FIRST INVESTMENT BANK

ALBANIA SH.A.

Financial statements as at 31 December 2013

(with independent auditor's report thereon)

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

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

Independent Auditors' Report

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

Tirana, 21 February 2014

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 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Steven Nutley
Partner

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 2013

In thousands of ALL	Note	Year ended 31 December 2013	Year ended 31 December 2012
Interest and similar income		1,093,666	807,159
Interest expense and similar charges		(579,241)	(393,862)
Net interest income	**7**	**514,425**	**413,297**
Fee and commission income		122,593	85,683
Fee and commission expense		(23,644)	(12,242)
Net fee and commission income	**8**	**98,949**	**73,441**
Net trading income	9	18,612	18,369
Other operating income		390	399
TOTAL INCOME FROM BANKING OPERATIONS		**632,376**	**505,506**
Net impairment loss, on loans to customers	19	(119,923)	(34,288)
Personnel expenses	10	(164,912)	(147,522)
Operating lease expenses		(69,853)	(70,842)
Depreciation and amortization	20,21	(33,884)	(40,846)
General administrative expenses	11	(133,601)	(112,350)
Other (expenses)/income, net	12	(716)	69
		(522,889)	**(405,779)**
PROFIT BEFORE TAX		**109,487**	**99,727**
Deferred tax income	13	**8,908**	**-**
NET PROFIT FOR THE YEAR		**118,395**	**99,727**
Other comprehensive income/(loss), net of income tax		**26,460**	**(185)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTED TO THE OWNERS		**144,855**	**99,542**

The notes on pages 6 to 42 are an integral part of these financial statements.

Fibank
First Investment Bank

Statement of Financial Position as at 31 December 2013

In thousands of ALL	Note	As at 31 December 2013	As at 31 December 2012
ASSETS			
Cash and balances with Central Bank	14	185,673	334,546
Restricted balances	15	1,280,119	999,248
Available for sale investments	16	2,083,518	1,067,337
Financial Assets held to maturity	17	2,683,590	1,885,578
Loans and advances to banks and financial institutions	18	3,955,771	3,108,818
Loans and advances to customers	19	6,508,549	5,903,270
Property and equipment	20	140,543	152,556
Intangible assets	21	8,280	8,308
Assets held for sale	22	113,518	54,736
Other assets	23	100,383	101,469
Deferred tax assets	13	3,424	-
TOTAL ASSETS		**17,063,368**	**13,615,866**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to banks and other financial institutions	24	198,847	72,017
Due to customers	25	15,406,564	12,236,503
Other liabilities	26	47,686	41,417
Deferred tax liability	13	-	513
Total liabilities		**15,653,097**	**12,350,450**
Issued share capital	27	1,516,517	1,516,517
Revaluation reserve on available for sale investments		31,077	4,617
Accumulated losses		(137,323)	(255,718)
Shareholders'equity		**1,410,271**	**1,265,416**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**17,063,368**	**13,615,866**

The notes on pages 6 to 42 are an integral part of these financial statements.

Fibank
First Investment Bank

Statement of Cash Flow for the year ended 31 December 2013

In thousands of ALL	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flow from operating activities:			
Net profit for the period		**118,395**	**99,727**
Non-cash items in the statement of comprehensive income			
Net impairment loss on loans to customers	19	119,923	34,288
Depreciation and amortization	20,21	33,884	40,846
Net interest income		(514,425)	(413,297)
		(242,223)	**(238,436)**
Changes in working capital:			
Change in loans to customers		(745,629)	(1,844,694)
Change in other assets		(2,338)	5,955
Change in obligatory reserve		(280,871)	(259,340)
Change increase in deposits from banks		126,844	68,998
Change in due to customers		3,129,655	4,695,024
Change in other liabilities		5,756	(39,064)
Interest paid		(538,849)	(500,604)
Interest received		1,036,499	794,292
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,488,844**	**2,682,131**
Cash flow used in investing activities:			
Net proceeds from purchase and redemption of investments		(1,768,921)	(852,984)
Purchase of intangible assets		(3,936)	(1,366)
Purchase of property and equipment		(17,907)	(10,616)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,790,764)**	**(864,966)**
Cash flow from financing activities:			
Repayment of borrowings		-	(367,712)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**-**	**(367,712)**
NET INCREASEIN CASH AND CASH EQUIVALENTS		**698,080**	**1,449,453**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**30**	**3,443,364**	**1,993,911**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**30**	**4,141,444**	**3,443,364**

