Banka Kombetare Tregtare sh.a.

Independent Auditors’ Review Report
and
Consolidated Interim Financial Information
as at and for the six month period ended 30 June 2013

Contents

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Independent Auditors' Report on Review of Consolidated Interim Financial Information

To the shareholder of Banka Kombetare Tregtare sh.a.

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of Banka Kombetare Tregtare sh.a. (the "Bank") as at 30 June 2013, and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the financial position of the Bank as at 30 June 2013, and of its financial performance and its cash flows for the six month period then ended in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Other Matter

The financial statements of the Bank for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on February 26, 2013.

Deloitte Albania shpk.

Tirana, Albania

July 30, 2013

Banka Kombetare Tregtare Sh.A.

Consolidated statement of financial position as at 30 June 2013
(amounts in USD)

	Notes	30 June 2013	31 December 2012
Assets			
Cash and balances with Central Bank	7	185,478,680	231,341,516
Placement and balances with banks	8	130,670,632	149,439,990
Treasury bills	9	278,146,997	266,464,865
Investment securities available-for-sale	10	507,612,564	369,864,054
Investment securities held-to-maturity	11	234,405,749	221,912,787
Loans to banks	12	143,254,390	192,135,941
Loans to customers, net	13	860,560,343	854,185,956
Investment in associates	14	1,713,214	-
Property and equipment, net	15	26,655,580	28,168,784
Intangible assets, net	16	1,257,139	1,514,911
Other assets	17	33,207,105	22,285,162
Total assets		**2,402,962,393**	**2,337,313,966**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	18	1,923,562,668	1,884,887,955
Due to banks and financial institutions	19	260,229,391	239,104,842
Due to third parties	20	3,161,761	2,249,325
Deferred tax liabilities	21	3,172,371	1,978,653
Accruals and other liabilities	22	8,794,356	11,594,079
Subordinated debt	23	13,080,066	13,195,323
Total liabilities		**2,212,000,613**	**2,153,010,177**
Shareholders' equity			
Share capital	24	138,965,905	100,000,000
Legal reserve	24	-	3,410,723
Translation reserve	24	(206,016)	394,191
Fair value reserve	24	(3,975,080)	6,845,965
Retained earnings	24	56,176,971	73,652,910
Total shareholders' equity		**190,961,780**	**184,303,789**
Total liabilities and shareholders' equity		**2,402,962,393**	**2,337,313,966**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 6 to 58.

The consolidated interim financial statements were authorised for release by the Board of Directors on 30 July 2013 and signed on its behalf by:

Seyhan Pencapligil
CEO and Board Member

Skender Emini
Head of Financial and IT Group

Consolidated statement of comprehensive income for the six month period ended 30 June 2013

(amounts in USD)

	Notes	Six-month period ended 30 June 2013	Three-month period ended 30 June 2013	Six-month period ended 30 June 2012	Three-month period ended 30 June 2012
Interest					
Interest income	25	72,994,503	35,349,051	68,708,258	34,403,189
Interest expense	26	(38,280,037)	(19,061,754)	(33,249,830)	(16,192,683)
Net interest margin		**34,714,466**	**16,287,297**	**35,458,428**	**18,210,506**
Non-interest income, net					
Fees and commissions, net	27	4,989,436	2,905,794	4,677,989	2,193,475
Foreign exchange revaluation loss, net	28	(883,072)	(2,116,293)	(38,654)	(1,147,142)
Profit from FX trading activities, net		187,971	73,062	493,434	850,517
Other income/(expense), net	29	6,300,158	1,582,520	(123,103)	(265,316)
Total non-interest income, net		**10,594,493**	**2,445,083**	**5,009,666**	**1,631,534**
Operating expenses					
Personnel	30	(8,214,469)	(4,212,072)	(7,573,332)	(3,775,344)
Administrative	31	(9,628,582)	(5,143,111)	(9,005,835)	(4,453,434)
Depreciation and amortization	15, 16	(2,588,343)	(1,293,050)	(2,436,111)	(1,213,435)
Total operating expenses		**(20,431,394)**	**(10,648,233)**	**(19,015,278)**	**(9,442,213)**
Impairment of loans	13	(2,791,969)	(1,888,928)	(1,216,339)	(634,225)
Profit before taxes		**22,085,596**	**6,195,219**	**20,236,477**	**9,765,602**
Income tax	33	(2,255,120)	(669,672)	(2,077,446)	(1,030,910)
Net profit for the period		**19,830,476**	**5,525,547**	**18,159,031**	**8,734,692**
Foreign currency translation differences		(600,207)	174,109	1,948,409	2,909,291
Net change in fair value reserves		(10,821,045)	(7,222,868)	5,172,703	4,003,609
Other comprehensive (loss)/income for the period, net of income tax		**(11,421,252)**	**(7,048,759)**	**7,121,112**	**6,912,900**
Total comprehensive income/(loss) for the period		**8,409,224**	**(1,523,212)**	**25,280,143**	**15,647,592**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 58.

Consolidated statement of changes in equity for the six month period ended 30 June 2013

(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2012	**100,000,000**	**-**	**(2,748,295)**	**(7,222,165)**	**48,134,973**	**138,164,513**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserves	-	3,410,723	-	-	(3,410,723)	-
Appropriation of 2011 year translation difference	-	-	-	-	(2,748,295)	(2,748,295)
Adjustment of retained earnings with June 2012 exchange rate	-	-	-	-	(860,104)	(860,104)
Total contributions by and distributions to owners	-	3,410,723	-	-	(7,019,122)	(3,608,399)
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	18,159,031	18,159,031
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	5,172,703	-	5,172,703
Foreign currency translation differences	-	-	1,948,409	-	-	1,948,409
Total other comprehensive income	-	-	1,948,409	5,172,703	-	7,121,112
Total comprehensive income for the period	-	-	1,948,409	5,172,703	18,159,031	25,280,143
Balance as at 30 June 2012	**100,000,000**	**3,410,723**	**(799,886)**	**(2,049,462)**	**59,274,882**	**159,836,257**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial information set out on pages 6 to 58.

Banka Kombetare Tregtare Sh.A.

Consolidated statement of changes in equity for the six month period ended 30 June 2013

(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2013	**100,000,000**	**3,410,723**	**394,191**	**6,845,965**	**73,652,910**	**184,303,789**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	38,965,905	(3,282,146)	-	-	(35,683,75	-
Adjustment for translation of legal reserve		(128,577)			128,577	-
Appropriation of 2012 year translation difference	-	-	-	-	394,191	394,191
Adjustment of retained earnings with June 2013 exchange rate	-	-	-	-	(2,145,424)	(2,145,424)
Total contributions by and distributions to owners	38,965,905	(3,410,723)	-	-	(37,306,41	(1,751,233)
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	19,830,476	19,830,476
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	(10,821,045)	-	(10,821,045)
Foreign currency translation differences	-	-	(600,207)	-	-	(600,207)
Total other comprehensive loss	-	-	(600,207)	(10,821,045)	-	(11,421,252)
Total comprehensive (loss)/income for the period	-	-	(600,207)	(10,821,045)	19,830,476	8,409,224
Balance as at 30 June 2013	**138,965,905**	**-**	**(206,016)**	**(3,975,080)**	**56,176,971**	**190,961,780**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial information set out on pages 6 to 58.

