.50	(6.86)	15.79
Problem loans (90 days past due)	22.76	18.94	13.61	3.82	5.33

Source: Bank of Albania

The banking system remains prudent in selecting the funding projects due to diminished loan portfolio quality and uncertainties about the outlook for the future. But despite the challenges of the low domestic demand and the tightening of crediting conditions, the loan portfolio of banks increased by 2.0% during 2012. The annual growth has decelerated compared to 14.8% a year before. In particular, lending to the private sector slowed down significantly showing no increase throughout the year. Annual credit growth for the private sector was 0.4% (y-o-y), reaching its all-time low. 74.7% of the new loans in the market belong to business segment.

The growth was mainly driven by lending to the corporate sector, by 2.64 %. The loan-to-deposit ratio remained at around 58 percent, indicating that the banking system is less dependent on external financing, and has sufficient capacities to grow.

Net profit of banking system has resulted positive even NPL level is at its highest. The net profit was almost 6 times more than the previous year.

The banking activity expanded and was reorganized during 2012 in terms of opening new branches and agencies and closing some of the existing ones. The total number of outlets and agencies reached 556 (compared to 552 in December 2011). In addition, banks have reached closer to their customers by enhancing the financial infrastructure through the deployment in the country of 827 ATMs and 5014 POS's. Usage of credit and debit cards has increased over the year, in response not only to the better acquaintance of the public in this regards, but also as a result of the policies of banks to reduce maintenance and usage costs of cash.

Banking system main balance sheet items

In ALL million/%	2012	2011	2010	%	%
Assets	1,187,983	1,120,168	990,631	5.9	13.1
Business loans	401,699	389,425	330,388	3.2	17.9
Household loans	142,271	141,618	142,176	0.5	(0.4)
Deposits from private sector	971,881	905,990	798,431	7.3	13.5

Source: Bank of Albania

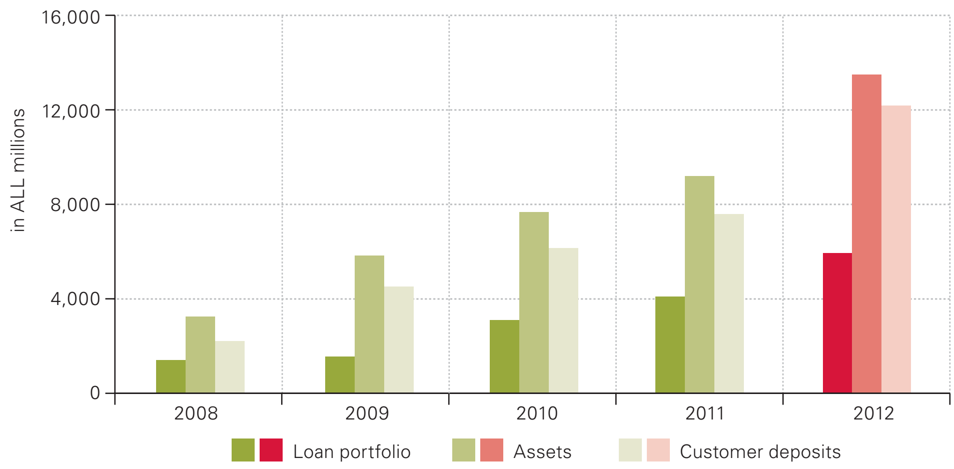
Mission

Fibank Albania aspires to be one of the best banks in Albania, recognized as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services, ensuring excellent careers for its employees, and contributing to the community.

Positive Development

In 2012, Fibank Albania successfully overcame the challenges of the external and internal environment and reported enhanced results. Despite volatile business conditions, resulting from ongoing economic crises in parts of Eurozone and neighbor countries and the strains in the financial markets, this was a year in which Fibank achieved successful and sustainable development. In all indicators of Bank performance 2012, was an outstanding successful year and for growth rate in assets, loans to customers and customer accounts Fibank Albania ranks first in the banking system in Albania. This was thanks to the strategic decisions and consistent measures implemented by the Bank in maintaining a balance between risk and profitability, as well as reinforcing the high quality of products and services while maintaining a flexible business model.

Balance sheet indictors



Bank Profile

Corporate Status

First Investment Bank - Albania incorporated in the Republic of Albania is a joint stock company established on 1 August 2005 and has its registered office in Tirana, „Deshmoret e Kombit" Blvd.Twin Towers, Tower 2 Floor 14.

The Bank has a general banking license issued by the Bank of Albania, on 6 July 2007, according to which it is allowed to conduct all banking transactions permitted by the Albanian legislation. The Bank is primarily involved in SME and retail banking.

The Bank is a subsidiary of First Investment Bank A.D. an entity incorporated in Bulgaria as a credit institution which owns 100% of the Bank shares.

Fibank Albania is a successor of the foreign branch of Fibank AD - First Investment Bank, Tirana Branch. On September 1, 2007 all assets and liabilities, rights and obligations of the Branch were transferred by Fibank Albania. The Branch has been operating on the Albanian market since 1999.

Participations and Memberships

- Albanian Association of Banks
- American Chamber of Commerce
- Albanian Foreign Investors Association
- Bulgarian-Albanian Chamber of Commerce and Industry

Correspondent relations

Fibank has a network of 7 correspondent banks, through which it performs national and international payments and trade finance operations. The Bank executes international transfers in three foreign currencies and performs different documentary operations.

Fibank is a reliable and fair partner, which has built over the years a good reputation among international financial institutions and gained valuable experience from its business partners, customers and counterparties.

Branch Network

As of December 31, 2012 Fibank Albania has a total of 9 branches throughout Albania. Branches are located in the cities of Durres, Fier, Vlore, Elbasan, Korce, Shkoder, Berat as well as in Tirana where is also the Head Office.

First Investment Bank: Dates and Facts

1999	First Investment Bank AD opens a Branch in Tirana.
2007	First Investment Bank Albania takes the license from Bank of Albania as an independent Albanian bank, with its mother bank in Bulgaria. Opens three new branches in Elbasan, Vlora dhe Korce adding them to the existing branches in Tirana and Durres. Launches a wide range of innovative banking products for all customer groups aiming to penetrate the market through specific and interesting offers.
2008	Branch network grows with other branches in Fier, Shkodra and Berat aiming to be present in the main cities by offering dedicated products and services to individual customers as well as businesses located in these cities.
2009	Fibank had an increase of 200% in investments and 160% in deposits while the assets were increased by 77%.
2010	Fibank Albania was licensed by the Financial Supervisory Authority to act as Depository of the assets of the voluntary pension funds. Fibank Albania was licensed by the Financial Supervisory Authority to act as a "Brokerage company (broker-dealer) for Albanian government securities in stock exchange and in the retail market" Fibank Albania was licensed by the Financial Supervisory Authority to act as a "Custodian for Government securities" The license "Custodian for Government securities" is closely linked with that of the brokerage activity. Fibank is the 6th bank licensed in the Albanian market. Increase on investments reached to 370%, in deposits 75% and in loans 99%.
2011	Continued the increase on main financial indicators in around 30% for deposits as well as for loans.
2012	It is ranked first in terms of growth rate in the Albanian banking system. Net profit showed a positive result of EUR 700 thousand. Assets reached to EUR 96 million at the end of the year with a capital adequacy ratio of 16.6% and a liquidity ratio of 38.6%.

Highlights 2012

January

- Fibank Albania signed an agreement with Raiffesen Pension Funds for a contribution of ALL 1,000 for its employees starting from January 2012. Employees had the choice to amend this contribution as per their needs.

February

- Fibank Albania organized a tombola for all its card customers (debit and credit). Everyone who performed a transaction with the Fibank card was automatically participant in the tombola. The first prize was a weekend for two in Montenegro and several others were also awarded.

March

- Fibank Albania was the main sponsor of the activity organised by the municipality of Berat „Summer Day celebrations". This event was organized in Berat castle from Berat Municipality and Cultural Center „Margarita Tutulani". There were a lot of participants from this city and not only.
- Fibank Albania launches a new website which reflects its group brand and structure.

April

- Fibank Albania launched the products Mortgage and Consumer loan "Spring Offer" with very favorable conditions.

May

- Fibank AD wins the first prize as „The most preferred financial institution" in Bulgaria for the second year in a row. This clasification of „The most prefered BRAND" is organised by the magasine „Busines Lady" and reflects the consumers expectations as well as the efficiency of the offered products and services.

June

- Fibank Albania launched an image campaign with a short football themed spot during the European football championship Euro 2012.
- Fibank AD was granted the prestigious "Bank of the year 2011" award, in the annual ranking of "Bank of the Year" Association, with the best complex performance in terms of market share, efficiency and development dynamics. It was also awarded the prize for market share for e second consecutive year.

July

- Fibank Albania started to offer credit cards in USD, being the only bank in the country offering credit cards in this currency. Fibank offers Credit cards in ALL, EUR and USD.
- Fibank Albania was the main sponsor of „Summer camp" project of Vlora Municipality, for the children of families in needs from this city.

August

- Fibank Albania launched the campaign for the product „Record Deposit", which offers to client the possiblity to take the whole interest in advance.
- Fibank AD was distinguished by Wells Fargo, as well as (for the third consecutive year) by Deutsche Bank and Commerzbank for superior quality and meeting high world standards in the area of international payments.

September

- Fibank Albania collaborated with Korca Municipality on the project „Students seasonal employment".
- Fibank Albania was the main sponsor of a Bulgarian ansambel show with traditional dances and music from Bulgaria which took place in the National Opera Hall in Tirana.

Corporate development

In 2012 Fibank Albania reported good financial results and strengthened its positions in the market of banking services in the country. The Bank preserved its focus on product quality, high standards of service, and the management of risks in line with international standards, regulatory norms, and the challenges of the external environment.

During the year, Fibank continued to successfully adapt its flexible business model to market conditions and customer needs to support good projects and maintain an adequate balance of risk, capital and returns.

The Bank offered its customers new lending products and flexible schemes of financing.

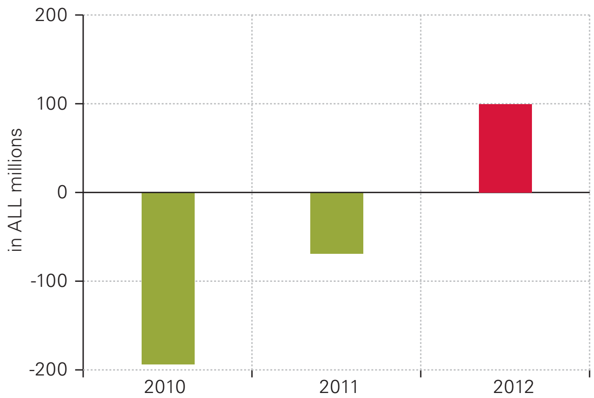
Key indicators

	2012	2011	2010
Financial results (in ALL thousand)			
Net interest income	413,297	322,544	243,926
Net fee and commission income	73,441	39,943	27,037
Net trading income	18,369	10,229	27,327
Total income from banking operations	505,506	376,652	299,616
Administrative expenses	(112,350)	(129,890)	(137,270)
Impairment	(34,288)	(44,500)	(70,667)
Profit after tax	99,542	(69,050)	(194,503)
Balance-sheet indicators (in ALL thousand)			
Assets	13,615,866	9,265,820	7,742,989
Loans and advances to customers	5,903,270	4,118,084	3,125,923
Loans and advances to banks and financial institutions	3,108,818	1,849,509	755,470
Due to other customers	12,236,503	7,645,761	6,173,646
Equity	1,265,416	1,165,874	1,092,334
Key ratios (in %)			
Capital adequacy ratio	16.60	20.19	19.89
Liquidity ratio	38.60	33.12	35.61
Loan provisioning ratio	2.17	2.54	2.27
Net interest income/Total income from banking operations	81.76	85.63	81.41
Return on equity (after tax)	7.88	(6.31)	(14.38)
Return on assets (after tax)	0.73	(0.79)	(2.03)
Cost/Income ratio	89.06	111.47	131.90
Resources (in numbers)			
Branches and offices	9	9	9
Staff	113	112	106

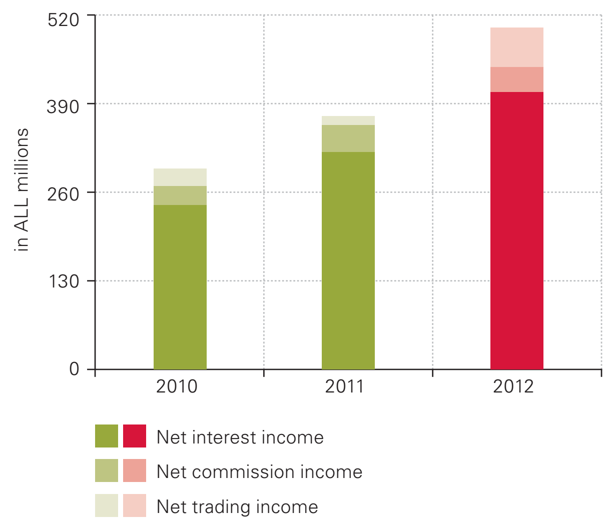
Financial results

In 2012 Fibank Albania reported profit after tax in the amount of ALL 99,542 thousand (2011: loss of ALL 69,050 thousand; 2010: loss of ALL 194,503 thousand). This was due to higher income from banking operations, especially net interest and commission income. Fibank Albania ranked sixth in terms of profit among the banks in the country. As result, profitability indicators improved as well, with return on equity (after tax) reaching 7.9% (2011: negative 6.3%; 2010: negative 14.4%), return on assets (after tax) 0.7% (2011: negative 0.8%; 2010: negative 2.0%).

Profit after tax



Income from banking operations



During the reporting period Fibank Albania continued its business development in accordance with the economic environment and the need of financing. Total income from banking operations increased by 34.2% and reached ALL 505,506 thousand (2011: ALL 376,652 thousand; 2010: ALL 299,616 thousand).

Interest income rose by 25.9% to ALL 807,159 thousand (2011: ALL 640,936 thousand; 2010: ALL 480,103 thousand), a main contributor being the higher income from loans to small and medium enterprises which increased by 34.7% to ALL 402,820 thousand (2011: ALL 298,998 thousand; 2010: ALL 176,915 thousand). This had the predominant share and formed 49.9% of interest income. Interest income from retail customers increased as well, by 30.8% to ALL 137,041 thousand (2011: ALL 104,791 thousand; 2010: ALL 75,533 thousand) and formed 17.0% of total interest income. An increase by 20.0% was also reported for security transactions, whose interest income amounted to ALL 186,781 thousand (2011: ALL 155,703 thousand; 2010: ALL 96,897 thousand).