The notes on pages 6 to 42 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2013

In thousands of ALL	***Share Capital***	***Accumulated losses***	***Revaluation reserve on available for sale investments***	***Total***
Balance at 1 January 2012	**1,516,517**	**(355,445)**	**4,802**	**1,165,874**
Total comprehensive loss for the period				
Profit of the year	-	99,727	-	**99,727**
Other comprehensive loss, net of income tax	-	-	(185)	**(185)**
Total comprehensive income/(loss) for the year		99,727	(185)	**99,542**
Transaction with owners, recorded directly in equity	-	-	-	**-**
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 6 to 42 are an integral part of these financial statements.

Fibank
First Investment Bank

Statement of Changes in Equity for the year ended 31 December 2013 (continued)

In thousands of ALL	***Share Capital***	***Accumulated losses***	***Revaluation reserve on available for sale investments***	***Total***
Balance at 1 January 2013	**1,516,517**	**(255,718)**	**4,617**	**1,265,416**
Total comprehensive income for the period				
Profit of the year	-	118,395	-	**118,395**
Other comprehensive income, net of income tax	-	-	26,460	**26,460**
Total comprehensive income for the year		118,395	26,460	**144,855**
Transaction with owners, recorded directly in equity				
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2013	**1,516,517**	**(137,323)**	**31,077**	**1,410,271**

The notes on pages 6 to 42 are an integral part of these financial statements.

The financial statements have been approved by the Management on 21 February 2014 and signed on its behalf by:

Bozhidar Todorov

Chief Executive Officer

Edvin Liko

Chief Financial Officer

FIRST INVESTMENT BANK sh.a. - ALBANIA -

Elma Lloja

Executive Director

Notes to the financial statements

In thousands of ALL

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. The Bank is primarily involved in corporate and retail banking and is authorized to operate as a dealer in the secondary market of securities issued by the Government of Albania. 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. Previously it operated as a foreign branch of the Parent in Albania since February 1999.

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.

2. Basis of preparation (continued)

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.

3. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

f) Tax expense (continued)

(ii) Deferred tax (continued)

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 accounting policy 3.n.

3. Significant accounting policies (continued)

g) Financial assets and financial liabilities (continued)

(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.

3. Significant accounting policies (continued)

g) Financial assets and financial liabilities (continued)

(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.

3. Significant accounting policies (continued)

g) Financial assets and financial liabilities (continued)

(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.

3. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

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	4-10 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.

3. Significant accounting policies (continued)

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 2013, 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.

Notes to the financial statements

In thousands of ALL

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 2013 the thirty largest non-financial institution depositors represent 22% (2012: 26%) 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 2013

	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	185,673	-	-	-	-	185,673
Restricted balances	-	-	-	-	1,280,119	1,280,119
Available for sale investments	23,436	172,206	307,763	1,580,113		2,083,518
Financial Assets held to maturity	51,992	102,338	1,135,419	1,393,841	-	2,683,590
Loans and advances to banks and financial institutions	3,955,771	-	-	-	-	3,955,771
Loans and advances to customers	100,821	114,807	518,872	5,774,049		6,508,549
Total	**4,317,693**	**389,352**	**1,962,054**	**8,748,003**	**1,280,119**	**16,697,220**
Financial Liabilities						
Due to banks	198,847	-	-	-	-	198,847
Due to customers	6,417,745	1,438,658	7,284,233	265,928	-	15,406,564
Total	**6,616,592**	**1,438,658**	**7,284,233**	**265,928**	**-**	**15,605,411**
Net liquidity gap	**(2,298,899)**	**(1,049,307)**	**(5,322,179)**	**8,482,075**	**1,280,119**	**1,091,809**

Fibank
First Investment Bank

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

a) Liquidity risk (continued)

Maturity table as at 31 December 2012

	Less than 1 month	Between 1 and 3 months	Between 3 and 12months	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 and Financial Institutions	72,017	-	-	-	-	72,017
Due to customers	5,032,415	900,276	6,207,372	96,440	-	12,236,503
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**

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.

In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Interest rate risk (continued)

The interest rate risk on the Bank's net interest income one year forward following a change of +100bp/-100bp as at 31 December 2013 is ALL +10.9.x/-10.9 Million (2012: ALL +30.3/-30.3 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 2013 and the periods in which financial liabilities and assets reprise.