Consolidated statement of cash flows for the six month period ended 30 June 2013

(amounts in USD)

	Notes	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Cash flows from operating activities:			
Profit before taxes		22,085,596	20,236,477
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	26	38,280,037	33,249,830
Interest income	25	(72,994,503)	(68,708,258)
Depreciation and amortization	15,16,17	2,588,343	2,436,111
Gain on sale of property and equipment		(9,866)	(6,152)
Gain on sale of treasury bills		(54,667)	(143,590)
Gain on sale of non-current assets		(6,546)	(32,187)
Gain on recovery of lost loans		(19,244)	(829)
Write-off of property and equipment		1,817	9,847
Loss on unrecoverable lost loans		24,068	72,123
Provision on other debtors		30,646	175,640
Movement in the fair value reserve		(10,806,465)	5,136,609
Impairment of loans	13	2,791,969	1,216,339
Cash flows from operating profits before changes in operating assets and liabilities		(18,088,815)	(6,358,040)
(Increase)/decrease in operating assets:			
Restricted balances with central bank		28,761,600	(9,912,602)
Placements and balances with banks		(16,186,051)	1,292,818
Loans and advances to banks		45,186,431	(40,450,955)
Loans and advances to customers		(24,439,701)	(26,029,205)
Other assets		(10,269,530)	(257,154)
		23,052,749	(75,357,098)
Increase/(decrease) in operating liabilities:			
Customer deposits		68,893,012	110,114,967
Due to third parties		967,856	(596,863)
Accruals and other liabilities		(2,433,813)	1,772,348
Subordinated debt		128,302	-
		67,555,357	111,290,452
Interest paid		(30,359,459)	(26,087,577)
Interest received		73,409,700	65,606,109
Income taxes paid		(2,420,397)	(1,312,092)
Net cash flows from operating activities		**113,149,135**	**67,781,754**
Cash flows from investing activities			
Purchases of investment securities		(161,845,921)	(88,328,298)
Purchases of treasury bills		(48,182,116)	(105,660,663)
Investment in associates		(1,732,628)	-
Purchases of property and equipment		(1,385,961)	(12,574,678)
Proceeds from sale of property and equipment		1,814	82,332
Proceeds from sale of treasury bills		27,236,562	52,125,857
Net cash flows used in investing activities		**(185,908,250)**	**(154,355,450)**
Cash flows from financing activities			
Proceeds from short term borrowings		26,230,677	103,016,971
Net cash flows from financing activities		**26,230,677**	**103,016,971**
Net change in cash and cash equivalents		**(46,528,438)**	**16,443,275**
Translation difference		(2,693,976)	(2,096,276)
Cash and cash equivalents at the beginning of the period	7	**199,640,486**	**147,124,564**
Cash and cash equivalents at the end of the period	7	**150,418,072**	**161,471,563**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial information set out on pages 6 to 58.

1. General

Banka Kombetare Tregtare Sh.a. is a commercial bank offering a wide range of universal services. The consolidated interim financial statements comprise the Bank and its branch (together referred to as the "Bank" or "BKT").

The Bank provides banking services to state and privately owned enterprises and to individuals. The main sources of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, internet banking, mobile banking, on-line banking facilities, qualified international banking services and various treasury products. It also invests in securities and takes part actively in the local and international inter-bank markets.

BKT was established in its present legal form on 30 December 1992, although its first branch was opened on 30 November 1925.

BKT is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholder's Decision dated 28 March 2012, the Bank created legal reserves of Lek 358,706 thousand (equivalent of USD 3,410,723), using part of the retained earnings from previous years.

Upon the Shareholder's Decision dated 27 March 2013, the Bank increased its paid-up capital by Lek 4,258,584 thousand (equivalent of USD 38,965,904.9), using the legal reserves of Lek 358,706 thousand (equivalent of USD 3,282,145.8) and part of the retained earnings of Lek 3,899,878 thousand (equivalent of USD 35,683,759.1). The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 27 March 2013 (109.29 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 3,155,134. The shareholding structure as at 30 June 2013 and 31 December 2012 was as follows:

	30 June 2013			*31 December 2012*		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	11,252,300	138,965,905	100	8,097,166	100,000,000.1	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 57 branches and 2 custom agencies. Twenty-one branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat and Koplik, followed by custom agencies in Durres Seaport and Rinas Airport.

The network in Kosovo includes 24 units. Five units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Hani i Elezit, Dheu i Bardhe, Prishtina Airport and Skenderaj.

The Bank had 1,143 (31 December 2012: 1,135) employees as at 30 June 2013, out of which 279 (31 December 2012: 285) employees belong to Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

(b) Basis of measurement

The consolidated interim financial information have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value and assets held for sale, which are measured at the lower of carrying amount and fair value less costs to sell.

(c) Functional and presentation currency

These consolidated interim financial statements are presented in USD. Albanian Lek ("Lek") is the Bank's functional currency.

The Bank has chosen to present its financial statements in USD, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

(d) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated interim financial statements are described in notes 4 and 5.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities (branches) controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

On 3 September 2007, BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo.

(ii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per Special Law No. 8634, dated 6 July 2000, between the Bank's shareholders and the Republic of Albania on the Bank's privatisation.

Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets, and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Lek at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Lek at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income. Such differences have been recognised in the foreign currency translation reserve.

(iii) Translation of financial statements from functional currency to presentation currency

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date.
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period, legal reserves and share capital are translated at the closing rate existing at the reporting date.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

(iv) Spot foreign exchange transactions

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

3. Significant accounting policies (continued)

(c) Interest

Interest income and expense are recognised in the 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.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

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

(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.

(f) Income tax expense

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, 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, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset 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. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

3. Significant accounting policies (continued)

(g) Financial assets and 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 (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

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

(iii) Derecognition

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions 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 which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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 derecognition 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 and investment securities when they are determined to be uncollectible.

(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.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative 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 depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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 Bank, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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.

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. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is reclassified from other comprehensive income 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 previously recognised in profit or loss. Changes in impairment provisions attributable to time value 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 objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(h) Cash and cash equivalents

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

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

(j) Loans

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

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

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (g),(vi).

(k) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

3. Significant accounting policies (continued)

(k) Investment securities (continued)

(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 as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant 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

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. 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, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(l) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

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

- Buildings and leasehold improvements — 20 years
- Motor vehicles and other equipment — 5 years
- Office equipment — 5 years
- Computers and electronic equipment — 4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(m) Intangible assets

Intangible assets comprise software acquired by the Bank. Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

3. Significant accounting policies (continued)

(m) Intangible assets (continued)

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

(n) Assets acquired through legal process

Assets acquired through legal process have been acquired through the enforcement of security over financial receivables, and accounted for depending on their classification as either noncurrent assets held for sale, or investment property.

(i) Non- current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(ii) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with reference to the market prices, and with any change therein recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

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

3. Significant accounting policies (continued)

(p) Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

(q) Deposits, borrowings and subordinated liabilities

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

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

(r) Provisions

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 21, “Reserve fund for retiring employees”) during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.

The amount due to employees based on the above plan would be grossed up by the interest that would accrue from the date the employees leave the Bank until their retirement. It would be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to a minimum of 75% of their state monthly pension until the accumulated fund for the employee is consumed.

Based on the Board of Directors resolution effective on 30 September 2010, the Bank has stopped the investment in this fund (SSP), by transforming it into the Staff Retention Credit Program (SRCP). The demographic changes in labour force during the last ten years and the employees’ average age at 31, where 80% of employees are below the age of 40, has resulted in SSP not being attractive for most employees of the Bank, as it can only be enjoyed at retirement. In contrast, SRCP will be more readily beneficial for all the Bank’s staff, as it will provide consumer and home loans with preferential terms. The entire due amount calculated for eligible employees in Staff Support Program has been frozen on the same date. The frozen amount due to change of SSP into SRCP on 30 September 2010 and the corresponding annual interest that will be gained by the investment in AAA sovereign bonds in the future until retirement age, is recorded as a liability by the Bank.