Net fee and commission income increased by 83.9% or ALL 33,498 thousand and amounted to ALL 73,441 thousand (2011: ALL 39,943 thousand; 2010: ALL 27,037 thousand) due to increased business volumes and customers of the Bank. Net fee and commission income increased its relative share to 14.5% of total income from banking operations, compared to 10.6% in 2011 and 9.0% in 2010 as a result of the Bank's consistent policy on the diversification of income from banking operations.

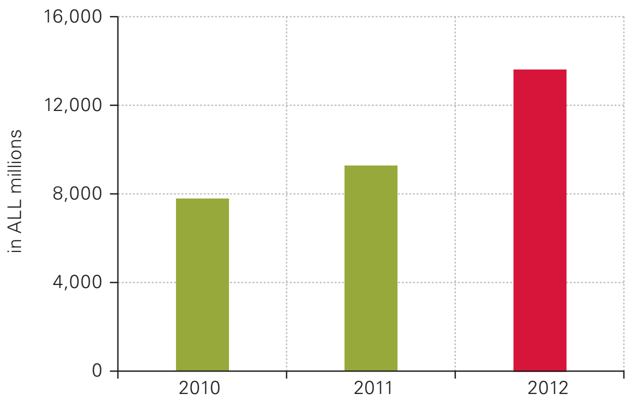
General administrative expenses decreased by 13.5% and reached ALL 112,350 thousand for the reporting period (2011: ALL 129,890 thousand; 2010: ALL 137,720 thousand).

Net impairment losses of loan exposures accrued by the Bank amounted to ALL 34,288 thousand for 2012, compared to ALL 44,500 thousand in the previous year (2010: ALL 70,667 thousand). The decrease in growth rate in impairment losses registered a slowdown being 22.9% decrease for the 2012/2011 period compared to 37.0% decrease for the 2011/2010 period.

Balance sheet

As at the end of December 2012, the total assets of Fibank Albania reached ALL 13,615,866 thousand (2011: ALL 9,265,820 thousand; 2010: ALL 7,742,989 thousand), an increase of 46.9% (ALL 4,350,046 thousand) resulting mainly from the growth in attracted funds from other customers and increase in lending activity. Year 2012 was exceptionally a very good year for Fibank Albania, and improved its market position. Growth rate in assets, with 46.9% was the highest and ranked fifth in nominal value in the banking system in the country.

Total assets



Asset structure

The asset structure remained relatively unchanged, reflecting market conditions and the Bank's strategy for maintaining an adequate balance between risk, capital and return. Loans and advances to customers preserved their majority share and formed 43.4% (2011: 44.4%; 2010: 33.7%) of total assets, followed by loans and advances to banks and financial institutions at 22.8% (2011: 20.0%; 2010: 18.9%) and the portfolio of financial instruments (financial assets available for sale investments and financial assets held to maturity) at 21.7% (2011: 22.5%; 2010: 19.2%).

Cash and balances with central banks increased by 50.8% (ALL 449,484 thousand) to ALL 1,333,794 thousand (2011: ALL 884,310 thousand; 2010: ALL 740,564 thousand) mainly due to a growth in current accounts and balances with the Central Bank, which reached ALL 1,121,767 thousand (2011: ALL 746,883 thousand; 2010: ALL 62,064 thousand), resulting from the increased deposit base and the maintenance of minimum required reserves. Cash on hand increased by 54.3% (ALL 74,600 thousand) to ALL 212,027 thousand (2011: ALL 137,427 thousand, 2010: ALL 120,500 thousand), as a percentage of total assets its weight almost did not change with 1.6% (2011: 1.5%; 2010: 1.6%) as the Bank continued to optimize the management of cash balances in accordance with the market environment and external conditions.

Loans and advances to banks and financial institutions rose to ALL 3,108,818 thousand, compared to ALL 1,849,509 thousand at the end of 2011, as a result of an increase in placements due from banks and as part of the liquidity management. At the end of the reporting period placements and other amounts due from banks reached ALL 2,046,578 thousand (2011: ALL 48,760 thousand; 2010: ALL 99,207 thousand), of which most were in local currency from resident banks, while receivables under resale agreements reached ALL 1,062,240 thousand (2011: ALL 1,800,749 thousand; 2010: ALL 1,656,263 thousand) and were in foreign currency.

Portfolio of financial instruments is comprised of available for sale investments and financial assets held to maturity. At the end of the year such portfolio increased by 41.5% to ALL 2,952,915 thousand (2011: ALL 2,086,232 thousand; 2010: ALL 1,781,713 thousand) as a result of an increase in financial assets held to maturity, that reached ALL 1,885,578 thousand (2011: ALL 775,974 thousand; 2010: ALL 1,340,615 thousand). The entire portfolio is comprised of Albanian government papers.

Loans

In 2012 Fibank Albania gross loan portfolio rose by 42.6% (ALL 1,819,474 thousand) and reached ALL 6,092,047 thousand at the end of the period (2011: ALL 4,272,573 thousand; 2010: ALL 3,235,911 thousand). The increase was mainly due to a growth in loans to small and medium enterprises which was in compliance with the Bank's strategy for growth, while maintaining high standards of risk assessment and return.

Loan portfolio by business line

In ALL thousand / % of total	2012	%	2011	%	2010	%
Retail customers	1,410,297	23.1	1,134,820	26.6	897,250	27.7
Small and medium enterprises	4,681,750	76.9	3,137,753	73.4	2,338,660	72.3
Gross loan portfolio	**6,092,047**	**100**	**4,272,573**	**100**	**3,235,911**	**100**
Impairment	(188,777)		(154,489)		(109,988)	
Loan portfolio	**5,903,270**		**4,118,084**		**3,125,922**	

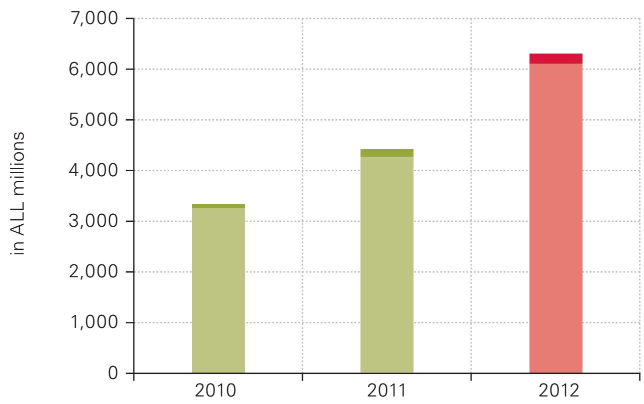
During the reporting period the trend of an increase in lending to small and medium enterprises over the last three years was maintained, as these loans increased their majority share in the Bank's loan portfolio at 76.9% at the end of 2012 (2011: 73.4%; 2010: 72.3%), meanwhile loans to retail customers fell to 23.1% (2011: 26.6%; 2010: 27.7%). Fibank continued to support sound projects in accordance with the needs for financing and market conditions in the country.

Loan portfolio by currency

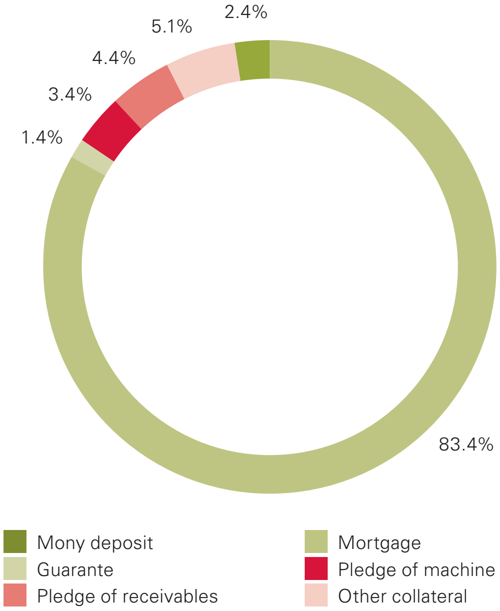
In ALL thousand / % of total	2012	%	2011	%	2010	%
Loans in ALL	1,697,691	27.9	1,218,284	28.5	658,547	20.4
Loans in EUR	4,149,446	68.1	2,954,692	69.2	2,538,792	78.5
Loans in other currency	244,910	4.0	99,597	2.3	38,572	1.2
Gross loan portfolio	**6,092,047**	**100**	**4,272,573**	**100**	**3,235,911**	**100**
Impairment	(188,777)		(154,489)		(109,988)	
Loan portfolio	**5,903,270**		**4,118,084**		**3,125,922**	

Loans and advances in EUR formed a predominant share of 68.1% (2011: 69.2%; 2010: 78.5%) in the currency structure of the loan portfolio. They reached the amount of ALL 4,149,466 thousand at the end of the period (2011: ALL 2,954,692 thousand; 2010: ALL 2,538,792 thousand). A contributor to the decrease of loans denominated in euro, in terms of percentage over the total loans and advances, is the effort of the Bank to lend in local currency, minimizing though foreign exchange risk for the borrowers. Loans in ALL and in other currencies increased as well in absolute value, to ALL 1,697,691 thousand (2011: ALL 1,218,284 thousand; 2010: ALL 658,547 thousand) and to ALL 244,910 thousand (2011: ALL 99,597 thousand; 2010: ALL 38,572 thousand) respectively.

Loan portfolio and impairment



Loan portfolio by collateral



The quality of the loan portfolio remained above average for the banking system, as problematic loans (those classified as nonperforming) amounted to ALL 489,413 thousand or 8.0% of gross loans at the end of the year. Allowances for impairment increased and reached ALL 188,777 thousand (2011: ALL 154,489 thousand; 2010: ALL 109,988 thousand) as a result of the negative impact of the economic cycle and increased credit risk in the country. Nevertheless, reflecting the Bank prudency in lending, total allowances for loans to customers increased only by 22.2% compared to 40.5% in the previous year. Allowances for impairment for loans, classified as non-performing and loss amounted to ALL 124,445 thousand. The Bank applies rules for the classification and impairment of risk exposures which are in compliance with the criteria provided by Regulation "On credit risk Management" issued by Bank of Albania. The loan provisioning ratio was 2.17% (2011: 2.54%; 2010: 2.27%).

The policy of the Bank requires proper collateral before granting a loan. In this respect, it accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable net value of the collateral. At the end of 2012 the collateral with the largest share in the Bank's portfolio were mortgages at 83.4%, followed by pledges of receivables at 4.4%, pledges of machines at 3.4% and money deposits at 2.4%.

Related party transactions

In the normal course of business the Bank carries out transactions with related parties. These transactions were effected in market conditions. The internal rules and regulations of the Bank with respect to such transactions and agreements are in compliance with the effective legislation.

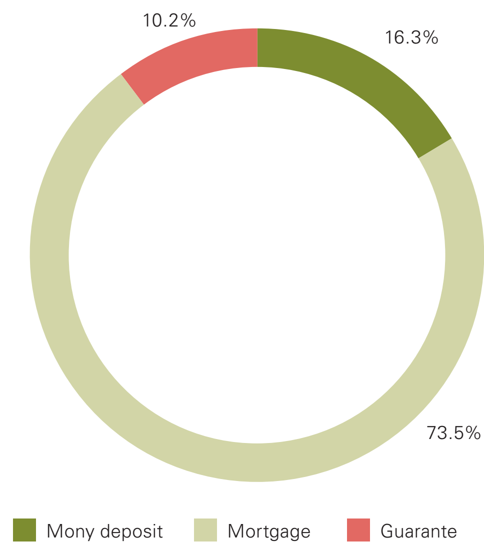
For further information regarding related party transactions, see Note 30 "Related parties" of the Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

Commitments and contingent liabilities

Commitments and contingent liabilities of the Bank include bank guarantees, letters of credit in foreign currency and commitments given on behalf of customers. These are issued in compliance with the general loan policy of the Bank on risk assessment and collateral sufficiency. Contingent liabilities are preferred instruments for credit institutions because they carry lower credit risk and at the same time are good sources of fee and commission income. They are also preferred by clients because they not only facilitate payments but also reduce the cost of financing as compared to direct financing and immediate payment.

Contingent liabilities

Structure of contingent liabilities

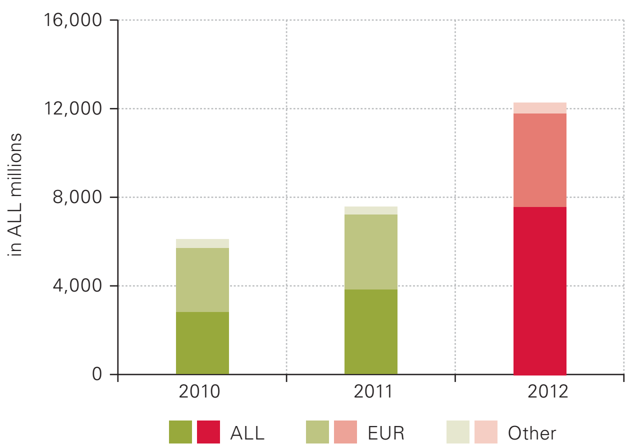


At the end of the reporting period, the total amount of off-balance sheet commitments decreased to ALL 303,137 thousand (2011: ALL 565,328 thousand; 2010: ALL 780,523 thousand). Unused credit lines have a predominant share of 73.5% in the total amount of contingent liabilities, followed by bank guarantees at 16.3% and letter of credits at 10.2%. Unused credit lines rose by ALL 28,769 thousand reaching a total amount of ALL 222,696 thousand (2011: ALL 193,927 thousand; 2010: ALL 174,061 thousand).

Attracted Funds

In 2012 attracted funds from customers increased by 60.0% (ALL 4,590,742 thousand) and reached ALL 12,236,503 thousand (2011: ALL 7,645,761 thousand; 2010: 6,173,646 thousand, remaining the Bank's major source of funding. A factor in this increase was the various and flexible deposit products offered to customers, which are in line with the market environment and market conditions.

Customer deposits



Attracted funds from retail customers rose by 35.7% (ALL 2,390,982 thousand) up to ALL 9,095,242 thousand (2011: ALL 6,704,260 thousand; 2010: ALL 5,110,242 thousand) during the year, preserving their upward trend over the last years and maintaining their predominant share in total attracted funds from customers at 74.3%. In the currency structure of attracted funds from retail customers those in ALL were greatest at 42.9% of total attracted funds from customers (2011: 45.4%; 2010: 38.8%), those in EUR were at 28.4% (2011: 38.6%; 2010: 39.3%) and those in other currencies at 3.1% (2011: 3.7%; 2010: 4.7%)

Due to other customers

In ALL thousand / % of total	2012	%	2011	%	2010	%
Retail customers	**9,095,242**	**74.3**	**6,704,260**	**87.7**	**5,110,242**	**82.8**
In ALL	5,243,580	42.9	3,467,549	45.4	2,397,636	38.8
In EUR	3,477,328	28.4	2,952,071	38.6	2,425,350	39.3
In other currency	374,334	3.1	284,640	3.7	287,256	4.7
Corporate, state-owned and public institutions	**3,141,261**	**25.7**	**941,501**	**12.3**	**1,063,404**	**17.2**
In ALL	2,397,721	19.6	436,222	5.7	377,463	6.1
In EUR	731,190	6.0	501,493	6.6	648,138	10.5
In other currency	12,350	0.1	3,786	0.0	37,803	0.6
Total attracted funds from customers	**12,236,503**	**100**	**7,645,761**	**100**	**6,173,646**	**100**

Fibank sets aside the required annual premiums in accordance with the law "On insured deposits", which serves to increase the safety of the Bank's depositors. According to regulatory requirements the amount guaranteed by the Insurance Deposit Agency on customer's bank accounts held with the Bank is ALL 2,500,000 per retail customer.