The following table indicates the effective interest rates at 31 December 2013 and the periods in which financial liabilities and assets reprise:

				Fixed Rate Instruments			
	Total	Weighted avg. effective IR	Floating rate instruments	<=1 Month	1-3 months	3 months 1 year	More than 1 year
Financial Assets							
Cash and balances with Central Bank	185,673	0.00%	-	185,673	-	-	-
Restricted balances	1,280,119	1.25%	1,280,119	-	-	-	-
Available for sale investments	2,083,518	5.87%	-	23,436	172,206	307,762	1,580,114
Financial Assets held to maturity	2,683,590	7.92%	-	51,992	102,338	1,135,419	1,393,841
Loans and advances to banks and financial institutions	3,955,771	1.84%	164,371	3,791,400	-	-	-
Loans and advances to customers	6,508,549	8.49%	6,003,657	43,543	6,714	83,496	371,139
Total	**16,697,220**	**5.85%**	**7,448,147**	**4,096,044**	**281,258**	**1,526,677**	**3,345,094**
Financial Liabilities							-
Due to banks and other financial institutions	198,852	3.85%	-	198,852	-	-	-
Due to customers	15,406,559	3.64%	-	6,417,740	1,438,658	7,284,233	265,928
Total	**15,605,411**	**3.64%**	**-**	**6,616,592**	**1,438,658**	**7,284,233**	**265,928**
REPRICING / DURATION GAP	**1,091,809**		**7,448,147**	**(2,520,548)**	**(1,157,400)**	**(5,757,556)**	**3,079,166**

Fibank
First Investment Bank

Notes to the financial statements
In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Interest rate risk (continued)

At 31 December 2012 the effective interest rates were:

	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**

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.

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

As at 31 December 2013 the exposures were as follows (with all amounts denominated in foreign currency being translated to ALL):

	ALL	USD	EUR	OTHER	TOTAL
Financial Assets					
Cash and balances with Central Bank	84,578	29,359	51,764	19,972	185,673
Restricted balances	762,804	47,115	470,200	-	1,280,119
Available for sale investments	1,922,599	-	160,919	-	2,083,518
Financial Assets held to maturity	2,683,590	-	-	-	2,683,590
Loans and advances to banks and financial institutions	2,151,310	135,959	1,663,050	5,452	3,955,771
Loans and advances to customers	1,884,451	310,018	4,314,027	53	6,508,549
Total	**9,489,332**	**522,451**	**6,659,960**	**25,477**	**16,697,220**
Financial Liabilities					
Due to banks and other financial institutions	160,000	38,847	-	-	198,847
Due to other customers	9,482,661	492,146	5,412,722	19,035	15,406,564
Total	**9,642,661**	**530,998**	**5,412,722**	**19,030**	**15,605,411**
Net Currency position	**(153,329)**	**(8,542)**	**1,247,238**	**6,442**	**1,091,809**

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

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

In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

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.

c) 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 2013 are as follows:

	Gross exposure	Allowance for Impairment	Net Exposure
Collectively impaired			
-Standard	5,546,399	(87,972)	5,458,427
-Watch	485,594	(7,688)	477,906
-Substandard	76,645	(1,216)	75,429
-Doubtful	17,272	(273)	16,999
-Lost	-	-	-
Total collectively	**6,125,910**	**(97,149)**	**6,028,761**
Individually impaired			
-Standard	-	-	-
-Watch	-	-	-
-Substandard	420,688	(39,353)	381,335
-Doubtful	65,063	(34,624)	30,439
-Lost	205,588	(137,574)	68,014
Total individually	**691,339**	**(211,551)**	**479,788**
Total	**6,817,249**	**(308,700)**	**6,508,549**

Notes to the financial statements
In thousands of ALL

4. Risk Management Disclosures (continued)

c) Credit risk (continued)

The exposures as at 31 December 2012 are as follows:

	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**

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (see note 28).

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.