(iii) Short-term benefits

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

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

3. Significant accounting policies (continued)

(t) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other Components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see Note 6). The Bank's format for segment reporting is based on geographical segments.

(u) Standards and Interpretations effective in the current period

The following standards and amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by IFRS Interpretations Committee are effective for the current period:

- **IFRS 10 "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 "Disclosures of Interests in Other Entities"** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Government Loans (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements"** – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (2012)"** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

3. Significant accounting policies (continued)

(v) Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions to existing standards and interpretations were in issue, but not yet effective:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015), published by IASB on 12 November 2009. On 28 October 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.
- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – Mandatory Effective Date and Transition Disclosures, published by IASB on 16 December 2011. Amendments defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** – Investment Entities (effective for annual periods beginning on or after 1 January 2014), published by IASB on 31 October 2012. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets" -** Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 5).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g) (vii).

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in 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 group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(g)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3(g)(vi).

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

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

4. Use of estimates and judgements (continued)

Valuation of financial instruments (continued)

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. 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 that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. 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.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)

Fair values

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

30 June 2013	**Note**	**Carrying Amount**		**Fair Value**		
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	130,670,632	-	130,670,632	-	130,670,632
Treasury bills	9	278,146,997	-	278,146,997	-	278,146,997
Investment securities available-for-sale	10	507,612,564	169,540,916	248,721,089	89,350,559	507,612,564
Investment securities held-to-maturity	11	234,405,749	52,523,729	181,893,888	-	234,417,617
Loans and advances to banks	12	143,254,390	-	143,254,390	-	143,254,390
Loans and advances to customers	13	860,560,343	-	860,560,343	-	860,560,343
Total financial assets		**2,154,650,675**	**222,064,645**	**1,843,247,339**	**89,350,559**	**2,154,662,543**
Customer deposits	18	1,923,562,668	-	1,923,562,668	-	1,923,562,668
Due to banks and financial institutions	19	260,229,391	-	260,229,391	-	260,229,391
Subordinated debt	23	3,161,761	-	3,161,761	-	3,161,761
Total financial liabilities		**2,186,953,820**	**-**	**2,186,953,820**	**-**	**2,186,953,820**
31 December 2012	**Note**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	149,439,990	-	149,439,990	-	149,439,990
Treasury bills	9	266,464,865	-	266,478,358	-	266,478,358
Investment securities available-for-sale	10	369,864,054	108,570,735	233,406,738	27,886,581	369,864,054
Investment securities held-to-maturity	11	221,912,787	34,043,243	188,519,250	-	222,562,493
Loans to banks	12	192,135,941	-	192,135,941	-	192,135,941
Loans to customers	13	854,185,956	-	854,185,956	-	854,185,956
Total financial assets		**2,054,003,593**	**142,613,978**	**1,884,166,233**	**27,886,581**	**2,054,666,792**
Customer deposits	18	1,884,887,955	-	1,884,887,955	-	1,884,887,955
Due to banks and financial institutions	19	239,104,842	-	239,104,842	-	239,104,842
Subordinated debt	23	13,195,323	-	13,195,323	-	13,195,323
Total financial liabilities		**2,137,188,120**	**-**	**2,137,188,120**	**-**	**2,137,188,120**

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

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

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

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

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

(b) 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 and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013	**31 December 2012**
Treasury bills	278,146,997	266,464,865
Due from other banks	273,925,022	341,575,931
Loans to customers, net	860,560,343	854,185,956
Investment securities - available for sale	507,612,564	369,864,054
Investment securities - held to maturity	234,405,749	221,912,787
Financial guarantees	70,185,414	81,799,801
Standby letters of credit	8,618,187	6,152,087
Commitments to extend credit	54,406,092	57,239,189
Maximum exposures to credit risk	**2,287,860,368**	**2,199,194,670**

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to D in the Bank's internal credit risk grading system. The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes on grading and takes the necessary operations according to the monitoring procedures. The risk committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It relates to the specific loss component for individually significant exposures. Refer to note 4.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

5. Financial risk management (continued)

(b) Credit Risk (continued)

	Loans to customers			
30 June 2013	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	196,903,373	419,063,220	1,225,833	617,192,426
Past due and individually tested but not impaired	65,040,249	173,762,094	62,013	238,864,356
Individually impaired	13,416,079	10,684,445	2,449,634	26,550,158
Total Loans, gross (Note 13)	**275,359,701**	**603,509,759**	**3,737,480**	**882,606,940**
Allowance for impairment	(9,350,384)	(10,240,532)	(2,455,681)	(22,046,597)
Total Loans, net of impairment	**266,009,317**	**593,269,227**	**1,281,799**	**860,560,343**

	Loans to customers			
31 December 2012	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	186,758,001	428,831,953	1,577,466	617,167,420
Past due and individually tested but not impaired	59,604,531	168,613,391	40,540	228,258,462
Individually impaired	11,980,048	13,959,219	2,496,628	28,435,895
Total Loans, gross (Note 13)	**258,342,580**	**611,404,563**	**4,114,634**	**873,861,777**
Allowance for impairment	(8,422,384)	(8,775,682)	(2,477,755)	(19,675,821)
Total Loans, net of impairment	**249,920,196**	**602,628,881**	**1,636,879**	**854,185,956**

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	**30 June 2013**	**31 December 2012**
A: Good	42,938,825	30,769,262
B: Acceptable	418,193,014	441,914,157
C: Close Monitoring	103,187,209	113,923,181
D: Unacceptable	34,113,439	21,578,150
(Note 13)	**598,432,487**	**608,184,750**
Accrued interest	7,242,491	5,489,455
Less: unamortized deferred fee income	(2,165,218)	(2,269,642)
Total	**603,509,760**	**611,404,563**

Set out below are the carrying amount of loans and advances to customers whose term has been renegotiated:

	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
30 June 2013	2,518,996	54,991,707	154,412	57,665,115
31 December 2012	2,316,209	56,628,308	146,076	59,090,593

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually:

	Loans and advances to customers			
30 June 2013	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	25,136,011	76,618,361	369,482	102,123,854
Past due 32-60 days	9,044,588	10,905,998	261,225	20,211,811
Past due 61-90 days	8,586,056	5,734,263	196,499	14,516,818
Past due 91-180 days	6,434,345	12,643,185	289,547	19,367,077
Past due 181 days- 365 days	4,323,390	23,430,258	114,533	27,868,181
Past due 1-2 years	2,861,262	23,741,828	227,302	26,830,392
Past due over 2 years	4,079,183	9,100,443	188,318	13,367,944
Total	**60,464,835**	**162,174,336**	**1,646,906**	**224,286,077**

	Loans and advances to customers			
31 December 2012	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	19,392,407	36,543,831	463,759	56,399,997
Past due 32-60 days	6,808,835	11,668,924	203,534	18,681,293
Past due 61-90 days	8,363,315	6,763,816	210,909	15,338,040
Past due 91-180 days	5,379,023	6,145,240	168,931	11,693,194
Past due 181 days- 365 days	5,266,115	21,826,148	215,747	27,308,010
Past due 1-2 years	3,038,500	12,994,604	229,031	16,262,135
Past due over 2 years	3,744,100	12,662,208	155,708	16,562,016
Total	**51,992,295**	**108,604,771**	**1,647,619**	**162,244,685**