Attracted funds from corporate, stated-owned and public institutions rose by 233.6% (ALL 2,199,760 thousand) up to ALL 3,141,261 thousand (2011: ALL 941,501 thousand; 2010: ALL 1,063,404 thousand) during the year, increasing their relative share by 13.4% to 25.7% of total attracted funds from customers (2011: 12.3%; 2010: 17.2%). In the currency structure of attracted funds from corporate, stated-owned and public institutions those in ALL formed 19.6% of all attracted funds from customers (2011: 5.7%; 2010: 6.1%), those in EUR were at 6.0% (2011: 6.6%; 2010: 10.5%).

Risk management

Risk Management has the responsibility to identify measure and monitor credit, market and operational risk in all its banking operations. Risk Management monitors bank's exposures that carry credit risk as loans, overdrafts, guarantees, letter of credit, deposit accounts with other banks, investment securities and all other products where the debtor has or may have a contingent or direct obligation to the bank.

Fibank aims to constantly develop, update and improve to the highest risk management systems in order to meet the challenges of the market environment and in the legal framework. In this relation during 2012, the Bank has implemented a new model for better analyzing financial data of companies.

Risk Management Framework

The Board of Directors has an overall responsibility for the establishment and oversight of the bank's risk management. For the purpose of managing various types of risk in compliance with the requirements of the Bank of Albania, the following bodies operate in Head Office:

Credit Committee of Fibank Albania has the authority to approve loan applications as per limits approved. As of the end of 2012 Credit Committee consist of: Chief Executive Officer, Executive Director, Head of Risk Management, Chief Financial Officer, Head of Legal Department.

Liquidity Risk Committee (LRC) is responsible for the preparation and execution of strategies, policies and procedures for the management of liquidity risk. Liquidity Risk Committee is composed of: Head of Risk Management, Chief Financial Officer, Head of Treasury, Head of M.I.S and Market Risk Analyst.

Operational Risk Event Committee (OREC) is responsible for implementing policies, processes and procedures for administrating operational risk for all services / products, activities, processes and systems relevant to the bank. Operational Risk Event Committee is composed of: Head of Risk Management, Market Risk Analyst and Head of Payments and Correspondent Banking.

Compliance Committee is responsible to assure and monitor Bank compliance with Laws and regulations. Also is responsible for optimizing Anti Money Laundering and Terrorism Financing system, including procedures, regulations and software system. Members of the committee are: Head of Risk Management, Chief Financial Officer, Head of Payments and Correspondent Banking, Head of Legal and Market Risk Analyst and the results are reported to Bank's management.

The Bank risk's management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls and to monitor these limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Credit risk

Credit Risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers, other banks and investment securities. Credit Risk Management performs independent credit and risk analysis of loan proposals which are being proposed.

Credit Risk Management monitors the performance of borrowers; this includes non-performing loans to ensure appropriate action is being taken due to the improvement of the loan quality of the portfolio. Credit amounts requested at the amounts above EUR 350,000 are approved by the Board of Directors.

Market risk

Market risk is the risk of losses due to changes in the prices of financial instruments resulting from general risk factors not related to the specific characteristics of individual instruments such as changes in interest rates, exchange rates. The main objective of administrating market risk is to manage and control market risk and to keep it within required limits.

Stress-testing is a useful method to analyze the resilience of a financial institution. Stress testing is a general term encompassing various techniques for assessing resilience to extreme events. They involve testing beyond normal operational capacity, often to a breaking point, in order to observe the results.

Stress-testing can be thought as a process that includes identification of specific vulnerabilities or areas of concern; construction of a scenario; mapping the outputs of the scenario into a form that is usable for an analysis of financial institutions. Stress test allows a more detailed assessment of the capital adequacy commensurate with Bank's risk profile and the current operating environment.

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a significant threat to a bank's earnings and capital base.

Changes in interest rates also affect the underlying value of the bank's assets, liabilities because the present value of future cash flows (and in some cases, the cash flows themselves) changes when interest rates change. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to safety and soundness of banks.

Evaluating the complexity of operations of Fibank Albania, Risk Management has oriented the risk management structures toward the main resource or risk from interest rates, which is the re-pricing risk.

Liquidity risk

Liquidity Risk is the risk that the bank will encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk tolerance level is defined as the level of liquidity risk that the bank is willing to undertake. The tolerance level appropriates the business strategy of the bank and reflects the bank's financial condition and funding capacity. The tolerance ensures that the bank manages its liquidity strongly in normal times and that it is able to withstand a prolonged period of stress. Liquidity Risk Management policy includes how the Bank identifies, measures, monitors and control that risk.

Fibank Albania estimates the liquid position of the bank by means of the following indirect indicators:

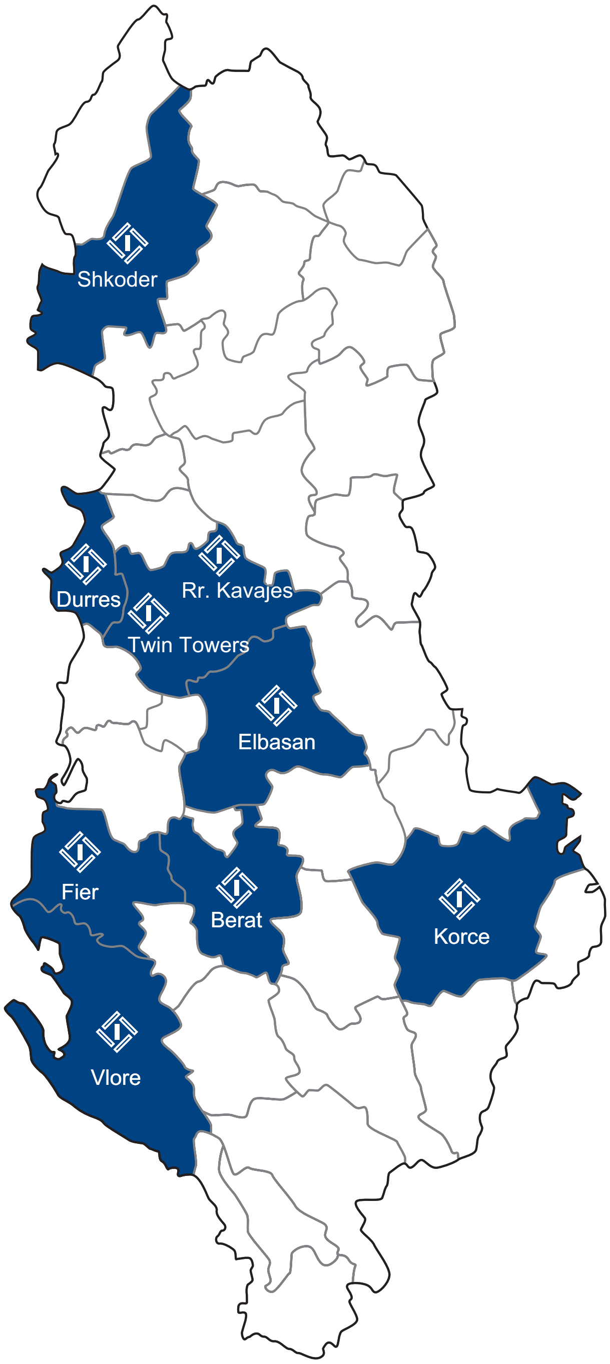
- assets with high liquidity in relation to assets in total
- assets with high liquidity in relation to short-term liabilities
- cumulative GAP for a quarter period in relation to the total of assets

The liquidity risk management practices integrates and considers a variety of factors, regarding the time horizons over which to identify, measure, monitor and control liquidity risk. These include vulnerabilities to changes in liquidity needs and funding capacity on an intraday basis; day-to-day liquidity needs and funding capacity over short and medium-term horizons; longer-term, fundamental liquidity needs over one year; and vulnerabilities to events, activities and strategies that can put a significant strain on internal cash generation capacity.

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes Legal Risk, but excludes Strategic and Reputation Risk. The Bank's objective is to manage operational risk as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness. Risk Management defines and categorizes operational events across event types and business lines inherent in banking; the department also defines the responsibilities of employees from different departments tasked with data collection. The Operational Event Risk Committee regularly reviews operating events and suggests measures for correction.

Branch network



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Tirana – Twin Towers
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Tel.: (+355 4) 2276 771/2 Fax:(4) 2280 210

Tirana – Tirana 1
Rr. Kavajës, pranë Ministrisë së Punës
Tel.: (+355 4) 2276 755/80 Fax:(4) 2256 424

Durres
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Godina 8 kateshe tek ish fabrika e orizit.
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Rr. Midhi Kostani, Kompleksi City Center, Kati i pare
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https://e-banking.fibank.al

Virtual branch (e-banking)

Fibank Albania has successfully developed and offered electronic banking providing its customers with a modern, fast, cheap and safe way to use a wide range of banking products and services.

Fibank Albania seeks to continuously work towards improving the products and services offered by the Virtual Banking Branch, in order to meet in the best possible way the needs of its customers in terms of speed, functionality, efficiency, and security.

In 2012, the Bank integrated the service for performing tax and utility payments over the Internet within the Virtual Banking Branch (https://e-banking.fibank.al), thus centralizing and facilitating its use, and broadening its functionality.

Information technologies

The development of information technologies is one of the main priorities in the activity of Fibank Albania. This is motivated by the necessity to provide ever higher levels of security in carrying out banking operations, as well as by its dedication to providing first class customer service.

Providing increasingly complex financial products and services requires constant development of the information systems of the Bank.

In 2012, Fibank Albania introduced a new system for the management of the customers in delay, which includes the process-oriented recovery of receivables, tracking of all actions in the process of collection, as well as appropriate functionalities for the control and accountability over this process.

During the second half of the year the Bank further developed its depositary module, adding two more funds in the process, as well as the more efficient recording of events related to technology and infrastructure.

There was a successfully completion of several projects for the development and implementation of new services: tax and utility payments through the Virtual Banking Branch. Further developments and functionalities were added to the Bank's internal and external websites.

Our accumulated experience and the record of completed projects in the sphere of information technologies have enabled the Bank to standardize the processes for servicing of clients, while taking into account their specific needs and offering them improved products and services.

Corporate governance

To Fibank Albania corporate governance means reaching its strategic goals and attaining long-term sustainable results on behalf of its shareholders, lenders, employees, customers and the public in general.

Fibank has a Code of Conduct that determines the major principles, ethical norms and corporate values which underlie the policies and business plans, rules, procedures and daily operational work of the Bank.

Fibank`s corporate governance is a system with clearly defined functions, rights and responsibilities at all levels – the General Meeting of Shareholders (GMS), the Managing Board, the Management, and the committees and structures at the Head Office and the branches.

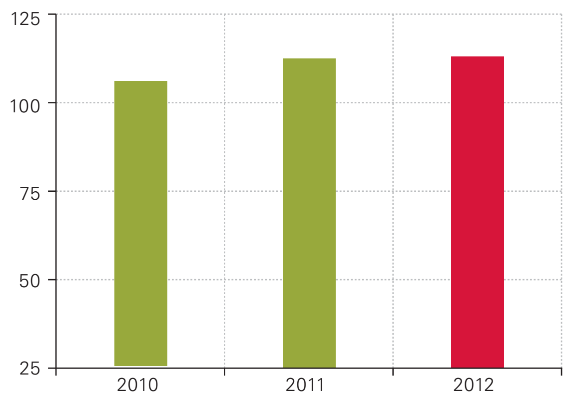
The Management carries out the management of the Bank by resolving all issues in its line of business, except those within the exclusive competence of the Managing Board. The Managing Board of Fibank Albania holds sessions every month. The Managing Board's activity is supported by internal bodies such as: the Assets and Liabilities Committee, the Credit Committee, the Workout Committee, the Liquidity Committee, the Operational Risk Event Committee and the Compliance Committee and which carry out their activities on the basis of a pre-determined written structure, scope of activities and functions.

Human capital

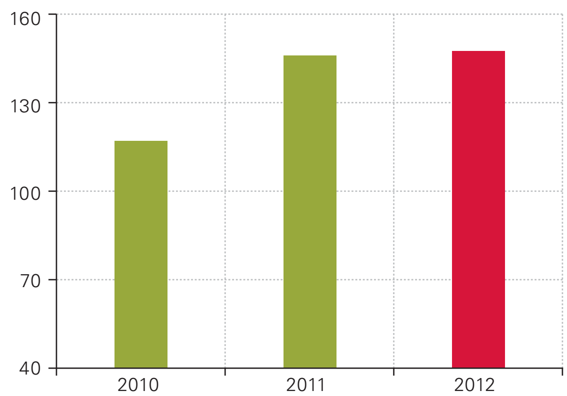
The policy of Fibank Albania on personnel management is oriented towards achieving long-term correspondence between the personal goals of employees and those of the institution as a whole – the fulfillment of the objectives and strategy of Fibank Albania, linking payment incentives with the sustainability of achieved results and the reliable management of risks, and the affirmation of the Bank as a preferred workplace for employees. It is based on the principles of transparency, the prevention of conflicts of interest, accountability, and objectivity.

Variable remunerations are based on performance results and the targets achieved in the long term, using an evaluation based on financial (quantitative) and non-financial (qualitative) criteria.