In thousands of ALL

4. Risk Management Disclosures (continued)

c) Credit risk (continued)

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:

	As at 31 December 2013	As at 31 December 2012
Trade	1,799,582	1,655,948
Private individuals	1,462,578	1,384,971
Communication	28,046	33,922
Construction	865,804	851,413
Tourism	526,202	315,549
Agriculture	56,369	59,344
Transportation	311,324	253,499
Industry	583,384	424,192
Services	1,038,752	969,753
Finance	145,208	143,456
Gross credit risk	**6,817,249**	**6,092,047**
Trade	(88,719)	(29,067)
Private individuals	(114,832)	(94,051)
Communication	(2,781)	(988)
Construction	(34,309)	(20,283)
Tourism	(11,095)	(4,704)
Agriculture	(4,295)	(5,196)
Transportation	(13,727)	(11,715)
Industry	(19,991)	(8,093)
Services	(17,163)	(13,034)
Finance	(1,788)	(1,646)
Less allowance for impairment	(308,700)	**(188,777)**
Net Credit Risk	**6,508,549**	**5,903,270**

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.

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

c) Credit risk (continued)

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:

	As at 31 December 2013	As at 31 December 2012
Money deposits	150,040	143,183
Mortgage	5,498,585	5,082,696
Guarantee	85,891	85,432
Pledge of machines	313,708	204,113
Pledge of receivables	493,995	265,710
Other collateral	275,030	310,913
Gross credit risk	6,817,249	6,092,047
Money deposits	(2,473)	(1,642)
Mortgage	(198,468)	(115,473)
Guarantee	(30,221)	(28,458)
Pledge of machines	(24,108)	(11,117)
Pledge of receivables	(20,844)	(10,930)
Other collateral	(32,586)	(21,157)
Less allowance for impairment	(308,700)	(188,777)
Net Credit Risk	**6,508,549**	**5,903,270**

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:

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

d) Capital management (continued)

Regulatory capital (continued)

- 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 2013 was 17.64% (31 December 2012: 16.6%) 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.

5. Use of estimates and judgments (continued)

(ii) Valuation of financial instruments (continued)

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 2013 and 2012 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.

Fibank
First Investment Bank

Notes to the financial statements

In thousands of ALL

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 2013

	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	-	-	185,673	-	185,673	185,673
Restricted balances	15	-	-	1,280,119	-	1,280,119	1,280,119
Available for sale investments	16	-	2,083,518	-	-	2,083,518	2,083,518
Financial Assets held to maturity	17	2,683,590	-	-	-	2,683,590	2,781,423
Loans and advances to banks and financial institutions	18	-	-	3,955,771	-	3,955,771	3,955,771
Loans and advances to customers	19	-	-	6,508,549	-	6,508,549	6,508,549
Due to Banks	24	-	-	198,847	-	198,847	198,847
Due to customers	25	-	-	15,406,564	-	15,406,564	15,619,388

As at 31 December 2012

	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

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.

Notes to the financial statements

In thousands of ALL

7. Net interest income

	Year ended 31 December 2013	Year ended 31 December 2012
Interest and similar income		
Interest and similar income arises from:		
Accounting with and placements with banks	118,390	80,517
Loans to small and medium enterprises	512,831	402,820
Loans to individual and households	173,219	137,041
Income from securities transactions	289,226	186,781
	1,093,666	**807,159**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from customers	(573,490)	(375,095)
Deposits from banks	(5,673)	(14,833)
Liabilities evidenced by papers	(78)	(3,934)
	(579,241)	**(393,862)**
Net interest income	**514,425**	**413,297**

Included within various line items under interest income for the year ended 31 December 2013 is a total of ALL 53,623 thousand (2012: ALL 37,081 thousand) accrued on individually impaired loans.

8. Net fee and commission income

	Year ended 31 December 2013	Year ended 31 December 2012
Fee and commission income		
Customer accounts	50,628	37,813
Payments and transactions	21,033	11,170
Card business	16,793	12,701
Letters of credit and guarantees	1,005	2,321
Other	33,134	21,678
	122,593	**85,683**
Fee and commission expense		
Card business	(14,855)	(8,942)
Letters of credit and guarantees	(3,941)	(451)
Correspondent accounts	(2,286)	(1,723)
Other	(2,562)	(1,126)
	(23,644)	**(12,242)**
Net fee and commission income	**98,949**	**73,441**

Notes to the financial statements
In thousands of ALL

9. Net Trading Income

Net trading income comprises foreign exchange gains and losses.

10. Personnel expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	142,720	125,805
Compulsory social security obligations	14,038	14,519
Voluntary social security obligations	1,698	-
Other allowances to staff	5,574	5,639
Training expenses	882	1,559
Total	**164,912**	**147,522**

At 31 December 2013, the Bank employed a total of 122 (2012: 113) staff and senior management.