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans to customers		
30 June 2013	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	727,741,018	1,064,418,779	1,792,159,797
Financial assets	27,021,743	250,020,916	277,042,659
Other	48,857,461	155,439,137	204,296,598
Total	**803,620,222**	**1,469,878,832**	**2,273,499,054**

	Loans to customers		
31 December 2012	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	699,965,496	1,099,300,456	1,799,265,952
Financial assets	20,863,706	234,336,828	255,200,534
Other	47,616,740	195,091,887	242,708,627
Total	**768,445,942**	**1,528,729,171**	**2,297,175,113**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Credit quality of other financial assets, based on the internal rating system of the Bank is detailed as follows:

30 June 2013	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	278,146,997	273,925,022	507,612,564	234,405,749	1,294,090,332
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**278,146,997**	**273,925,022**	**507,612,564**	**234,405,749**	**1,294,090,332**

31 December 2012	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	266,464,865	341,575,931	369,864,054	221,912,787	1,199,817,637
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**266,464,865**	**341,575,931**	**369,864,054**	**221,912,787**	**1,199,817,637**

The Treasury Bills, Investments Available for Sale and Investments Held to Maturity are rated as follows:

Moody's Ratings or equivalent	Note	30 June 2013	31 December 2012
Government bonds and treasury bills	9,10,11		
Rated A2 to Aa1		6,880,933	14,226,757
Rated Baa3 to Baa1		12,120,139	12,258,249
Rated Ba3 to Ba1		32,063,967	21,228,171
Rated B1		637,367,437	597,064,587
Not rated		12,133,783	1,119,121
Corporate bonds and asset backed securities	10,11		
Rated Baa3 to Baa1		12,787,594	11,372,534
Rated Ba3 to Ba1		98,066,542	27,886,581
Bank bonds	10,11		
Rated A2 to A1		7,147,274	7,449,551
Rated Baa3 to Baa2		59,814,191	24,521,924
Rated Ba2 to Ba1		49,059,825	90,029,244
Rated Ba3		10,263,266	6,238,936
Rated B2 to B1		27,755,186	18,237,866
Not rated		17,736,918	-
Investments in equity			
Not rated		36,968,255	26,608,185
Total		**1,020,165,310**	**858,241,706**

The rating for loans to banks is detailed in Note 12.

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 30 June 2013 and 31 December 2012 is shown below:

	Note	**Loans to customers**		**Loans to banks**		**Investment debt securities**	
		30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**	**30 June 2013**	**31 December 2012**
Carrying amount	9-11,12,13	860,560,343	854,185,956	143,254,390	192,135,941	1,020,165,310	858,241,706
Concentration by sector							
Corporate		591,068,263	600,797,352	-	-	147,822,391	65,867,300
Government		2,200,964	1,831,529	-	-	700,566,259	645,896,885
Banks		-	-	143,254,390	192,135,941	171,776,660	146,477,521
Retail		267,291,116	251,557,075	-	-	-	-
Total		**860,560,343**	**854,185,956**	**143,254,390**	**192,135,941**	**1,020,165,310**	**858,241,706**

Concentration by location	Note	**Loans to customers**		**Loans to banks**		**Investment debt securities**	
		30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**	**30 June 2013**	**31 December 2012**
Albania		604,575,809	589,051,104	-	-	637,367,437	597,064,588
Kosovo		137,475,575	144,499,107	-	-	12,133,783	1,119,121
Europe		98,108,959	100,017,324	143,254,390	192,135,941	356,177,098	249,033,267
Asia		-	-	-	-	8,248,705	11,024,730
Middle East and Africa		20,400,000	20,618,421	-	-	6,238,287	-
Total	9-11,12,13	**860,560,343**	**854,185,956**	**143,254,390**	**192,135,941**	**1,020,165,310**	**858,241,706**

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide early warning signal of liquidity risk to the top management of Bank.

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive cumulative liquidity gaps for all time buckets up to one year as at 30 June 2013. This resulted mainly because of the following three main assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- Bank's reserve requirements held with BoA are considered as non-liquid assets.

An analysis of the Bank's expected timing of cash flows by simple remaining maturity is shown in the following tables.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2013, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	185,478,680	-	-	-	-	185,478,680
Placement and balances with banks	119,060,740	10,937,510	672,382	-	-	130,670,632
Treasury bills	12,383,586	37,152,050	228,611,361	-	-	278,146,997
Investment securities available-for-sale	10,615,787	13,911,779	138,422,318	318,929,642	25,733,038	507,612,564
Investment securities held-to-maturity	11,456,477	22,540,525	103,557,810	95,834,697	1,016,240	234,405,749
Loans to banks	23,509,582	32,065,998	67,667,790	20,011,020		143,254,390
Loans to customers	50,758,092	49,232,322	251,282,364	326,376,153	182,911,412	860,560,343
Investment in associates	-	-	-	-	1,713,214	1,713,214
Property and equipment	-	-	-	5,616,252	21,039,328	26,655,580
Intangible assets	-	-	-	1,257,139	-	1,257,139
Other assets	7,668,128	-	19,785,006	-	5,753,971	33,207,105
Total assets	**420,931,072**	**165,840,184**	**809,999,031**	**768,024,903**	**238,167,203**	**2,402,962,393**
Liabilities and shareholders' equity						
Customer deposits	547,968,535	509,750,383	748,665,396	110,182,807	6,995,547	1,923,562,668
Due to banks and financial institutions	223,495,715	9,650,831	8,808,560	18,274,285	-	260,229,391
Due to third parties	3,161,761	-	-	-	-	3,161,761
Deferred tax liabilities	-	-	-	3,172,371	-	3,172,371
Accruals and other liabilities	7,659,321	-	-	-	1,135,035	8,794,356
Subordinated debt	-	-	27,005	-	13,053,061	13,080,066
Shareholders' equity	-	-	-	-	190,961,780	190,961,780
Total liabilities and shareholders' equity	**782,285,332**	**519,401,214**	**757,500,961**	**131,629,463**	**212,145,423**	**2,402,962,393**
Net Position	**(361,354,260)**	**(353,561,030)**	**52,498,070**	**636,395,440**	**26,021,780**	**-**
Cumulative Net Position	**(361,354,260)**	**(714,915,290)**	**(662,417,220)**	**(26,021,780)**	**-**	**-**

LRM reports and the total statement of financial position are produced for each of the following currencies: Lek, Euro and USD. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2012, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	231,341,516	-	-	-	-	231,341,516
Placement and balances with banks	141,545,181	7,472,552	422,257	-	-	149,439,990
Treasury bills	49,046,027	88,801,297	128,617,541	-	-	266,464,865
Investment securities available-for-sale	5,368,573	17,297,974	79,425,144	247,398,413	20,373,950	369,864,054
Investment securities held-to-maturity	16,661,209	13,004,435	92,348,973	99,898,170	-	221,912,787
Loans to banks	7,517,713	440,173	158,990,526	25,187,529	-	192,135,941
Loans to customers	46,105,879	50,149,997	232,654,313	352,627,433	172,648,334	854,185,956
Property and equipment	-	-	-	6,360,388	21,808,396	28,168,784
Intangible assets	-	-	-	1,514,911	-	1,514,911
Other assets	6,361,433	-	13,325,738	-	2,597,991	22,285,162
Total assets	**503,947,531**	**177,166,428**	**705,784,492**	**732,986,844**	**217,428,671**	**2,337,313,966**
Liabilities and shareholder's equity						
Customer deposits	566,280,711	275,955,588	936,934,091	97,905,680	7,811,885	1,884,887,955
Due to banks and financial institutions	212,550,993	2,816,296	2,637,506	21,100,047	-	239,104,842
Due to third parties	2,249,325	-	-	-	-	2,249,325
Deferred tax liabilities	-	-	-	1,978,653	-	1,978,653
Accruals and other liabilities	10,421,177	-	-	-	1,172,902	11,594,079
Subordinated debt	-	-	7,794	-	13,187,529	13,195,323
Shareholder's equity	-	-	-	-	184,303,789	184,303,789
Total liabilities and shareholder's equity	**791,502,206**	**278,771,884**	**939,579,391**	**120,984,380**	**206,476,105**	**2,337,313,966**
Net Position	**(287,554,675)**	**(101,605,456)**	**(233,794,899)**	**612,002,464**	**10,952,566**	**-**
Cumulative Net Position	**(287,554,675)**	**(389,160,131)**	**(622,955,030)**	**(10,952,566)**	**-**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 this ratio should be at a minimum of 25%.