Number of staff



Personnel cost

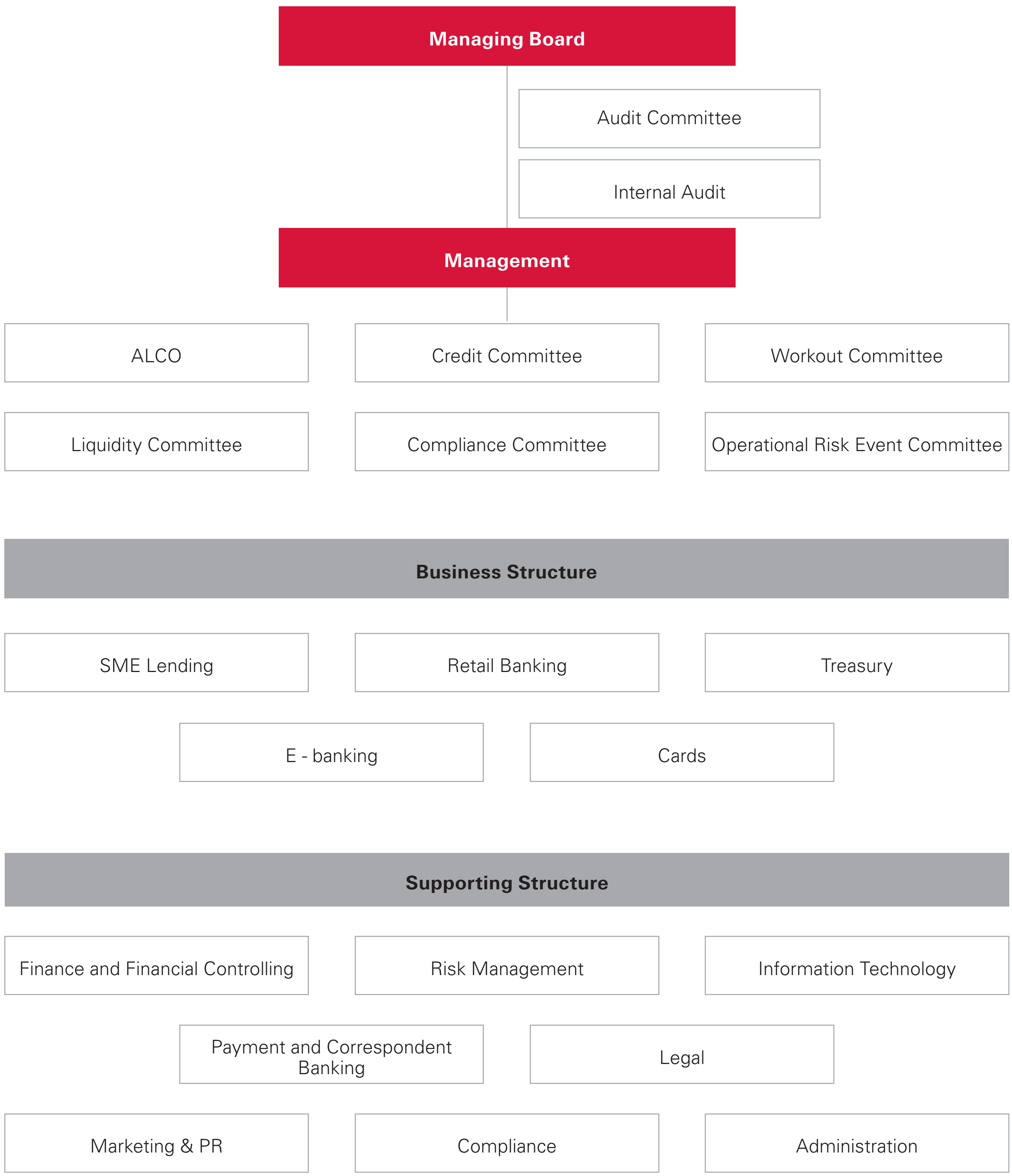


During the year, Fibank focused on motivating employees towards a higher contribution and the achievement of individual and corporate objectives through enhancing their personal and professional competencies in people management, customer service, and the offering of banking products and services.

As at 31 December 2012, the number of staff reached 113 (2011: 112, 2010: 106) employees.

Business structure

ORGANIZATION STRUCTURE OF FIBANK, ALBANIA SHA



Managing Board

Vassil Christov (Chairman)

Member of the Managing Board and Executive Director of Fibank AD

Mr. Vassil Christov joined Fibank AD in 2001 as a head of the „Mortgage loans" Division. From 2002 he was a director of „Retail banking" Department, and from 2005 to 2010 he was a director of „Branch Network" Department. In 2010 Mr.Christov was elected as a member of the Managing Board of Fibank AD, and in beginning of 2011 was appointed as a deputy executive director. Since the end of 2011 Mr. Christov has been an Executive Director of the Fibank AD.

Previously, Mr. Christov had worked as a senior credit officer of "Large corporate customers" at United Bulgarian Bank AD. He holds a Master's in accounting and control from the University of National and World Economy in Sofia.

Besides his positions in Fibank AD and Fibank Albania, Mr. Christov is also a member of the Board of Directors of Diners Club Bulgaria AD. Mr. Christov is a member of the Board of Directors of Medical centers FiHealth AD and Medical centers FiHealth Plovdiv AD and is a member of the Managing Board of „National Real Estate Association".

Stanislav Bozhkov (Deputy Chairman)

Member of the Managing Board and Deputy Executive Director of Fibank AD

Mr. Stanislav Bozhkov joined Fibank's team in 2004 as a methodologist in the"Methodology" Department. Soon after that he was promoted to head of „External institutions" Division, and from 2004 to 2007 he was a deputy director of the „Methodology" Department. From 2007 to 2010 he was a head of „Market Risk" division in the „Risk Management" Department. In 2010, Mr. Bozhkov has been elected as a director „Specialized internal audit service".

In May 2011, Mr. Bozhkov has been elected as a member of a Managing Board of Fibank AD and appointed as a deputy executive director.

Previously, Mr. Bozhkov had worked as an economist at the „Balance of payments" department at the Bulgarian National Bank. He holds a Bachelor's degree in Marketing and Management from the University of Economics, Varna, a Master's degree in Economics from the Central European University, Budapest, Hungary. Mr. Bozhkov is a CFA charterholder.

Ianko Karakolev (Member)

Chief Financial Officer and Director of Finance and Accounting Department of Fibank AD

Mr. Ianko Karakolev joined Fibank's team in 1999 as an accountant-controller in the „Finance and Accounting" Department. Soon after that he was promoted to director of „Internet branch". From 2002 to 2003 he was a head of „Financial reporting, analysis and budgeting" Division, and from 2003 to 2007 he was a deputy chief accountant. From 2007 to 2011, Mr. Karakolev was a deputy director of „Finance and Accounting" Department, and from the beginning of 2011 – a Chief Financial Officer and director of „Finance and Accounting" Department.

Previously, Mr. Karakolev had worked as an accountant at Bulgarian Trade and Industrial Bank AD. He holds a Master's degree in Finance from the University of National and World Economy, Sofia. Mr.Karakolev has additional qualifications on International Accounting Standards and on regulatory requirements for financial reporting.

Chavdar Zlatev (Member)

Director of Corporate Banking Department of Fibank AD

Mr. Chavdar Zlatev joined Fibank's team in 2004 as a senior specialist in the SME Lending Department. Soon after that he was promoted to deputy director of the same department. From 2006 to 2009 he was manager of the Fibank's Vitosha branch. Subsequently he was appointed as a deputy director of the Branch Network Department and in 2010 Mr. Zlatev was promoted as a director of the same department. Since the beginning of 2011 he has been director of the Corporate Banking Department.

Previously, Mr. Zlatev had worked as a senior banking employee „Corporate clients" in Commercial Bank Unionbank AD. He holds a Master's degree in Macroeconomics from the University of National and World Economy, Sofia.

Besides his positions in Fibank AD and Fibank Albania, Mr. Zlatev is also a member of the Board of Directors of Health Insurance Fund FI Health AD.

Milka Todorova (Member)

Director of Retail Banking Department of Fibank AD

Mrs. Milka Todorova joined Fibank's team in 1995 as a loan expert in the "Corporate Banking" Department. In 2002 she was promoted to deputy director of the same department, and since 2007 she has been a director of the "Retail Banking" Department.

Previously, Mrs. Todorova had worked as a loan expert in corporate banking at Commercial Bank Biohim Ltd. and as an accountant at the Bulgarian National Bank. She holds a Master's degree in Industrial management from the University of National and World Economy, Sofia.

Besides her positions in Fibank AD and Fibank Albania, Mrs. Todorova is also a member of the Supervisory Board of UNIBank, Republic of Macedonia. She owns more than 25% of the capital of MIKT OOD and more than 10% of the capital of Hydroenergy Systems Bulgaria OOD – in liquidation.

Management of Fibank Albania

Executive Board

Bozhidar Todorov – Chief Executive Officer

Mr. Todorov was appointed as CEO of Fibank Albania in October 2007. He holds a Bachelor's degree in Finance from the University of National and World Economy in Sofia, with Finance profile. He also holds a Master's degree in Finance from the University of National and World Economy in Sofia.

Mr. Todorov has 11 years banking experience in business, finance and operations departments in several banks in Bulgaria before joining Fibank Albania. He has held managerial position from 2003 to 2007 as a director of "Impaired Assets and Provisioning" department at Fibank AD in Sofia.

Ardian Kamberi – Executive Director

Senior banking professional, with 20 years of experience in banking and financial sector in Albania and abroad. Served as Deputy CEO and as CEO of Albania's largest bank before, during and after its privatization, also served as CEO of a major bank in Kosovo. Has been member of Supervisory Board of the Central Bank of Albania, Social Insurance Institute of Albania, and Mountain Areas Finance Fund. CEO and member of Management Board of Albania's leading independent leasing company and an exchange brokerage house.

Ina Paskaleva – Head of Risk Management (Procurator)

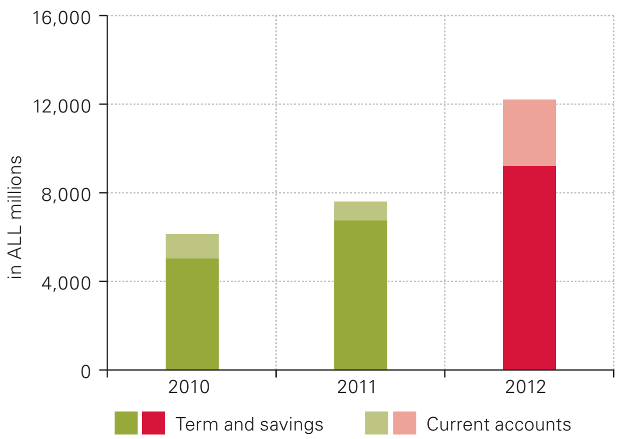
More than 15 years of experience in banking, in the areas of risk management (credit, market and operational risk management), corporate banking, capital markets in the financial sector in Bulgaria and Albania. Head of Risk Management at Fibank(Albania) and bank Administrator, since 2006. Country Manager, Credit&Risk Management at Raiffeisen Bank (Albania). Country Director of Demirbank, Istanbul for Bulgaria and Member of the Supervisory Board Demirbank(Bulgaria) AD; Senior Corporate Banking Manager at ING Bank, Sofia.Post-graduate education in banking at Exeter University, UK and University of Wisconsin, USA

Business overview

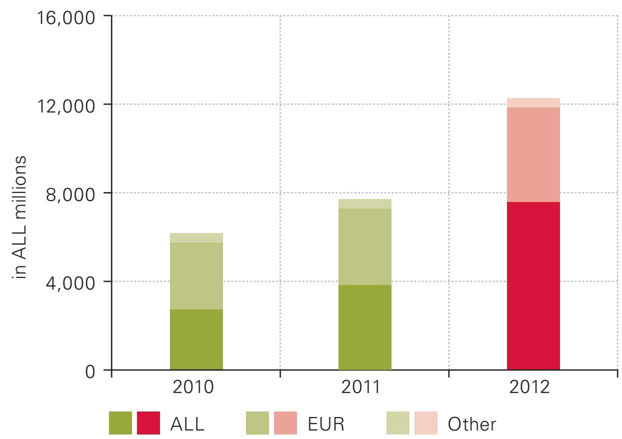
Deposits

Year 2012 was an important year for deposits in the banking system because it reached a good level of stability following years of the global economic crises. Regarding Fibank Albania attracted funds during 2012 increased by 60.0% (2011: 23.8%; 2010 30.0%) and reached ALL 12,236,503 thousand (2011: 7,645,761 thousand; 2010: 6,173,646 thousand). Deposits from individuals increased by 35.7% and amounted ALL 9,095,242 thousand (2011: ALL 6,704,260 thousand; 2010: 5,110,242 thousand). The increase was due to growth in term deposits (35.83% or ALL 1,939,629 thousand) reaching ALL 7,353,027 thousand (2011: ALL 5,413,398 thousand; 2010: ALL 4,140,408 thousand) and retaining their share of the attracted funds from individuals at 80.9% (2011: 80.8%; 2010: 81.0%). Also deposits from entities recorded significant increase and contributed in the positive trend of the year. Term deposits continued their increase and almost tripled compared with prior year and reached ALL 1,558,398 thousand (2011: ALL 403,796 thousand; 2010: ALL 355,252 thousand), savings and current accounts increased impressively by ALL 1,096,517 thousand equivalent to more than 300% and reached a level of ALL 1,445,768 thousand (2011: ALL 349,521 thousand; 2010: ALL 368,200 thousand).

Liabilities to clients



Liabilities to clients by currency



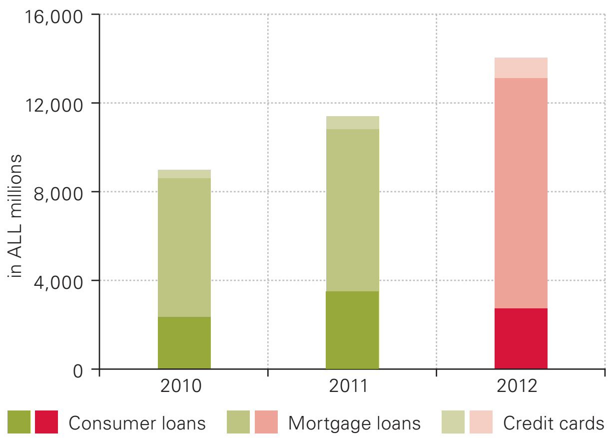
Fibank Albania's policy was to offer to its clients a variety of flexible deposit products aiming to meet customers demand for low-risk savings instruments, by focusing on maintaining high standards of customer service. Deposit products are tailored for different segment of clients which could choose products that offer a good combination of high return and flexibility in depositing and withdrawing. In addition Fibank Albania offered products with a variety of maturities and interest payments or full access to their funds at any time without any limitations or cost.

Retail Lending

The portfolio of loans to individuals in the total lending portfolio is 23.2% as at the end of December 2012. The portfolio of loans to individuals increased by 24.3% to ALL 1,410,297 thousand (2011: ALL 1,134,820 thousand; 2010: ALL 897,250 thousand) resulting from the growth in mortgage loans and utilized credit limits on credit cards.