11. General administrative expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Advertising and PR	11,177	15,579
Maintenance and repair	20,129	21,808
Administration, consultancy and other costs	102,295	74,963
Total	**133,601**	**112,350**

12. Other expenses, net

Other expenses net, amount to ALL 716 thousand (2012: income of ALL 69 thousand) and mainly include ALL 612 thousand penalties, and other operating expenses amounting to ALL 246 thousand (2012: ALL 272 other operating expense).

Notes to the financial statements
In thousands of ALL

13. Income tax expense

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax	-	-
Deferred tax	8,908	-
Total income tax income/(expenses)	**8,908**	**-**

	Year ended 31 December 2013	Year ended 31 December 2012
Profit for the period excluding tax expense	**109,487**	**99,727**
Non-deductible expenses	5,678	6,037
Personnel expenses	*5,574*	*5,640*
Other expenses	*104*	*397*
Amortization and depreciation expense	1,529	(4,524)
Profit of the period after non-deductible expenses and other	**116,694**	**101,240**
Losses brought forward	(131,721)	(232,961)
Tax Losses	**(15,027)**	**(131,721)**
Income tax @ 10%	-	-
Tax Losses carried forward	**(15,027)**	**(131,721)**

Notes to the financial statements

In thousands of ALL

13. Income tax expense (continued)

The following is a reconciliation of effective tax rate:

	2013	Effective Tax rate	2012	Effective Tax rate
Profit for the period	**109,487**		**99,727**	
Total income tax	8,908		-	
Profit excluding income tax expense	**118,395**		**99,727**	
Income tax using the Bank's domestic tax rate	11,839	10.00%	9,973	10.00%
Non-deductible expenses	568	0.4%	603	0.6%
Unrecognized tax losses in prior years	(13,172)	(11.1)%	-	-
Other	(7,252)	(6.1)%	(10,576)	(10.6)%
Total tax income	**(8,908)**	**(7.5)%**	**-**	**0.0%**

Deferred tax is calculated on all temporary differences by using tax rate of 15% (2012: 10%) Movements in deferred tax are shown in the following table.

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at January 1	**(513)**	**(533)**
Accelerated depreciation of fixed assets	6,654	-
Revaluation of available for sale investments	(4,971)	20
Accumulated losses	2,254	-
Deferred tax assets/(liabilities)	**3,424**	**(513)**

Fibank
First Investment Bank

Notes to the financial statements
In thousands of ALL

13. Income tax expense (continued)

Recognized deferred tax assets and liabilities as at 31 December 2013 and 2012 are attributable to the following:

	2013			2012		
	Assets	Liabilities	**Net**	Assets	Liabilities	**Net**
Available for sale investments	-	(5,484)	(5,484)	-	(513)	(513)
Accumulated depreciation	6,654	-	6,654			
Accumulated losses	2,254	-	2,254	-	-	-
Net tax assets (liabilities)	**8,908**	**(5,484)**	**3,424**	**-**	**(513)**	**(513)**

At 31 December 2012 deferred tax assets have not been recognized in respect of the following items: (2013: NIL):

	Year ended 31 December 2013	**Year ended 31 December 2012**
Accumulated depreciation	-	4,283
Tax losses	-	13,172
Total	**-**	**17,455**

Tax losses can be carried forward up to 3 years. The deductible temporary differences do not expire under the current tax legislation.

	Year ended 31 December 2013	**Year ended 31 December 2012**
Tax loss from 2010 - expires 31 December 2013	90,497	191,737
Tax loss from 2011 - expires 31 December 2014	41,224	41,224
Tax Profit from 2013 and 2012	(131,721)	(101,240)
Total	**-**	**(131,721)**

14. Cash and balances with Central Bank

	As at 31 December 2013	**As at 31 December 2012**
Cash on hand		
in Albanian lek	59,274	77,950
in foreign currencies	99,396	134,077
Balances with central bank	27,003	122,519
Total	**185,673**	**334,546**

Fibank
First Investment Bank

Notes to the financial statements
In thousands of ALL

15. Restricted balances

	As at 31 December 2013	As at 31 December 2012
Statutory reserve	1,280,119	999,248
Total	**1,280,119**	**999,248**

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.