As per this regulation, article 19 point 4, liquid assets are considered: cash balance, current accounts with BoA including mandatory reserve, T-bills and securities according to their remaining maturity and ability to turn into liquidity, where the non-resident counterparties' balances are discounted with the respective haircuts according to international credit rating. Short-term liabilities are considered all liabilities with remaining maturity up to one year.

Details of the reported Bank ratio at the reporting dates were as follows:

	30 June 2013	*31 December 2012*
Liquid Assets/Short Term Liabilities Ratio	32.56%	29.23%

(d) Market risk

1) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines and the Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as at 30 June 2013 and 31 December 2012 in accordance with the Bank of Albania foreign currency disclosure requirements:

30 June 2013	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	74,213,445	12,849,214	96,822,688	1,593,333	185,478,680
Placements and balances with banks	5,645	47,523,631	65,391,193	17,750,163	130,670,632
Treasury bills	258,597,559	-	19,549,438	-	278,146,997
Investment securities available-for-sale	228,253,491	82,199,932	79,199,773	117,959,368	507,612,564
Investment securities held-to-maturity	121,631,813	25,354,167	87,419,769	-	234,405,749
Loans to banks	-	12,752,458	130,501,932	-	143,254,390
Loans to customers	419,235,575	91,369,275	349,372,260	583,233	860,560,343
Investment in associates	-	-	1,713,214	-	1,713,214
Property and equipment	20,645,937	-	6,009,643	-	26,655,580
Intangible assets	1,257,139	-	-	-	1,257,139
Other assets	23,278,292	251,852	9,673,105	3,856	33,207,105
Total assets	**1,147,118,896**	**272,300,529**	**845,653,015**	**137,889,953**	**2,402,962,393**
Foreign exchange contracts	**-**	**38,507,054**	**57,179,991**	**17,338,442**	**113,025,487**
Liabilities and shareholder's equity					
Customer deposits	966,489,216	109,831,390	825,125,284	22,116,778	1,923,562,668
Due to banks and financial institutions	166,671,873	7,115,469	32,556,692	53,885,357	260,229,391
Due to third parties	3,161,761	-	-	-	3,161,761
Deferred tax liabilities	3,172,371	-	-	-	3,172,371
Accruals and other liabilities	4,258,438	3,431,007	1,013,623	91,288	8,794,356
Subordinated debt	-	-	13,080,066	-	13,080,066
Shareholder's equity	51,995,875	138,965,905	-	-	190,961,780
Total liabilities and shareholder's equity	**1,195,749,534**	**259,343,771**	**871,775,665**	**76,093,423**	**2,402,962,393**
Foreign exchange contracts	**-**	**21,468,342**	**25,077,253**	**66,479,892**	**113,025,487**
Net position (GAP)	(48,630,638)	29,995,470	5,980,088	12,655,080	-
Cumulative net position	(48,630,638)	(18,635,168)	(12,655,080)	-	-
Total assets / Total liabilities and equity	95.93%	110.68%	100.67%	108.88%	100.00%
GAP / FX denominated assets		0.10	0.007	0.0815	-
Sensitivity analysis					
Lek depreciates by 10%		2,726,861	(2,687)	1,150,462	**3,874,636**
Lek depreciates by 5%		1,428,356	(1,407)	602,623	**2,029,572**
Lek appreciates by 5%		(1,578,709)	1,556	(666,057)	**(2,243,210)**
Lek appreciates by 10%		(3,332,830)	3,284	(1,406,120)	**(4,735,666)**

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2012	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	88,425,323	13,193,266	126,530,316	3,192,611	231,341,516
Placements and balances with banks	11,736	12,144,530	120,264,555	17,019,169	149,439,990
Treasury bills	258,060,588	-	8,404,277	-	266,464,865
Investment securities available-for-sale	191,344,796	50,185,923	82,008,055	46,325,280	369,864,054
Investment securities held-to-maturity	126,077,031	29,434,774	66,400,982	-	221,912,787
Loans to banks	-	32,499,254	159,636,687	-	192,135,941
Loans to customers	409,954,339	110,292,274	333,159,018	780,325	854,185,956
Property and equipment	21,399,356	-	6,769,428	-	28,168,784
Intangible assets	1,514,911	-	-	-	1,514,911
Other assets	16,792,598	466,972	5,025,450	142	22,285,162
Total assets	**1,113,580,678**	**248,216,993**	**908,198,768**	**67,317,527**	**2,337,313,966**
Foreign exchange contracts	**-**	**14,001,423**	**30,310,374**	**9,302,574**	**53,614,371**
Liabilities and shareholder's equity					
Customer deposits	890,942,629	115,085,561	857,512,884	21,346,881	1,884,887,955
Due to banks and financial institutions	184,072,515	5,484,091	31,676,235	17,872,001	239,104,842
Due to third parties	2,249,325	-	-	-	2,249,325
Deferred tax liabilities	1,978,653	-	-	-	1,978,653
Accruals and other liabilities	3,382,181	3,815,410	1,227,497	3,168,991	11,594,079
Subordinated debt	-	-	13,195,323	-	13,195,323
Shareholder's equity	84,303,789	100,000,000	-	-	184,303,789
Total liabilities and shareholder's equity	**1,166,929,092**	**224,385,062**	**903,611,939**	**42,387,873**	**2,337,313,966**
Foreign exchange contracts	**1,557,570**	**9,243,301**	**20,583,538**	**22,229,962**	**53,614,371**
Net position (GAP)	(54,905,984)	28,590,053	14,313,665	12,002,266	-
Cumulative net position	(54,905,984)	(26,315,931)	(12,002,266)	-	-
Total assets / Total liabilities and equity	95.30%	112.24%	101.55%	118.57%	100.00%
GAP / FX denominated assets		0.11	0.015	0.1566	-
Sensitivity analysis					
Lek depreciates by 10%		2,599,096	685,840	1,091,115	4,376,051
Lek depreciates by 5%		1,361,431	359,249	571,536	2,292,216
Lek appreciates by 5%		(1,504,740)	(397,065)	(631,698)	(2,533,503)
Lek appreciates by 10%		(3,176,673)	(838,249)	(1,333,585)	(5,348,507)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 30 June 2013 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	2.63%	N/A	N/A
Placement and balances with banks	N/A	0.67%	0.47%
Treasury bills	6.45%	N/A	2.66%
Investment securities	8.64%	4.72%	4.19%
Loans to banks	N/A	4.34%	1.89%
Loans to customers	10.01%	7.51%	8.43%
Liabilities			
Customer deposits	4.58%	2.03%	2.41%
Due to banks and financial institutions	3.78%	1.64%	2.09%
Subordinated debt	-	-	5.32%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2012 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	2.80%	N/A	N/A
Placement and balances with banks	N/A	2.55%	0.11%
Treasury bills	7.17%	N/A	4.55%
Investment securities	8.74%	5.61%	4.57%
Loans to banks	N/A	3.92%	2.18%
Loans to customers	9.71%	6.07%	8.99%
Liabilities			
Customer deposits	4.81%	2.18%	2.75%
Due to banks and financial institutions	4.07%	0.43%	2.44%
Subordinated debt	-	-	5.32%