Mortgage loans reached ALL 1,032 580 thousand (2011: ALL 731,335 thousand; 2010: ALL 630,246 thousand) as at the end of December 2012, constituting an increase of 41.2%, compared to the end of the previous year. The share of the mortgage loans in the portfolio of the loans to individuals has reached 73.2% (2011: 64.4%; 2010: 70.2%). The significant achievement in the mortgage loans was influenced by the fast and flexible procedure and decision-making process as well as the terms and conditions offered for the mortgage loans. The mortgage product "5 stars", which was introduced in 2010, continued to be competitive, offering a twelve-month period with a fixed interest rate and floating interest rate after, the longest loan term in the market, an early repayment of the loan without a fee, a credit card as a bonus and the possibility to finance every need.

Retail loans by business line



Credit cards increased by 66.7% to ALL 99,764 thousand (utilized credit limit) as at the end of December 2012 (2011: ALL 59,862 thousand; 2010: ALL 38,256 thousand). The portfolio of the credit cards (utilized credit limit) reached 7.1% share in the portfolio of loans to individuals (2011: 5.3%; 2010: 4.3%).

Consumer loans decreased by 19.1% to ALL 277,953 thousand compared to ALL 343,623 thousand for the previous year. The share of the consumer loans in the portfolio of the loans to individuals is 19.7% as at the end of December 2012 (2011: 30.3%; 2010: 25.5%).

During the year, one special offer was advertised – Consumer loan "Spring offer" with a maximum amount of ALL 1,000 thousand and the maximum maturity of 84 months. In addition, the offer featured a very competitive floating interest rate combined with very preferential terms and conditions - no application and renegotiation fees were applied. As a result, the number of consumer loans as at the end of December 2012 increased by 22.1%.

The growth of the portfolio of the loans to individuals was supported by the professional teams of every branch and office of the Bank. The constant trainings and the improvements in the internal procedures facilitated the smooth and successful process of lending. In addition, the product definitions were reviewed on a regular basis to ensure the competitive position of the bank in the retail lending sector.

SME Lending

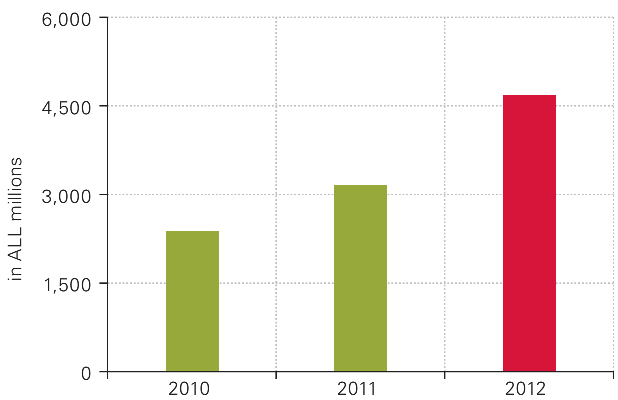
SME clients portfolio grew significantly during 2012 reaching ALL 4,681,750 thousand (2011: 3,137,753; 2010: 2,347,287), continuing the positive trend reinstated in 2011 and previous years. This achievement was result of the Bank's strategy to develop and consolidate its relationships with existing SME clients and acquire new customers into this category.

SME clients benefit from a dedicated sales force (SME Relationship Managers) who act as financial consultants and assist them in identifying the most appropriate products and financial solutions (loans or other less known such as letter of credits, bank guarantees etc.) in order to support them in growing and developing their business.

During 2012, the SME segment recorded growth despite negative effects in the Albanian businesses of the crises spread in the neighboring countries of Italy and Greece. Fibank was committed towards different segment of clientele especially those that serve as an engine to the country economy.

In order to support SME clients and increase their capacity to access financing in the current economic environment, Fibank Albania extended its lending product portfolio, offering to the customers with good turnover in their accounts special products with very good interest rates in Euro and in ALL.

SME loans trend



Interest income from SME Loans

Given the Bank's focus on increasing clients' satisfaction and strengthening the relationships with SME customers, Fibank Albania's new initiatives in approaching its customers gave to clients faster access to higher limits and less bureaucratic processes and required documentations.

The increase in new lending volumes did not deteriorate the quality of the SME lending portfolio. Frequent monitoring visits to the business premises of the customers, aimed to detect as quickly as possible potential future difficulties client might have faced. As a result of this strategy, the level of non-performing loans (NPL) in 2012 decreased by 0,9%.

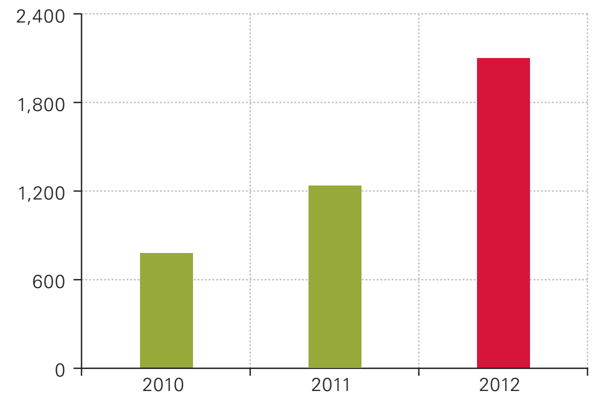
Further to the constant development and improvements, the year 2012 also brought forward several initiatives seeking to increase efficiency on the internal processes of the Bank, aiming to increase sales efficiency and customer satisfaction both for existing and new clients.

Card payments

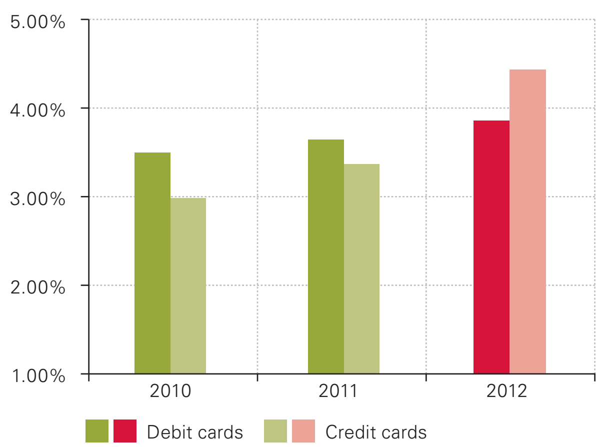
During 2012 Fibank Albania continued to develop its card products and services and improved their quality. Investment in technology and staff training offer our customers and partners security and opportunities for greater achievements. During 2012 cards activity increased and as result the portfolio of credit cards showed a growth by 75% compared with the prior year.

Number of debit cards

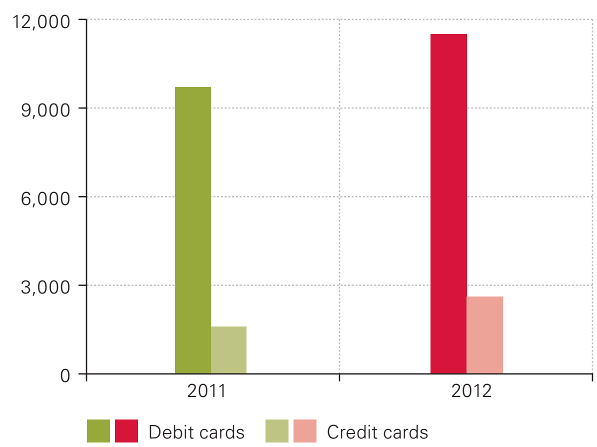
Number of credit cards



Fibank Albania market share of cards



Cards activity in Euro '000'



Fibank Albania market share in cards showed an increase during year 2012 and the figures until the end of 4th quarter are 4.5% share in credit cards (2011: 3.4%; 2010: 3%) and reached to 3.9% share in debit cards (2011: 3.6%; 2010: 3.5%).

At same time, the volume of transactions of cards issued by Fibank Albania during 2012 increased with 20.0% for debit cards and with 63.0% for credit cards. During the year Fibank cardholders used their cards for transactions with a volume of EUR 14 mil.

Our primary focus during 2012 was the issuance of credit cards and creating awareness for this product. For this reason, Fibank successfully achieved goals for increasing the awareness of potential customers. One of these achievements was the issuance of credit cards to students, as the generation which is more comfortable in using credit cards for online payments and purchases through PoS's. Card promotions were made in several private and state universities in Albania focusing mainly in the aspect of training and educating the students about credit cards.

Our existing customers are our best marketing tool to approach new potential customers. During the year we launched a promotion called "Bring a Friend" which encouraged existing clients to referrer their friends to apply for a credit card. Both, the existing and the new cardholders then are rewarded with a bonus which was added to their card account balance. This way we seek to build customer loyalty and the result of this promotion were satisfactory and it was decided to prolong it in time.

During the year there were several improvements to the card services and customers are now notified for every transaction via email and SMS. Also credit cards features were reviewed and different interest rates were provided to different target groups as well as criteria were set for standard or pre-approved cards to eligible groups.

Gold and commemorative coins

Fibank Albania offers a wide range of gold products as per the business development of precious metals from Fibank AD. Fibank Albania imports these products directly from Fibank AD which has already established a successful cooperation with many leading well-known institutions worldwide like Swiss mint PAMP (Produits Artistiques de Métaux Précieux), UBS and Credit Suisse, the New Zealand Mint, the National Bank of Mexico, the Austrian Mint, the British auction house SPINK, and others.

Fibank Albania offers products of the precious metals as coins, bars, medals and medallions. The distribution of a new gold investment coin from the New Zealand Mint started at the beginning of 2011.

Payment services

Fibank Albania carries out its activity related to remittances and other payment services in compliance with Albanian legislation, including the Regulation No.55 „On the function of Albanian Electronic Clearing House – AECH", the Regulation No.53 "On the function of Albanian Interbank Payments System – AIPS", the Decision No.12 dated 23.02.2011 "On the adoption of some amendments in the Regulation "On the functioning of Albanian Interbank Payment System – AIPS" and "On the functioning of Automated Clearing House System – AECH".

Currently, Fibank Albania is a member and participant in the payment systems and agent of other payment service providers, as follows:

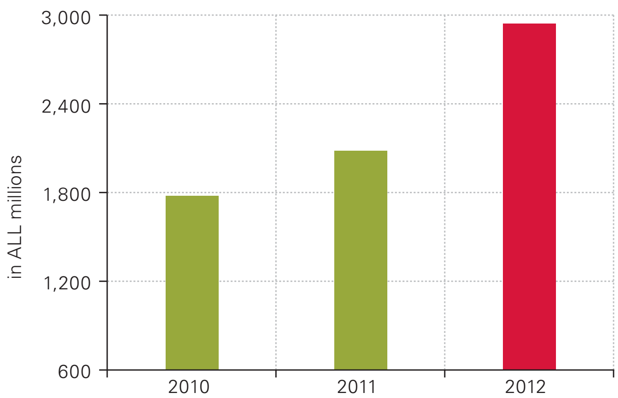
- Real-Time Gross Settlement System (AIPS)
- Automated Clearing House System (AECH)
- Society Worldwide Interbank Financial Telecommunication (SWIFT)
- MoneyGram Agent

Regarding international payments, in 2012 the domestic money transfer business grew rapidly, thus the total number of domestic transfers, incoming and outgoing, increased by 260%.Also international transfers showed some increase during the year.

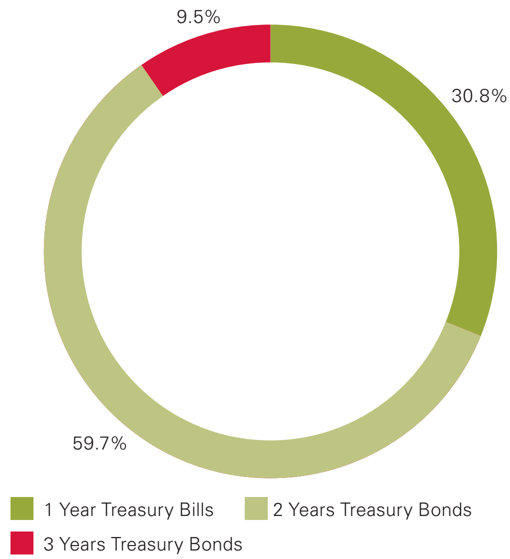
Depositary and Custodian services

The portfolio of Government Securities as at the end of the year reached ALL 2,952 million (2011: ALL 2,086 million; 2010: 1,781 million).

Securities portfolio



Portfolio composition



In its capacity as an investment intermediary and a primary dealer of government securities, Fibank carries out transactions with financial instruments in the country including transactions of government securities, as well as money market instruments.

Fibank Albania activities are in compliance with Bank of Albania and Financial Supervision Authority regulations, which ensure a higher level of protection for non-professional customers. Treasury department is the unit which controls the investment services and ensures the observing of the requirements regarding Fibank's activity as an investment intermediary.

Fibank Albania has given its continuous support and contribution to update information on the performance of the Government securities yield in its branches, intending to provide accurate and explicit information to its customers and encourage their participation in the primary and secondary market.

Fibank Albania is the first bank in Albania licensed by Financial Supervision Authority as Depositary of Voluntary Pension Fund (August 2010) and the only bank in Albania licensed as Depository (Custodian) of Collective Investment Undertakings (end of 2011) This service and other services to be provided in a near future are part of our efforts and goals to become part of the domestic market developments. According to both licenses, Fibank Albania takes the responsibility for:

a) Safekeeping of the pension fund's assets;

b) Safekeeping of the collective investment undertakings fund's assets

c) Controls the management of their assets by the management company, in accordance with the provisions of the pension fund and CIU contract and applicable law;

d) Ensure that in all transactions involving the assets of the funds (voluntary pension and CIU), any benefit to be returned within the prescribed time limits.

e) Provides that all incomes of pension fund are allocated in accordance with the contract and the pension fund legislation.

In October 2010 and in February 2012 Fibank Albania signed two agreements with Raiffeisen Invest, the biggest pension fund company in Albania and the only company in the country that manages the collective investment undertakings. Fibank Albania is acting as custodian bank for two funds, Raiffeisen Prestige and Raiffeisen Invest EUR.

Financial Statements

For the Year Ended 31 December 2012

(with Independent Auditors' Report Thereon)

Independent Auditors' Report

To the Shareholders of First Investment Bank-Albania Sh.a.