	As at 31 December 2013	As at 31 December 2012
Treasury Bills	451,463	909,846
Government Bonds	1,632,055	157,491
Total	**2,083,518**	**1,067,337**

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.

	As at 31 December 2013	As at 31 December 2012
Government Bonds	2,683,590	1,885,578
Total	**2,683,590**	**1,885,578**

Government bonds as at 31 December 2013 and 2012 represent 2, 3, 5, 7 and 10 year bonds denominated in Lek issued by the Government of Albania with coupon rates ranging from 4.65% to 9.25% per annum.

	As at 31 December 2013	As at 31 December 2012
Nominal value of bonds	2,629,200	1,850,000
Premium	343	1,690
Accrued interest	54,047	33,888
Total	**2,683,590**	**1,885,578**

Notes to the financial statements

In thousands of ALL

18. Loans and advances to banks and financial institutions

(a) Analysis by type

	As at 31 December 2013	As at 31 December 2012
Current accounts with banks	164,371	160,632
Placements due from banks	2,151,063	1,885,946
Receivables under resale agreements	1,640,337	1,062,240
Total	**3,955,771**	**3,108,818**

(b) Geographical analysis

	As at 31 December 2013	As at 31 December 2012
Domestic banks and financial institutions	406	925
Foreign banks and financial institutions	3,955,365	3,107,893
Total	**3,955,771**	**3,108,818**

19. Loans and advances to customers

	As at 31 December 2013	As at 31 December 2012
Retail customers	1,615,473	1,410,297
Consumer loans	*323,836*	*277,953*
Mortgage loans	*1,178,542*	*1,032,580*
Credit cards	*113,095*	*99,764*
Small and medium enterprises	5,201,776	4,681,750
Less allowance for impairment	(308,700)	(188,777)
Net loans and advances to customers	**6,508,549**	**5,903,270**

Loans and advances to customers composed by sector as at 31 December 2013 are as follows:

	Gross Amount	Impairment allowance	Carrying Amount
Retail customer	1,615,473	(121,043)	1,494,430
Consumer loans	323,836	(39,307)	*284,529*
Mortgage loans	1,178,542	(57,163)	*1,121,379*
Credit cards	113,095	(24,573)	*88,522*
Small and medium enterprises	5,201,776	(187,657)	5,014,119
Total	**6,817,249**	**(308,700)**	**6,508,549**

In thousands of ALL

19. Loans and advances to customers (continued)

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

	Gross Amount	Impairment allowance	Carrying Amount
Retail customer	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
Total	**6,092,047**	**(188,777)**	**5,903,270**

Impairment allowances as at 31 December 2013 and 2012 are as follows:

Changes in allowance for impairment for years ended 31 December 2013 and 2012 are as follows:

	2013	2012
Specific impairment allowance		
Balance at January 1	(124,004)	(99,302)
Net (Impairment loss)/recoveries for the year	(87,547)	(24,702)
charge for the year	*(104,118)*	*(44,675)*
Recoveries	*16,571*	*19,973*
Write-offs	-	-
Balance at December 31	(211,551)	(124,004)
Collective impairment allowance		
Balance at January 1	(64,773)	(55,187)
Net (Impairment loss)/recoveries for the year	(32,376)	(9,586)
charge for the year	*(47,181)*	*(30,975)*
Recoveries	*14,805*	*21,389*
Write-offs	-	-
Balance at December 31	(97,149)	(64,773)
Total allowance for impairment	**(308,700)**	**(188,777)**

Fibank First Investment Bank

Notes to the financial statements

In thousands of ALL

20. Property and equipment

	Leasehold improvements	Fittings, fixtures & installations	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 2012	**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**
Additions	2,308	1,044	3,930	1,906	7,206	756	757	17,907
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	1,678	-	-	(1,678)	-
Balance at 31 December 2013	**117,116**	**46,866**	**27,865**	**84,947**	**73,172**	**47,507**	**8,050**	**405,523**
Accumulated Depreciation								
Balance at 1 January 2012	**(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)**
Charge for the period	(5,732)	(4,689)	(2,393)	(8,402)	(3,886)	(4,818)	-	(29,920)
Disposals	-	-	-	-	-	-	-	-
Balance at 31 December 2013	**(93,071)**	**(24,234)**	**(11,962)**	**(47,164)**	**(63,238)**	**(25,311)**	**-**	**(264,980)**
Net book value								
As at 1 January 2012	**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**
As at 31 December 2013	**24,045**	**22,632**	**15,903**	**37,783**	**9,934**	**22,196**	**8,050**	**140,543**