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 30 June 2013 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	185,478,680	-	-	-	-	185,478,680
Placement and balances with banks	119,060,740	10,937,510	672,382	-	-	130,670,632
Treasury bills	12,383,586	37,152,050	228,611,361	-	-	278,146,997
Investment securities available-for-sale	10,708,237	13,845,090	137,613,594	319,152,204	26,293,439	507,612,564
Investment securities held-to-maturity	11,454,946	22,625,273	104,003,266	95,322,264	1,000,000	234,405,749
Loans to banks	42,215,296	60,130,078	40,909,016	-	-	143,254,390
Loans to customers	23,749,179	45,940,065	742,704,619	40,521,241	7,645,239	860,560,343
Total	**405,050,664**	**190,630,066**	**1,254,514,238**	**454,995,709**	**34,938,678**	**2,340,129,355**
Liabilities						
Customer deposits	547,968,535	509,750,383	748,665,396	110,182,807	6,995,547	1,923,562,668
Due to banks and financial institutions	223,495,715	30,535,728	6,197,948	-	-	260,229,391
Subordinated debt	-	-	13,080,066	-	-	13,080,066
Total	**771,464,250**	**540,286,111**	**767,943,410**	**110,182,807**	**6,995,547**	**2,196,872,125**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2012 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	231,341,516	-	-	-	-	231,341,516
Placement and balances with banks	141,545,181	7,472,552	422,257	-	-	149,439,990
Treasury bills	48,436,185	89,126,609	128,902,071	-	-	266,464,865
Investment securities available-for-sale	5,620,823	16,949,894	79,522,648	247,535,179	20,235,510	369,864,054
Investment securities held-to-maturity	16,733,767	13,004,436	92,356,848	99,817,736	-	221,912,787
Loans to banks	87,435,960	70,334,079	34,365,902	-	-	192,135,941
Loans to customers	557,085,593	42,247,211	216,443,504	29,515,859	8,893,789	854,185,956
Total	**1,088,199,025**	**239,134,781**	**552,013,230**	**376,868,774**	**29,129,299**	**2,285,345,109**
Liabilities						
Customer deposits	566,280,711	275,955,588	936,934,091	97,905,680	7,811,885	1,884,887,955
Due to banks and financial institutions	212,550,993	26,553,849	-	-	-	239,104,842
Subordinated debt	-	-	13,195,323	-	-	13,195,323
Total	**778,831,704**	**302,509,437**	**950,129,414**	**97,905,680**	**7,811,885**	**2,137,188,120**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

Interest rate sensitivity

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

	30 June 2013		***31 December 2012***	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	(224,473)	7,230,647	1,287,478	7,293,088
Interest rate increases by 1.5%	(168,355)	5,422,986	965,608	5,469,816
Interest rate increases by 1%	(112,237)	3,615,324	643,739	3,646,544
Interest rate decreases by 1%	112,237	(3,615,324)	(643,739)	(3,646,544)
Interest rate decreases by 1.5%	168,355	(5,422,986)	(965,608)	(5,469,816)
Interest rate decreases by 2%	224,473	(7,230,647)	(1,287,478)	(7,293,088)

(e) Operational risk

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

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

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

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

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

5. Financial risk management (continued)

(f) Capital management

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 recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%, while the Bank has maintained this ratio at 15.48% as at 30 June 2013.

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum modified capital adequacy is 6%, while the Bank has maintained this ratio at 14.37% as at 30 June 2013.

Risk-Weighted Assets (RWAs)

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

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

Compliance

The Bank and its individually regulated operations have complied with all internally and externally imposed capital requirements throughout the period.

6. Segmental reporting

Geographical Segments	30 June 2013			31 December 2012		
	Albania	**Kosovo**	**Consolidated**	**Albania**	**Kosovo**	**Consolidated**
Assets						
Cash and balances with Central Bank	153,124,303	32,354,377	185,478,680	176,165,511	55,176,005	231,341,516
Placement and balances with banks	127,920,723	2,749,909	130,670,632	148,700,312	739,678	149,439,990
Treasury bills	266,017,338	12,129,659	278,146,997	265,346,737	1,118,128	266,464,865
Investment securities available-for-sale	507,612,564	-	507,612,564	369,864,054	-	369,864,054
Investment securities held-to-maturity	234,405,749	-	234,405,749	221,912,787	-	221,912,787
Loans to banks	143,254,390	-	143,254,390	192,135,941	-	192,135,941
Loans to customers	723,084,767	137,475,576	860,560,343	709,686,849	144,499,107	854,185,956
Investment in associates	1,713,214	-	1,713,214	-	-	-
Property and equipment	20,645,922	6,009,658	26,655,580	21,399,341	6,769,443	28,168,784
Intangible assets	1,257,139	-	1,257,139	1,514,911	-	1,514,911
Other assets	(20,968,746)	54,175,851	33,207,105	(22,621,720)	44,906,882	22,285,162
Total assets	**2,158,067,363**	**244,895,030**	**2,402,962,393**	**2,084,104,723**	**253,209,243**	**2,337,313,966**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	1,703,035,292	220,527,376	1,923,562,668	1,652,984,247	231,903,708	1,884,887,955
Due to banks and financial institutions	260,219,016	10,375	260,229,391	236,203,314	2,901,528	239,104,842
Due to third parties	3,161,761	-	3,161,761	2,249,325	-	2,249,325
Deferred tax liabilities	3,172,371	-	3,172,371	1,978,653	-	1,978,653
Accruals and other liabilities	7,964,750	829,606	8,794,356	11,395,453	198,626	11,594,079
Subordinated debt	13,080,066	-	13,080,066	13,195,323	-	13,195,323
Total liabilities	**1,990,633,256**	**221,367,357**	**2,212,000,613**	**1,918,006,315**	**235,003,862**	**2,153,010,177**
Shareholder's equity						
Share capital			138,965,905			100,000,000
Legal reserve			-			3,410,723
Translation reserve			(206,016)			394,191
Fair value reserve			(3,975,080)			6,845,965
Retained earnings			56,176,971			73,652,910
Total shareholder's equity			**190,961,780**			**184,303,789**
Total liabilities and shareholder's equity			**2,402,962,393**			**2,337,313,966**

Other assets at 30 June 2013 include intra-group balances between the Albanian and Kosovo segments that have been eliminated on consolidation.