Tirana, 28 February 2013

We have audited the accompanying financial statements of First Investment Bank-Albania Sh.a. („The Bank"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk

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

Statement of Comprehensive Income for the year ended 31 December 2012

In thousands of ALL	Note	Year ended 31 December 2012	Year ended 31 December 2011
Interest and similar income		807,159	640,936
Interest expense and similar charges		(393,862)	(318,392)
Net interest income	**7**	**413,2977**	**322,544**
Fee and commission income		85,683	51,452
Fee and commission expense		(12,242)	(11,509)
Net fee and commission income	**8**	**73,441**	**39,943**
Net trading income	9	18,369	10,229
Other operating income		399	3,936
TOTAL INCOME FROM BANKING OPERATIONS		**505,506**	**376,652**
Net impairment loss, on loans to customers	19	(34,288)	(44,500)
Personnel expenses	10	(147,522)	(146,939)
Operating lease expenses		(70,842)	(71,816)
Depreciation and amortization	20,21	(40,846)	(61,194
General administrative expenses	11	(112,350)	(129,890)
Other income/(expenses), net	12	69	(3,359)
		(405,779)	**(457,698)**
PROFIT/(LOSS) BEFORE TAX		**99,727**	**(81,046)**
Income tax expense	**13**	**-**	**7,472**
NET PROFIT/(LOSS) FOR THE YEAR		**99,727**	**(73,574)**
Other comprehensive loss/(income), net of income tax		**(185)**	**4,524**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTED TO THE OWNERS		**99,542**	**(69,050)**

The notes on pages 41 to 68 are an integral part of these financial statements.

Statement of financial position as at 31 December 2012

In thousands of ALL	Note	Year ended 31 December 2012	Year ended 31 December 2011
ASSETS			
Cash and balances with central banks	14	334,546	144,402
Restricted balances	15	999,248	739,908
Available for sale investments	16	1,067,337	1,310,258
Financial assets held to maturity	17	1,885,578	775,974
Loans and advances to banks and financial institutions	18	3,108,818	1,849,509
Loans and advances to customers	19	5,903,270	4,118,084
Property and equipment	20	152,556	177,920
Intangible assets	21	8,308	11,808
Assets held for sale	22	54,736	30,533
Other assets	23	101,469	107,424
TOTAL ASSETS		**13,615,866**	**9,265,820**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to banks and other financial institutions	24	72,017	3,001
Due to customers	25	12,236,503	7,645,761
Liabilities evidenced by paper	26	-	370,190
Other liabilities	27	41,417	80,461
Deferred tax liability	13	513	533
Total liabilities		**12,350,450**	**8,099,946**
Issued share capital	28	1,516,517	1,516,517
Revaluation reserve on available for sale investments		4,617	4,802
Accumulated losses		(255,718)	(355,445)
Shareholders' equity		**1,265,416**	**1,165,874**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,615,866**	**9,265,820**

The notes on pages 41 to 68 are an integral part of these financial statements.

Statement of Cash Flow
for the the year ended 31 December 2012

In thousands of ALL	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flow from operating activities:			
Net profit/(loss) for the period		99,727	(73,574)
Non-cash items in the statement of comprehensive income			
Net impairment loss on loans to customers	19	34,288	44,500
Depreciation and amortization	20,21	40,846	61,194
Net interest income		(413,297)	(322,544)
		(238,436)	**(290,424)**
Changes in working capital:			
Change in loans to customers		(1,844,694)	(1,006,365)
Change in other assets		5,955	(20,848)
Change in obligatory reserve		(259,340)	(192,957)
Change increase in deposits from banks		68,998	3,000
Change in due to customers		4,695,024	1,447,870
Change in other liabilities		(39,064)	49,310
Interest paid		(500,604)	(291,791)
Interest received		794,292	591,554
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,682,131**	**289,349**
Cash flow used in investing activities:			
Net proceeds from purchase and redemption of investments		(852,984)	(290,761)
Purchase of intangible assets		(1,366)	(1,599)
Purchase of property and equipment		(10,616)	(17,261)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(864,966)**	**(309,621)**
Cash flow from financing activities:			
Increase in borrowings		(367,712)	(77,490)
Proceeds from issue of share capital		-	142,590
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(367,712)**	**65,100**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,449,453**	**44,828**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**31**	**1,993,911**	**1,949,083**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**31**	**3,443,364**	**1,993,911**

The notes on pages 41 to 68 are an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

In thousands of ALL	Share capital	Accumulated losses	Revaluation reserve on available for sale investments	Total
Balance as at 1 January 2011	**1,373,927**	**(281,871)**	**278**	**1,092,334**
Total comprehensive loss for the period				
Loss of the year	-	(73,574)	-	(73,574)
Other comprehensive income, net of income tax	-	-	4,524	4,524
Total comprehensive (loss)/income for the year	**-**	**4,524**	**(73,574)**	**(69,050)**
Transaction with owners, recorded directly in equity				
Contribution by the owners				
Issued share capital	142,590	-	-	142,590
Total contributions by and distributions to owners	**142,590**	**-**	**-**	**142,590**
Balance at 31 December 2011	**1,516,517**	**(355,445)**	**4,802**	**1,165,874**
Balance as at 1 January 2012	**1,516,517**	**(355,445)**	**4,802**	**1,165,874**
Total comprehensive income for the period				
Profit of the year	-	99,727	-	99,727
Other comprehensive loss, net of income tax	-	**(185)**	-	(185)
Total comprehensive income for the year	**-**	**99,727**	**(185)**	**99,542**
Transaction with owners, recorded directly in equity				
Contribution by the owners				
Issued share capital	-	-	-	-
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**
Balance at 31 December 2012	**1,516,517**	**(255,718)**	**4,617**	**1,265,416**

The notes on pages 41 to 68 are an integral part of these financial statements.

The financial statements have been approved by the Management on 28 February 2013 and signed on its behalf by:

Bozhidar Todorov
Chief Executive Officer

Ardian Kamberi
Executive Director

Edvin Liko
Chief Financial Officer

1. General

First Investment Bank - Albania (the Bank) incorporated in the Republic of Albania is a joint stock company established on 1 August 2005 and has its registered office in Tirana, "Deshmoret e Kombit" Blvd., Twin Towers, Tower 2 Floor 14.

The Bank has a general banking license issued by the Bank of Albania (hereinafter "BoA"), on 6 July 2007, according to which it is allowed to conduct all banking transactions permitted by the Albanian legislation. During 2011, the Bank obtained a license from the Financial Supervisory Authority to operate as a dealer in the secondary market of securities issued by the Government of Albania. The Bank is primarily involved in corporate and retail banking. The inception of the Share capital incurred on 6 June 2007 (hereinafter "Inception Date") and amounted to EUR 8,474,559. The Bank is a subsidiary of First Investment Bank A.D. (hereinafter the "Parent"), an entity incorporated in Bulgaria as a financial institution which owns 100% of the Bank shares. The Bank received a full banking license on 26 June 2007 and started its business operations as a new entity on 1 September 2007. The Bank took over the activity, assets and liabilities, rights and obligations from First Investment Bank – Tirana Branch ("the Branch"), which operated as a foreign branch of the Parent in Albania since February 1999. The take over of activity was based on a transfer agreement (hereinafter "Transfer Agreement") between parties dated 6 November 2006, construed in conformity with the laws of the Republic of Albania. Such agreement foresaw a transfer at book value of assets and liabilities as at 31 August 2007. The start of the business operations for the Bank coincided with making effective such transfer of assets and liabilities.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except available-for-sale assets which have been measured at fair value.

c) Functional and presentation currency

The financial statements are presented in Albanian Lek (ALL) rounded to the nearest thousand, which is the Bank's functional currency.

Management chose ALL as the functional currency due to the fact that the Bank operates in an environment whose prices, in the judgment of Management, are driven by the domestic currency ALL. Costs and contracts are driven by ALL, even if their formal denomination is in different currencies.

d) Use of estimated and judgments

The preparation of the 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.

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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 5.

3. Significant accounting policies

a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised costs in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognised in profit or loss.

b) 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 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.

c) Fees and commission

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

Other fees and commission income and expenses arise on financial services operated by the Bank and are recognized when the corresponding service is provided or received.

d) Net trading income

Net trading income comprises gains less losses related to realized and unrealized foreign exchange differences.

e) Lease payments made

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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

f) Tax expense

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

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(iii) Tax 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.

g) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which 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 initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial Assets

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

- loans and receivables;
- held to maturity; or
- available-for-sale.

See accounting policies 3 (h,i, and j)

Financial Liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss. See note n.

(iii) Derecognition

Financial Assets

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

The Bank 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, securities lending and repurchase transactions. In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in whom control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognising criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. The Bank writes off certain loans when they are determined to be uncollectible (see note 3.g.vii).

Financial Liabilities

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

(iv) Offsetting

Financial assets and liabilities are set off 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 intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

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

(vi) 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.

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, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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.

(vii) Identification and measurement of impairment

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

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

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. All individually significant loans and advances and held-to-maturity investment securities 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.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, 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 modeling. 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 carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities, if any, are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with original maturity of three months or less.

i) Loans and advances to customers

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

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

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

j) Investment Securities

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

(i) Held to maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at available-for-sale or fair value through profit or loss,(if any). Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available for sale investments

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

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the cumulated gain or loss previously recognised in other comprehensive income are reclassified to profit or loss.

k) Property and equipment

Items of property and equipment are measured at their acquisition cost less accumulated depreciation and accumulated impairment losses. Useful life is estimated based on Management expectations on the serviceability of assets.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over the expected useful lives of each part of an item of property and equipment. The following are the useful lives:

• Leasehold improvements	4-5 years
• Fittings, fixtures and installations	10 years
• Motor vehicles	10 years
• Machinery and electronic equipment	10 years
• Computer and IT system equipment	5 years
• Other office equipment	10 years

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

l) Intangible assets

Intangible assets are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the expected useful life of the asset. The following are the useful lives:

• Patents, copyrights and trademarks	5 years
• Software & other intangible assets	5 years

m) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

n) Deposits

Deposits are the Bank's main sources of debt funding.

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

o) Provisions

A provision is recognized if the Bank has a legal or constructive obligation as a result of a past event, 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.

p) 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. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2015 financial statements and could change the classification and measurement of financial assets. The IASB currently has an active project to make limited amendment to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

4. Risk Management Disclosures

Below is a discussion of the various risks the Bank is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

a) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy. As at 31 December 2012 the thirty largest non-financial institution depositors represent 26% (2011: 15 %) of total deposits from other customers. The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2012

In thousands of ALL	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year	Maturity not defined	Total
Financial Assets						
Cash and balances with Central Bank	334,546	-	-	-	-	334,546
Restricted balances	-	-	-	-	999,248	999,248
Available for sale investments	239,284	262,763	512,569	52,721	-	1,067,337
Financial Assets held to maturity	-	102,212	493,616	1,289,750	-	1,885,578
Loans and advances to banks and financial institutions	3,108,818	-	-	-	-	3,108,818
Loans and advances to customers	100,132	70,957	520,343	5,211,838	-	5,903,270
Total	**3,782,780**	**435,932**	**1,526,528**	**6,554,309**	**999,248**	**13,298,797**
Financial Liabilities						
Due to banks	72,017	-	-	-	-	72,017
Due to customers	5,032,415	900,276	6,207,372	96,440	-	12,236,503
Liabilities evidenced by paper	-	-	-	-	-	-
Total	**5,104,432**	**900,276**	**6,207,372**	**96,440**	**-**	**12,308,520**
Net liquidity gap	**(1,321,652)**	**(464,344)**	**(4,680,844)**	**6,457,869**	**999,248**	**990,277**

Maturity table as at 31 December 2011

In thousands of ALL	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year	Maturity not defined	Total
Financial Assets						
Cash and balances with Central Bank	144,402	-	-	-	-	144,402
Restricted balances	-	-	-	-	739,908	739,908
Available for sale investments	1,457	418,553	782,823	107,425	-	1,310,258
Financial Assets held to maturity	-	-	127,591	648,383	-	775,974
Loans and advances to banks and financial institutions	1,849,509	-	-	-	-	1,849,509
Loans and advances to customers	143,451	84,798	212,139	3,677,696	-	4,118,084
Total	**2,138,819**	**503,351**	**1,122,553**	**4,433,504**	**739,908**	**8,938,135**
Financial Liabilities						
Due to banks and Financial Institutions	3,001	-	-	-	-	3,001
Due to customers	2,507,706	1,135,609	3,865,886	136,560	-	7,645,761
Liabilities evidenced by paper	-	370,190	-	-	-	370,190
Total	**2,510,707**	**1,505,799**	**3,865,886**	**136,560**	**-**	**8,018,952**
Net liquidity gap	**(371,888)**	**(1,002,448)**	**(2,743,333)**	**4,296,944**	**739,908**	**919,183**

b) Market risk

Interest rate risk

The Bank evaluates the Interest rate risk as the risk that its interest rate gap from interest bearing assets and liabilities might vary due to unexpected changes of core interest rates in the market. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the Bank of Albania repo rate, the LIBOR and EURIBOR. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within reprising periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates on net interest income.

The interest rate risk on the Bank's net interest income one year forward following a change of +100bp/-100bp as at 31 December 2012 is ALL +30.3/-30.3 Million (2011: ALL +9.2/-9.2 Million). An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is shown in the following table where the effective interest rates as indicated at 31 December 2012 and the periods in which financial liabilities and assets reprise.

The following table indicates the effective interest rates at 31 December 2012 and the periods in which financial liabilities and assets reprise:

In thousands of ALL	Total	Weighted avg. effective IR	Floating rate instruments	Fixed Rate Instruments			
				<= 1 month	1-3 months	3 months 1 year	More than 1 year
Financial Assets							
Cash and balances with Central Bank	334,546	0.00%	-	334,546	-	-	-
Restricted balances	999,248	1.65%	999,248	-	-	-	-
Available for sale investments	1,067,337	7.42%	-	239,284	262,763	512,569	52,721
Financial Assets held to maturity	1,885,578	8.32%	-	-	102,212	493,616	1,289,750
Loans and advances to banks and financial institutions	3,108,818	4.08%	161,578	2,947,240	-	-	-
Loans and advances to customers	5,903,270	9.86%	5,361,092	17,092	23,563	76,135	425,388
Total	**13,298,797**	**7.23%**	**6,521,918**	**3,538,162**	**388,538**	**1,082,320**	**1,767,859**
Financial Liabilities							
Due to banks and other financial institutions	72,017	1.66%	-	72,017	-	-	-
Due to customers	12,236,503	4.22%	-	5,032,415	900,276	6,207,372	96,440
Liabilities evidenced by paper	-	-	-	-	-	-	-
Total	**12,308,520**	**4.19%**	**-**	**5,104,432**	**900,276**	**6,207,372**	**96,440**
REPRICING / DURATION GAP	**990,277**		**6,521,918**	**(1,566,270)**	**(511,738)**	**(5,125,052)**	**1,671,419**

At 31 December 2011 the effective interest rates were:

In thousands of ALL	Total	Weighted avg. effective IR	Floating rate instruments	Fixed Rate Instruments			
				<= 1 month	1-3 months	3 months 1 year	More than 1 year
Financial Assets							
Cash and balances with Central Bank	144,402	0.00%	-	144,402	-	-	-
Restricted balances	739,908	1.77%	739,908	-	-	-	-
Available for sale investments	1,310,258	7.47%	-	1,457.00	418,553	782,823	107,425
Financial Assets held to maturity	775,974	8.80%	-	-	-	71,238	704,736
Loans and advances to banks and financial institutions	1,849,509	4.50%	48,760	1,800,749	-	-	-
Loans and advances to customers	4,118,084	10.09%	3,696,465	38,076	16,402	11,886	355,255
Total	**8,938,135**	**7.47%**	**4,485,133**	**1,984,684**	**434,955**	**865,947**	**1,167,416**
Financial Liabilities							
Due to banks and other financial institutions	3,001	3.90%	-	3,001	-	-	-
Due to customers	7,645,761	4.35%	-	2,507,706	1,135,610	3,865,886	136,559
Liabilities evidenced by paper	370,190	4.94%	-	-	370,190	-	-
Total	**8,018,952**	**4.29%**	**-**	**2,510,707**	**1,505,800**	**3,865,886**	**136,559**
REPRICING / DURATION GAP	**919,183**		**4,485,133**	**(526,023)**	**(1,070,845)**	**(2,999,939)**	**1,030,857**

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the profit or loss. These exposures relate to those monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank.