Notes to the financial statements
In thousands of ALL

20. Property and equipment (continued)

Other

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

21. Intangible assets

	Patents, copyrights and trademarks	Software and other intangible assets	**Total**
Cost			
Balance at 1 January 2012	**7,754**	**28,689**	**36,443**
Additions	-	1,366	1,366
Balance at 31 December 2012	**7,754**	**30,055**	**37,809**
Additions	615	3,321	3,936
Balance at 31 December 2013	**8,369**	**33,376**	**41,745**
Accumulated amortization			
Balance at 1 January 2012	**(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)**
Charge for the period	(519)	(3,445)	(3,964)
Balance at 31 December 2013	**(6,811)**	**(26,654)**	**(33,465)**
Net book value			
As at 1 January 2012	**2,045**	**9,763**	**11,808**
As at 31 December 2012	**1,462**	**6,846**	**8,308**
As at 31 December 2013	**1,558**	**6,722**	**8,280**

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.

Fibank
First Investment Bank

Notes to the financial statements

In thousands of ALL

23. Other assets

	As at 31 December 2013	As at 31 December 2012
Prepaid taxes	55,178	52,811
Gold bullion	8,448	8,496
Deferred expenses	7,635	8,567
Other	29,122	31,595
Total	**100,383**	**101,469**

Prepaid taxes are composed of the following:

	As at 31 December 2013	As at 31 December 2012
Withholding tax	48,137	45,770
Prepaid income tax	7,041	7,041
Total	**55,178**	**52,811**

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

	As at 31 December 2013	As at 31 December 2012
Money markets deposits with maturity up to two weeks		
With resident banks	198,847	72,017
Total	**198,847**	**72,017**

25. Due to customers

	As at 31 December 2013	As at 31 December 2012
Retail customers	12,412,416	9,095,242
payable on demand	*3,268,799*	*1,741,872*
term deposits	*9,143,274*	*7,353,027*
other clients account	*343*	*343*
Corporate customers	2,994,148	3,141,261
payable on demand	*529,095*	*1,445,768*
term deposits	*2,463,104*	*1,558,468*
other clients account	*1,949*	*137,025*
Total	**15,406,564**	**12,236,503**

Notes to the financial statements

In thousands of ALL

26. Other liabilities

	As at 31 December 2013	As at 31 December 2012
Payment in transit	15,481	20,372
Fiscal administration	4,919	4,521
Other creditors	15,102	14,042
Accruals for expenses	557	515
Suppliers	11,627	1,967
Total	**47,686**	**41,417**

27. Capital and reserves

As at 31 December 2013 and 2012 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.

28. 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.

	As at 31 December 2013	As at 31 December 2012
Bank guarantees	23,940	49,426
Commitments given on behalf of customers	308,190	222,696
Letter of credit	-	31,015
Total	**332,130**	**303,137**

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 2013 guarantees and letters of credit are fully collateralized.

In thousands of ALL

28. Commitments and contingent liabilities (continued)

b) Lease commitments

	As at 31 December 2013	As at 31 December 2012
Up to 1 year	72,344	70,679
Above 1 year and less than 5 years	231,159	223,055
Above 5 years	46,306	89,207
Total	**349,809**	**382,941**

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.

29. 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:

	As at 31 December 2013	As at 31 December 2012
Loans and advances	1,717,591	1,171,275
Accounts receivable	6,686	6,686
Interest income	139	59,215
Interest expense	(491)	(175)
Commission income	147	74
Commission expense	(115)	(181)

The key management personnel of the Bank received remuneration of ALL 29,296 thousand (2012: ALL 18,175 thousand) for the year ending 31 December 2013. Key management received other benefits amounting to ALL 3,015 thousand (2012: ALL 2,739 thousand) for the year ending 31 December 2013.

30. Cash and cash equivalents

	As at 31 December 2013	As at 31 December 2012
Cash on hand (note 14)	158,670	212,027
Current accounts	191,374	283,151
central bank (note 14)	*27,003*	*122,519*
correspondent banks (note 18)	*164,371*	*160,632*
Loans and advances to banks and financial institutions with maturity less than 90 days (note 18)	3,791,400	2,948,186
Total	**4,141,444**	**3,443,364**

31. 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.