6. Segmental reporting (continued)

Geographical Segments		**30 June 2013**			**30 June 2012**	
	Albania	**Kosovo**	**Consolidated**	**Albania**	**Kosovo**	**Consolidated**
Interest						
Interest income	65,050,724	7,943,779	72,994,503	60,634,158	8,074,100	68,708,258
Interest expense	(34,259,685)	(4,020,352)	(38,280,037)	(30,304,156)	(2,945,674)	(33,249,830)
Net interest margin	**30,615,361**	**4,099,105**	**34,714,466**	**30,330,002**	**5,128,426**	**35,458,428**
Non-interest income, net						
Fees and commissions, net	3,627,922	1,361,514	4,989,436	3,644,896	1,033,093	4,677,989
Foreign exchange revaluation (loss)/gain, net	(883,098)	26	(883,072)	(38,688)	34	(38,654)
Profit from FX trading activities, net	216,779	(28,808)	187,971	514,931	(21,497)	493,434
Other income, net	6,298,456	1,702	6,300,158	(117,829)	(5,274)	(123,103)
Total non-interest income, net	**9,435,737**	**1,158,756**	**10,594,493**	**4,003,310**	**1,006,356**	**5,009,666**
Operating expenses						
Personnel	(6,304,878)	(1,909,591)	(8,214,469)	(5,911,785)	(1,661,547)	(7,573,332)
Administrative	(7,358,808)	(2,269,774)	(9,628,582)	(6,895,187)	(2,110,648)	(9,005,835)
Depreciation and amortization	(1,709,358)	(878,985)	(2,588,343)	(1,747,046)	(689,065)	(2,436,111)
Total operating expenses	**(15,373,044)**	**(5,058,350)**	**(20,431,394)**	**(14,554,018)**	**(4,461,260)**	**(19,015,278)**
Impairment of loans	(2,200,498)	(591,471)	(2,791,969)	(714,505)	(501,834)	(1,216,339)
Profit before taxes	**22,477,556**	**(391,960)**	**22,085,596**	**19,064,789**	**1,171,688**	**20,236,477**
Income tax	(2,255,120)	-	(2,255,120)	(2,077,446)	-	(2,077,446)
Net profit for the year	**20,222,436**	**(391,960)**	**19,830,476**	**16,987,343**	**1,171,688**	**18,159,031**

Interest income of USD 687,246 (30 June 2012: interest expenses USD 174,168), which represents interest earned (30 June 2012: paid) from Kosovo Branch on intra-group balances was eliminated on consolidation.

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 30 June 2013 and 31 December 2012 are detailed as follows:

	30 June 2013	31 December 2012
Cash on hand	30,537,538	34,477,301
Deposits with the Central Bank of Kosovo	24,438,940	46,798,595
Bank of Albania		
Current account	136,257	135,793
Statutory reserve	130,365,945	149,880,551
Accrued interest	-	49,276
	130,502,202	150,065,620
	185,478,680	**231,341,516**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a statutory reserve account, which during the month can be decreased to 60% of this level, provided that the monthly average is obtained.

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo and the cash deposit pledged as capital equivalency deposit.

Cash and cash equivalents as at 30 June 2013 and 31 December 2012 are presented as follows:

	30 June 2013	31 December 2012
Cash and balances with Central Bank	185,478,680	231,341,516
Statutory reserve in Albania	(130,365,945)	(149,880,551)
Statutory reserve in Kosovo	(11,952,457)	(21,105,322)
Capital equivalency deposit in Kosovo	(9,137,142)	(9,231,271)
Current accounts with banks	16,195,103	15,212,198
Accrued interest with banks	128,627	130,736
Placements with maturities of 3 months or less	100,071,206	133,173,180
	150,418,072	**199,640,486**

8. Placements and balances with banks

Placements and balances with banks as at 30 June 2013 and 31 December 2012 consisted as follows:

	30 June 2013	31 December 2012
Placements	110,880,089	133,173,180
Cash collateral held by financial institutions	3,466,813	923,876
Current accounts	16,195,103	15,212,198
Accrued interest	128,627	130,736
	130,670,632	**149,439,990**

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by financial institutions in relation to letters of credit issued to the Bank's clients and cash deposits that secure risks in relation to the credit cards activity of the Bank.

9. Treasury bills

Treasury bills portfolio is composed as follows:

	30 June 2013	31 December 2012
Treasury bills available-for-sale	278,146,997	236,660,850
Treasury bills held-to-maturity	-	29,804,015
	278,146,997	**266,464,865**

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 30 June 2013 and 31 December 2012 are presented as follows:

	30 June 2013			
	Purchase value	Amortized discount	Marked to market gain (loss)	Fair value
3 months	4,680,017	4,453	50	4,684,520
6 months	8,928,577	66,523	17,797	9,012,897
9 months	7,075,233	218,248	27,988	7,321,469
12 months	249,218,105	6,867,399	1,042,607	257,128,111
	269,901,932	**7,156,623**	**1,088,442**	**278,146,997**

	31 December 2012			
	Purchase value	Amortized discount	Marked to market gain (loss)	Fair value
3 months	788,638	1,470	92	790,200
6 months	493,845	3,783	1,265	498,893
12 months	225,523,031	9,220,780	627,946	235,371,757
	226,805,514	**9,226,033**	**629,303**	**236,660,850**

Treasury bills held-to-maturity

The Bank has no treasury bills classified into held-to-maturity portfolio as at 30 June 2013, while the details of this portfolio, by original maturity, as at 31 December 2012 are presented as follows:

	31 December 2012		
	Purchase value	Amortized discount	Amortized cost
12 months	27,849,520	1,954,495	29,804,015
	27,849,520	**1,954,495**	**29,804,015**

10. Investment securities available-for-sale

Investment securities available-for-sale as at 30 June 2013 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	221,531,130	25,863	4,909,538	1,786,959	228,253,490
USD denominated	82,055,000	2,599,345	802,104	(3,256,517)	82,199,932
EUR denominated	76,151,555	665,246	1,973,717	409,256	79,199,774
TRY denominated	100,865,669	-	2,847,828	128,338	103,841,835
CAD denominated	12,771,062	-	-	(4,238,198)	8,532,864
GBP denominated	5,335,726	62,913	152,862	33,168	5,584,669
	498,710,142	**3,353,367**	**10,686,049**	**(5,136,994)**	**507,612,564**

Investment securities available-for-sale as at 31 December 2012 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	186,413,793	(2,740)	4,166,035	767,708	191,344,796
USD denominated	49,531,875	97,079	528,968	28,001	50,185,923
EUR denominated	78,350,464	226,917	2,386,324	1,044,350	82,008,055
GBP denominated	5,660,179	147,384	123,878	(4,230)	5,927,211
TRY denominated	38,123,925	-	1,850,233	423,911	40,398,069
	358,080,236	**468,640**	**9,055,438**	**2,259,740**	**369,864,054**

11. Investment securities held-to-maturity

Investment securities held-to-maturity as at 30 June 2013 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	119,150,990	8,129	2,472,694	121,631,813
USD denominated	24,771,428	128,872	453,866	25,354,166
EUR denominated	85,364,664	523,378	1,531,728	87,419,770
	229,287,082	**660,379**	**4,458,288**	**234,405,749**

Investment securities held-to-maturity as at 31 December 2012 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek Denominated Bonds	123,449,366	9,889	2,617,777	126,077,032
USD Denominated Bonds	28,905,088	14,494	515,191	29,434,773
EUR Denominated Bonds	64,917,062	196,980	1,286,940	66,400,982
	217,271,516	**221,363**	**4,419,908**	**221,912,787**

12. Loans and advances to banks

The Bank has purchased the syndicated loans of some non-resident banks as at 30 June 2013, with ratings as follows:

Moody's ratings or equivalent	**30 June 2013**	**31 December 2012**
Rated Baa3 to Baa1	83,620,921	27,875,771
Rated Ba2 to Ba1	28,095,534	137,598,003
Rated Ba3	7,711,394	13,445,906
Rated B1	6,538,206	6,602,172
Not rated	17,288,335	6,614,089
	143,254,390	**192,135,941**

13. Loans to customers, net

Loans and advances to customers consisted of the following:

	30 June 2013	**31 December 2012**
Loans to customers, gross	877,890,740	870,920,617
Accrued interest	9,214,617	7,461,390
Less allowances for impairment on loans	(22,046,597)	(19,675,821)
Less unamortized deferred fee income	(4,498,417)	(4,520,230)
	860,560,343	**854,185,956**

Movements in the allowance for impairment on loans:

	2013	**2012**
At 1 January	19,675,821	15,150,406
Impairment charge for the period	2,791,969	4,191,264
Translation difference	(421,193)	334,151
At the end of the period	**22,046,597**	**19,675,821**

The impairment charge for the six-month period ended 30 June 2012 was USD 1,216,339.