As at 31 December 2012 the exposures were as follows (with all amounts denominated in foreign currency being translated to ALL):

In thousands of ALL	ALL	USD	EUR	OTHER	TOTAL
Financial Assets					
Cash and balances with Central Bank	200,341	27,840	85,380	20,985	334,546
Restricted balances	589,871	29,317	380,060	-	999,248
Available for sale investments	998,583	-	68,754	-	1,067,337
Financial Assets held to maturity	1,885,578	-	-	-	1,885,578
Loans and advances to banks and financial institutions	1,886,111	127,883	1,093,034	1,790	3,108,818
Loans and advances to customers	1,649,822	237,291	4,016,103	54	5,903,270
Total	**7,210,306**	**422,331**	**5,643,331**	**22,829**	**13,298,797**
Financial Liabilities					
Due to banks and other financial institutions	-	72,017	-	-	72,017
Due to other customers	7,641,301	369,750	4,208,518	16,934	12,236,503
Liabilities evidenced by paper	-	-	-	-	-
Total	**7,641,301**	**441,767**	**4,208,518**	**16,934**	**12,308,520**
Net Currency position	**(430,995)**	**(19,436)**	**1,434,813**	**5,895**	**990,277**

As at 31 December 2011 the exposures were as follows (with all amounts denominated in foreign currency being translated to ALL):

In thousands of ALL	ALL	USD	EUR	OTHER	TOTAL
Financial Assets					
Cash and balances with Central Bank	66,387	23,229	41,158	13,628	144,402
Restricted balances	394,213	29,278	316,417	-	739,908
Available for sale investments	1,245,223	-	65,035	-	1,310,258
Financial Assets held to maturity	775,974	-	-	-	775,974
Loans and advances to banks and financial institutions	72	117,345	1,729,220	2,872	1,849,509
Loans and advances to customers	1,036,491	100,190	2,981,352	51	4,188,084
Total	**3,518,360**	**270,052**	**5,133,182**	**16,551**	**8,938,135**
Financial Liabilities					
Due to banks and other financial institutions	3,001	-	-	-	3,011
Due to other customers	3,903,771	273,176	3,453,564	15,250	7,645,761
Liabilities evidenced by paper	370,190	-	-	-	370,190
Total	**4,276,962**	**273,176**	**3,453,564**	**15,250**	**8,018,952**
Net Currency position	**(729,870)**	**(3,124)**	**1,679,618**	**1,301**	**919,183**

In respect of monetary assets and liabilities denominated in foreign currencies that are not economically hedged, the Bank manages foreign currency risk in line with a policy that sets limits on currency positions and dealer limits.

Credit risk

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 management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets. These exposures as at 31 December 2012 are as follows:

In thousands of ALL	**Gross exposure**	**Allowance for Impairment**	**Net Exposure**
Collectively impaired			
-Standard	5,270,845	(60,529)	5,210,316
-Watch	331,789	(3,803)	327,986
-Substandard	11,321	(130)	11,191
-Doubtful	27,210	(312)	26,898
-Lost	-	-	-
Total collectively	**5,641,165**	**(64,774)**	**5,576,391**
Individually impaired			
-Standard	-	-	-
-Watch	-	-	-
-Substandard	248,292	(11,881)	236,411
-Doubtful	31,712	(1,632)	30,080
-Lost	170,878	(110,490)	60,388
Total individually	**450,882**	**(124,003)**	**326,879**
Total	**6,092,047**	**(188,777)**	**5,903,270**

The exposures as at 31 December 2011 are as follows:

In thousands of ALL	**Gross exposure**	**Allowance for Impairment**	**Net Exposure**
Collectively impaired			
-Standard	3,685,888	(49,833)	3,636,055
-Watch	207,117	(2,793)	204,324
-Substandard	109,708	(1,489)	108,219
-Doubtful	43,039	(581)	42,458
-Lost	36,127	(491)	35,636
Total collectively	**4,081,879**	**(55,187)**	**4,026,692**
Individually impaired			
-Standard	-	-	-
-Watch	-	-	-
-Substandard	40,616	(410)	40,206
-Doubtful	-	-	-
-Lost	150,078	(98,892)	51,186
Total individually	**190,694**	**(99,302)**	**91,392**
Total	**4,272,573**	**(154,489)**	**4,118,084**

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (see note 29).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by location and type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

An analysis of concentration of credit risk by economic sector and their respective impairment allowances for loans and advances to customers are presented in the table below:

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Trade	1,655,948	814,517
Private individuals	1,384,971	1,120,032
Communication	33,922	29,227
Construction	851,413	760,824
Tourism	315,549	277,433
Agriculture	59,344	10,605
Transportation	253,499	169,331
Industry	424,192	342,119
Services	969,753	612,521
Finance	143,456	135,964
Gross credit risk	**6,092,047**	**4,272,573**
Trade	(29,067)	(15,593)
Private individuals	(94,051)	(64,605)
Communication	(988)	(392)
Construction	(20,283)	(34,162)
Tourism	(4,704)	(4,819)
Agriculture	(5,196)	(4,315)
Transportation	(11,715)	(9,557)
Industry	(8,093)	(10,345)
Services	(13,034)	(8,863)
Finance	(1,646)	(1,838)
Less allowance for impairment	**(188,777)**	**(154,489)**
Net Credit Risk	**5,903,270**	**4,118,084**

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is at least 100 percent of the amount extended.

Collateral for loans, guarantees, and letters of credit is usually in the form of cash, mortgage, inventory, listed investments, or other property.

The table below shows a breakdown of total credit extended to customers by the Bank and their respective impairment allowances, other than financial institutions, by type of collateral, up to a maximum of the outstanding liability:

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Money deposits	143,183	199,190
Mortgage	5,082,696	3,495,923
Guarantee	85,432	110,791
Pledge of machines	204,113	181,756
Pledge of receivables	265,710	179,420
Other collateral	310,913	105,493
Gross credit risk	**6,092,047**	**4,272,573**
Money deposits	(1,642)	(2,679)
Mortgage	(115,473)	(92,916)
Guarantee	(28,458)	(24,454)
Pledge of machines	(11,117)	(9,037)
Pledge of receivables	(10,930)	(7,715)
Other collateral	(21,157)	(17,688)
Less allowance for impairment	**(188,777)**	**(154,489)**
Net Credit Risk	**5,903,270**	**4,118,084**

d) Capital management

Regulatory capital

The Bank's lead regulator, BoA sets and monitors capital requirements. In implementing current capital requirements, the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank calculates requirements for credit risk for its exposures based on capital adequacy regulations established by the BoA. Exposures are taken into account using their statement of financial position amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors, designed to convert these items into statement of financial position equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%, and 150%) depending on the class of exposure. Various credit risk mitigation techniques are used, for example collateralized transactions and guarantees. The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital (core capital), which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from prior years and minority interests after deductions for goodwill, intangible assets and unrealized loss from available for sale investments.
- Tier 2 capital (supplementary capital), which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

The following limits are applied to elements of the capital base: Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on 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 and the advantages and security afforded by a sound capital position.

The Bank operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Bank. The management of the Bank performs daily monitoring over all positions of assets and liabilities, income and expenses. The management analyzes profitability, liquidity and the cost of funds and implements measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting possible negative effects from the global financial and economic crisis. In this way the Bank responds to the challenges of the market environment, seeking to maintain a stable capital and liquidity position.

Capital Ratios

The Bank has complied with all externally imposed capital requirements throughout the period. According to the requirements of BoA the capital adequacy ratio as at 31 December 2012 was 16.6% (31 December 2011: 20.19%) compared to a minimum of 12% stipulated by the Bank of Albania.

5. Use of estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on available relevant market information and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management use estimates based on available market information, benchmarks and indicators of impairment for assets with credit risk characteristics similar to those it holds.

(ii) Valuation of financial instruments

The Bank's accounting policy on fair value measurement is discussed in accounting policy 3.g.vi.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:'

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- 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 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.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and based on a current yield curve appropriate for the remaining term to maturity. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value and use only observable market data and require little management judgments and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

As at 31 December 2012 and 2011 all financial instruments are measured at amortized cost, except available for sale assets which have been measured at fair value and the respective fair values have been disclosed in note 6. All financial assets and liabilities fair values disclosed have been measured based on Level 2 hierarchy.

(iii) Calculation of corporate income tax

Starting from 1 January 2008 the Bank has applied International Financial Reporting Standards as its statutory accounting framework the. Accordingly, the application of International Financial Reporting Standards provides the basis for the underlying records when an entity is subject to corporate tax. However, at the date of release of these financial statements there are limited amendments to the existing income tax law and respective guidelines on calculating tax on profit calculation which might offer guidance following the introduction of the International Financial Reporting Standard as a statutory framework. Management believes that the tax on profit provision calculation is prudent given the uncertainty of the Albanian tax environment and existing legislation in force and any future tax audit will have not a significant effect on the Bank's financial position, or results of operations.

6. Financial assets and liabilities

Accounting classification and fair values

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

As at 31 December 2012

In thousands of ALL	Note	Held to Maturity	Available for Sale	Loans and Receivables	Other amortized cost	Total carrying amount	Fair Value
Cash and balances with Central Bank	14	-	-	334,546	-	334,546	334,546
Restricted balances	15	-	-	999,248	-	999,248	999,248
Available for sale investments	16	-	1,067,337	-	-	1,067,337	1,067,337
Financial Assets held to maturity	17	1,885,578	-	-	-	1,885,578	1,906,078
Loans and advances to banks and financial institutions	18	-	-	3,108,818	-	3,108,818	3,108,818
Loans and advances to customers	19	-	-	5,903,270	-	5,903,270	5,903,270
Due to Banks	24	-	-	72,017	-	72,017	72,017
Due to customers	25	-	-	12,236,503	-	12,236,503	12,064,466

As at 31 December 2011

In thousands of ALL	Note	Held to Maturity	Available for Sale	Loans and Receivables	Other amortized cost	Total carrying amount	Fair Value
Cash and balances with Central Bank	14	-	-	-	144,402	144,402	144,402
Restricted balances	15	-	-	-	739,908	739,908	739,908
Available for sale investments	16	-	1,310,158	-	-	1,310,158	1,310,158
Financial Assets held to maturity	17	775,974	-	-	-	775,974	780,633
Loans and advances to banks and financial institutions	18	-	-	1,849,509	-	1,849,509	1,849,509
Loans and advances to customers	19	-	-	4,118,084	-	4,118,084	4,118,084
Due to customers	25	-	-	-	7,645,761	7,645,761	7,645,761
Liabilities evidenced by paper	26	-	-	-	370,190	370,190	370,190

The fair value of cash and cash equivalents, loan and advances to banks is approximately equal to the carrying value, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to fact that the main part of the loan portfolio carries floating interest rates which reflect the changes in the market conditions.

7. Net interest income

In thousands of ALL	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Interest and similar income		
Interest and similar income arises from:		
Accounting with and placements with banks	80,517	81,444
Loans to small and medium enterprises	402,820	298,998
Loans to individual and households	137,041	104,791
Income from securities transactions	186,781	155,703
	807,159	**640,936**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from customers	(375,095)	(301,461)
Deposits from banks	(14,833)	(650)
Liabilities evidenced by papers	(3,934)	(16,281)
	(393,862)	**(318,392)**
Net interest income	**413,297**	**322,544**

Included within various line items under interest income for the year ended 31 December 2012 is a total of ALL 37,081 thousand (2011: ALL 37,052 thousand) accrued on individually impaired loans.

8. Net fee and commission income

In thousands of ALL	**Year ended 31 December 2012**	**Year ended 1 December 2011**
Fee and commission income		
Customer accounts	37,813	29,917
Payments and transactions	11,170	13,185
Card business	12,701	5,873
Letters of credit and guarantees	2,321	1,623
Other	21,678	854
	85,683	**51,452**
Fee and commission expense		
Card business	(8,942)	(7,108)
Letters of credit and guarantees	(451)	(2,654)
Correspondent accounts	(1,723)	(794)
Other	(1,126)	(953)
	(12,242)	**(11,509)**
Net fee and commission income	**73,441**	**39,943**

9. Net Trading Income

Net trading income comprises foreign exchange gains and losses.

10. Personnel expenses

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	125,805	127,483
Compulsory social security obligations	14,519	12,502
Other allowances to staff	5,639	5,496
Training expenses	1,559	1,458
Total	**147,522**	**146,939**

At 31 December 2012, the Bank employed a total of 113 (2011: 112) staff and senior management.

11. General administrative expenses

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Advertising and PR	15,579	24,027
Maintenance and repair	21,808	25,180
Administration, consultancy and other costs	74,963	80,683
Total	**112,350**	**129,890**

12. Other expenses, net

Other expenses amount to ALL 715 thousand (2011: ALL 3,359 thousand) and mainly include penalties amounting to ALL 443 thousand (2011: disposal of leasehold improvements amounting to ALL 2,999 thousand).

Income tax expense

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Current tax:		
Current year	-	-
Adjustments of previous year	-	-
	-	**-**
Deferred tax expense:		
Origination and reversal of temporary differences	-	7,472
	-	**7,472**
Total income tax expenses	**-**	**7,472**

Prepaid tax can be offset against future income tax expense, if any, after future Tax Office inspections.

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Profit/(Loss) for the period excluding tax expense	**99,727**	**(81,046)**
Non-deductible expenses	6,037	11,189
Personnel expenses	5,640	5,498
Other expenses	397	5,691
Loan provision	-	-
Amortization and depreciation expense	(4,524)	28,632
Profit/(Loss) of the period after non-deductible expenses and other	**101,240**	**(41,225)**
Losses brought forward	(232,961)	(151,873)
Result of tax reassessment	-	-
Tax Losses	**(131,721)**	**(193,098)**
Income tax @ 10%	-	-
Tax Losses carried forward	**(131,721)**	**(193,098)**

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 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 or regulatory reporting not yet clear.

The following is a reconciliation of effective tax rate:

In thousands of ALL	2012	Effective Tax rate	2011	Effective Tax rate
Profit/(Loss) for the period	**99,727**		**(73,574)**	
Total income tax	-		(7,472)	
Profit/(Loss) excluding income tax expense	**99,727**		**(81,046)**	
Income tax using the Bank's domestic tax rate	9,973	10.00%	(8,104)	10.00%
Non-deductible expenses	603	0.6%	1,119	(1.4)%
Current year losses for which no deferred tax asset recognized	-	0.0%	4,122	(5.0)%
Change in unrecognized temporary differences including overprovided tax under provided tax losses in prior years	(10,576)	(10.6)%	2,863	(3.5)%
Over provided in prior years	-	0.0%	(7,472)	9.2%
Total tax expense	**-**	**0.0%**	**(7,472)**	**9.2%**

As previously discussed, an amendment was made to the Income Tax Law In January 2011, which required that starting from January 2011, Banks recognize the IFRS impairment loan losses as tax deductible expenses whereas previously, loan loss provisions calculated as per Supervising methodology were considered as tax deductible. Differences between tax and accounting temporary differences lead to recognize a deferred tax liability amounting to Lek 7,472 thousand. As at 31 December 2011, as a result of the above amendment, management believe that the tax and accounting base for loan loss provisions are the same, giving no temporary taxable differences arises. Consequently the previously recognized deferred tax liability has been reversed and charged to the profit or loss for the year ended 31 December 2011.

Income tax recognized in other comprehensive income

In thousands of ALL	2012			2011		
	Before Tax	Tax (expense) benefit	Net of Tax	Before Tax	Tax (expense) benefit	Net of Tax
Available for sale investments	226	(21)	205	5,529	(502)	5,027
Total	**226**	**(21)**	**205**	**5,529**	**(502)**	**5,027**

Recognized deferred tax liabilities as at 31 December 2012 and 2011 are attributable to the following:

In thousands of ALL	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available for sale investments	-	(513)	(513)	-	(533)	(533)
Loans and advances to customers	-	-	-	-	-	-
Net tax assets (liabilities)	**-**	**(513)**	**(513)**	**-**	**(533)**	**(533)**

At 31 December 2012 and 2011 deferred tax assets have not been recognized in respect of the following items:

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Accumulated depreciation	4,283	4,735
Tax losses	13,172	19,310
Total	**17,455**	**24,045**

Tax losses can be carried forward up to 3 years. The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have not been recognized in respect of these items because the management considers that due to inherent tax environment it might not be probable that future taxable profit will be available against which the Bank can utilize the benefits therefrom.

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Tax Profit from 2009	-	(39,863)
Tax loss from 2010 - expires 31 December 2013	191,737	191,737
Tax loss from 2011 - expires 31 December 2014	41,224	41,224
Tax Profit from 2012	(101,240)	-
Total	**131,721**	**193,098**

14. Cash and balances with Central Bank

In thousands of ALL	Year ended 31 December 2012	Year ended 31 December 2011
Cash on hand		
in Albanian lek	77,950	60,809
in foreign currencies	134,077	76,618
Balances with central bank	122,519	6,975
Total	**334,546**	**144,402**

15. Restricted balances

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Statutory reserve	999,248	739,908
Total	**999,248**	**739,908**

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 with the Central Bank as a reserve account. The statutory reserve is not available for the Bank's day-to-day operations.

16. Available for sale investments

Securities available for sale comprise treasury bills and bonds of the Albanian Government.

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Treasury Bills	909,846	950,033
Government Bonds	157,491	360,225
Total	**1,067,337**	**1,310,158**

17. Financial assets held to maturity

The held-to-maturity investment securities represent bonds of the Albanian Government. The Bank has the intent and ability to hold to maturity.

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Government Bonds	1,885,578	775,974
Total	**1,885,578**	**775,974**

As at 31 December 2012 treasury bills with a carrying amount of ALL nil (2011: ALL 370,190 thousand) were pledged as security for the purchase agreements portfolio (refer to note 26).

Albania Treasury Bills credit quality of long term and short debts based on rating agency Standard & Poor's are respectively B+ and B (Outlook Stable).

Government bonds as at 31 December 2012 and 2011 represent 2 and 3 year bonds denominated in Lek issued by the Government of Albania with coupon rates ranging from 7.85% to 9.90% per annum.

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Nominal value of bonds	1,850,000	754,280
Premium	1,690	4,455
Accrued interest	33,888	17,239
Total	**1,885,578**	**775,974**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Current accounts with banks	160,632	48,760
Placements due from banks	1,885,946	-
Receivables under resale agreements	1,062,240	1,800,749
Total	**3,108,818**	**1,849,509**

(b) Geographical analysis

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Domestic banks and financial institutions	925	1,182
Foreign banks and financial institutions	3,107,893	1,848,327
Total	**3,108,818**	**1,849,509**

19. Loans and advances to customers

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Retail customers	1,410,297	1,134,820
Consumer loans	277,953	343,623
Mortgage loans	1,032,580	731,335
Credit cards	99,764	59,862
Small and medium enterprises	4,681,750	3,137,753
Less allowance for impairment	(188,777)	(154,489)
Net loans and advances to customers	**5,903,270**	**4,118,084**

Loans and advances to customers composed by sector as at 31 December 2012 are as follows:

In thousands of ALL	Gross Amount	Impairment allowance	Carrying Amount
Retail customers	1,410,297	(96,467)	1,313,830
Consumer loans	277,953	(34,086)	243,867
Mortgage loans	1,032,580	(48,131)	984,449
Credit cards	99,764	(14,250)	85,514
Small and medium enterprises	4,681,750	(92,310)	4,589,440
Net loans and advances to customers	**6,092,047**	**(188,777)**	**5,903,270**

Loans and advances to customers composed by sector as at 31 December 2011 are as follows:

In thousands of ALL	Gross Amount	Impairment allowance	Carrying Amount
Retail customers	1,134,820	(66,165)	1,068,655
Consumer loans	343,623	(31,469)	312,154
Mortgage loans	731,335	(26,553)	704,782
Credit cards	59,862	(8,143)	51,719
Small and medium enterprises	3,137,753	(88,324)	3,049,429
Net loans and advances to customers	**4,272,573**	**(154,489)**	**4,118,084**

Impairment allowances as at 31 December 2012 and 2011 are as follows:

Changes in allowance for impairment for years ended 31 December 2012 and 2011 are as follows:

In thousands of ALL	2012	2011
Specific impairment allowance		
Balance at January 1	(99,302)	(68,495)
Net (Impairment loss)/recoveries for the year	(24,702)	(30,806)
charge for the year	(44,675)	(46,093)
recoveries	19,973	15,287
Write-offs	-	-
Balance at December 31	**(124,004)**	**(99,302)**
Collective impairment allowance		
Balance at January 1	(55,187)	(41,493)
Net (Impairment loss) / recoveries for the year	(9,586)	(13,694)
charge for the year	(30,975)	(28,222)
recoveries	21,389	14,528
Write-offs	-	-
Balance at December 31	**(64,773)**	**(55,187)**
Total allowance for impairment	**(188,777)**	**(154,489)**

20. Property and equipment

	Leasehold improve-ments	Fittings, fixtures & installa-tions	Motor Vehicles	Machinery and electronic Equipment	Computer and IT system equipment	Office equipment and other	Fixed assets in progress	Total
Cost								
Balance at 1 January 2011	108,852	39,768	19,403	80,745	62,114	39,965	8,892	359,739
Additions	5,551	5,201	-	530	943	2,419	2,617	17,261
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	4,216	(4,216)	-
Balance at 31 December 2011	114,403	44,969	19,403	81,275	63,057	46,600	7,293	377,000
Additions	405	853	4,532	88	2,909	151	1,678	10,616
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Balance at 31 December 2012	114,808	45,822	23,935	81,363	65,966	46,751	8,971	387,616
Accumulated Depreciation								
Balance at 1 January 2011	(58,830)	(10,824)	(5,424)	(22,570)	(35,632)	(11,247)	-	(144,527)
Charge for the period	(22,246)	(4,192)	(1,940)	(8,086)	(13,520)	(4,569)	-	(54,553)
Disposals	-	-	-	-	-	-	-	-
Balance at 31 December 2011	(81,076)	(15,016)	(7,364)	(30,656)	(49,152)	(15,816)	-	(199,080)
Charge for the period	(6,263)	(4,529)	(2,205)	(8,106)	(10,200)	(4,677)	-	(35,980)
Disposals	-	-	-	-	-	-	-	-
Balance at 31 December 2012	(87,339)	(19,545)	(9,569)	(38,762)	(59,352)	(20,493)	-	(235,060)
Net book value								
As at 1 January 2011	**50,022**	**28,944**	**13,979**	**58,175**	**26,482**	**28,718**	**8,892**	**215,212**
As at 31 December 2011	**33,327**	**29,953**	**12,039**	**50,619**	**13,905**	**30,784**	**7,293**	**177,920**
As at 31 December 2012	**27,469**	**26,277**	**14,366**	**42,601**	**6,614**	**26,258**	**8,971**	**152,556**

Other

Fixed assets in progress include all assets purchased and not yet put in use. Leasehold improvements include the costs incurred when the existing branches opened.

21. Intangible assets

	Patents, copyrights and trademarks	Software and other intangible assets	Total
Cost			
Balance at 1 January 2011	**7,226**	**27,618**	**34,844**
Additions	528	1,071	1,599
Balance at 31 December 2011	**7,754**	**28,689**	**36,443**
Additions	-	1,366	1,366
Balance at 31 December 2012	**7,754**	**30,055**	**37,809**
Accumulated amortization			
Balance at 1 January 2011	**(4,721)**	**(13,273)**	**(17,994)**
Charge for the period	(988)	(5,653)	(6,641)
Balance at 31 December 2011	**(5,709)**	**(18,926)**	**(24,635)**
Charge for the period	(583)	(4,283)	(4,866)
Balance at 31 December 2012	**(6,292)**	**(23,209)**	**(29,501)**
Net book value			
As at 1 January 2011	**2,505**	**14,345**	**16,850**
As at 31 December 2011	**2,045**	**9,763**	**11,808**
As at 31 December 2012	**1,462**	**6,846**	**8,308**

22. Assets held for sale

Assets held for sale represent properties acquired as a result of collateral execution, for which the Bank intends to sell in the short term.

23. Other assets

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Deferred expenses	8,567	9,683
Gold bullion	8,496	9,040
Prepaid taxes	52,811	47,007
Other	31,595	41,694
Total	**101,469**	**107,424**

Prepaid taxes are composed of the following:

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Prepaid income tax	7,041	7,041
Withholding tax	45,770	39,966
Total	**52,811**	**47,007**

Prepaid withholding tax is related to interest income the Bank has generated in countries with which the Republic of Albania has signed agreements for Avoidance of Double Taxation.

24. Due to banks and other financial institutions

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Money markets deposits with maturity up to two weeks		
With resident banks	72,017	3,001
Total	**72,017**	**3,001**

25. Due to customers

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Retail customers	9,095,242	6,704,260
payable on demand	1,741,872	1,290,518
term deposits	7,353,027	5,413,398
other clients account	343	344
Corporate customers	3,141,191	941,501
payable on demand	1,445,768	349,251
term deposits	1,558,398	403,796
other clients account	137,025	188,454
Total	**12,236,503**	**7,645,761**

26.Liabilities evidenced by paper

The liabilities evidenced by paper totaling ALL 370,190 thousand as at 31 December 2011 relate to repurchase agreements with Bank of Albania with maturities from 7 days to 91 days. They bear interest rates ranging from 4.8% to 5.4% per annum. Treasury bills with a carrying amount of ALL 370,190 thousand (2012: Nil) were pledged as security for these repurchase agreements (see Note 16 and 17).

27. Other liabilities

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Payment in transit	20,372	58,622
Fiscal administration	4,521	9,226
Other creditors	14,042	5,863
Accruals for expenses	515	821
Suppliers	1,967	5,929
Total	**41,417**	**80,461**

28. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2012

As at 31 December 2012 and 2011 the registered share capital of the Bank is Euro 11,974,576.26 or ALL equivalent 1,516,517 thousand divided into 1,413,000 ordinary shares with par value each of Euro 8.47457626 or ALL 1,073.26.

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2012 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
At the beginning of the year	1,413,000	100.00%
Share issued during the year	-	-
At the end of the year	1,413,000	100.00%

29. Commitments and contingent liabilities

a) Memorandum items

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years. The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if each counterpart failed completely to perform as contracted.

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Bank guarantees	49,426	222,704
Commitments given on behalf of customers	222,696	193,927
Letter of credit	31,015	148,697
Total	**303,137**	**565,328**

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. As at the reporting date there are no significant commitments and contingencies which require additional disclosure. At 31 December 2012 guarantees and letters of credit are fully collateralized.

b) Lease commitments

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Up to 1 year	70,679	70,855
Above 1 year and less than 5 years	223,055	241,618
Above 5 years	89,207	137,047
Total	**382,941**	**449,520**

The Bank is entitled to renew the existing lease contracts at terms previously agreed with the owners, although is under no legal obligation to do so.

30. Related Parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control. A number of banking transactions are entered into with the related party First Investment Bank A.D. (Bulgaria) in the normal course of business. This related party qualifies as parent company of the Bank. Such transactions include loans, deposits and other transactions. The outstanding balances at the end of respective periods are as follows:

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Loans and advances	1,171,275	1,839,898
Accounts receivables	6,686	7,120
Interest income	59,215	66,681
Interest expense	(175)	-
Commission income	74	162
Commission expense	(181)	(132)

The key management personnel of the Bank received remuneration of ALL 18,175 thousand (2011: ALL 17,232 thousand) for the year ending 31 December 2012. Key management received other benefits amounting to ALL 2,739 thousand (2011: ALL 2,878 thousand) for the year ending 31 December 2012.

31. Cash and cash equivalents

In thousands of ALL	As at 31 December 2012	As at 31 December 2011
Cash on hand (note 14)	212,027	137,427
Current accounts	283,151	55,735
central bank (note 14)	122,519	6,975
correspondent banks (note 18)	160,632	48,760
Loans and advances to banks and financial institutions with maturity less than 90 days (note 18)	2,948,186	1,800,749
Total	**3,443,364**	**1,993,911**

32. Subsequent events

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