All the loans are denominated in Lek, Euro, USD and CHF and bear interest at the following rates:

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.50% to 22.00%
Loans in USD	2.50% to 12.02%
Loans in CHF	4.76% to 5.26%

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

13. Loans and advances to customers (continued)

The classification of business loans by industry is as follows:

	30 June 2013		31 December 2012	
	USD	**%**	**USD**	**%**
Wholesale Trade	95,920,476	16%	108,770,992	18%
Electricity, Gas and Water Supply	74,007,531	12%	73,735,344	12%
Construction	64,095,903	11%	78,030,654	13%
Mining and Quarrying	40,866,178	7%	40,915,934	7%
Retail Trade	35,546,976	6%	36,981,497	6%
Manufacturing of Other Non-metallic Products	34,367,928	6%	36,434,832	6%
Financial Intermediation	30,294,211	5%	16,086,898	3%
Manufacture of Food Products, Beverages	22,610,938	4%	24,116,465	4%
Manufacture of Textile and Textile Products	21,419,007	4%	21,627,057	4%
Real Estate, Renting and Business Activity	20,009,139	3%	20,404,404	3%
Other Community, Social and Personal Activities	18,643,128	3%	19,447,639	3%
Hotels and Restaurants	18,440,998	3%	29,024,064	5%
Education	16,020,111	3%	16,514,136	3%
Overdraft	15,431,883	3%	13,338,931	2%
Agriculture, Hunting and Forestry	14,922,172	2%	14,507,300	2%
Manufacturing of Basic Metals and Fabricated Metal Products	12,023,877	2%	11,163,914	2%
Health and Social Work	8,577,860	1%	8,997,342	1%
Personal Needs	7,535,293	1%	8,196,602	1%
Manufacture of Rubber and Plastic Products	6,946,947	1%	7,572,581	1%
Manufacture of Wood and Wood Products	5,570,269	1%	5,471,102	1%
Other Sectors	35,181,662	6%	16,847,062	3%
	598,432,487	**100%**	**608,184,750**	**100%**

The classification of retail loans by type is as follows:

	30 June 2013		31 December 2012	
	USD	**%**	**USD**	**%**
Home purchase	175,935,118	63%	163,780,003	62%
Home improvement	26,765,545	10%	27,334,296	10%
Super Loan	20,672,724	7%	18,120,325	7%
Shop purchase	13,785,347	5%	13,947,521	5%
Overdraft and credit cards	12,852,139	4%	11,388,783	4%
Home reconstruction	9,824,245	3%	10,353,999	4%
Home advances	3,699,289	1%	4,070,821	2%
Technical equipment	773,548	1%	907,584	1%
Car purchase	733,756	1%	835,634	1%
Other types	14,416,542	5%	11,996,900	4%
	279,458,253	**100%**	**262,735,866**	**100%**

14. Investment in associates

Investment in associates of USD 1,713,214 (31 December 2012: nil) represents the equivalent amount of an investment of EUR 1,312,500 into the share capital of the company-Albania Leasing sh.a at a participation ratio of 26.25%. As at 30 June 2013, this company was not legally established yet.

15. Property and equipment, net

Property and equipment as at 30 June 2013 and 31 December 2012 are composed as follows:

	Land, buildings and leasehold improvements	Vehicles and other equipment	Computers and electronic equipment	Office equipment	Total
Gross value					
At 1 January 2012	**19,562,914**	**4,745,477**	**12,773,406**	**1,472,138**	**38,553,935**
Additions	13,056,486	531,756	1,948,897	416,786	**15,953,925**
Disposals / transfers	(103,265)	(107,488)	(776,303)	(14,680)	**(1,001,736)**
Reclassifications	(2,665,180)	-	-	-	**(2,665,180)**
Translation difference	327,702	82,367	219,775	25,395	**655,239**
At 31 December 2012	**30,178,657**	**5,252,112**	**14,165,775**	**1,899,639**	**51,496,183**
Additions	236,853	314,449	420,695	114,969	**1,086,966**
Disposals / transfers	-	(18,144)	(13,903)	-	**(32,047)**
Translation difference	(561,982)	(88,671)	(236,285)	(31,922)	**(918,860)**
At 30 June 2013	**29,853,528**	**5,459,746**	**14,336,282**	**1,982,686**	**51,632,242**
Accumulated depreciation					
At 1 January 2012	**(7,175,548)**	**(3,348,831)**	**(8,302,696)**	**(1,004,202)**	**(19,831,277)**
Charge for the year	(1,192,434)	(617,437)	(2,005,694)	(228,188)	**(4,043,753)**
Disposals / write offs	4,454	107,291	763,754	14,680	**890,179**
Reclassifications	67,189	-	-	-	**67,189**
Translation difference	(141,109)	(43,448)	(203,266)	(21,914)	**(409,737)**
At 31 December 2012	**(8,437,448)**	**(3,902,425)**	**(9,747,902)**	**(1,239,624)**	**(23,327,399)**
Charge for the period	(677,529)	(335,440)	(970,876)	(145,817)	**(2,129,662)**
Disposals / write offs	-	16,330	13,903	-	**30,233**
Translation difference	166,112	72,501	187,891	23,662	**450,166**
At 30 June 2013	**(8,948,865)**	**(4,149,034)**	**(10,516,984)**	**(1,361,779)**	**(24,976,662)**
Net book value					
At 1 January 2012	**12,387,366**	**1,396,646**	**4,470,710**	**467,936**	**18,722,658**
At 31 December 2012	**21,741,209**	**1,349,687**	**4,417,873**	**660,015**	**28,168,784**
At 30 June 2013	**20,904,663**	**1,310,712**	**3,819,298**	**620,907**	**26,655,580**

As at 30 June 2013 the gross value of the assets which were fully depreciated was USD 1,331,236 (31 December 2012: USD 10,840,187).

The reclassifications made as at 31 December 2012 represent a number of commercial properties (land and buildings) that were leased to third parties and were classified as investment property and included in other assets (see note 17).

16. Intangible assets, net

Intangible assets as of 30 June 2013 and 31 December 2012 are composed as follows:

	Software
Gross value	
At 1 January 2012	**5,347,519**
Additions	639,048
Translation difference	85,378
At 31 December 2012	**6,071,945**
Additions	157,170
Translation difference	(120,326)
At 30 June 2013	**6,108,789**
Accumulated depreciation	
At 1 January 2012	**(3,648,072)**
Charge for the year	(854,483)
Translation difference	(54,479)
At 31 December 2012	**(4,557,034)**
Charge for the period	(389,309)
Translation difference	94,693
At 30 June 2013	**(4,851,650)**
Net book value	
At 1 January 2012	**1,699,447**
At 31 December 2012	**1,514,911**
At 30 June 2013	**1,257,139**

Software represents mainly the upgraded Bank's operating and accounting system, and the license and software for providing internet and mobile banking services. In 2011, the Bank purchased new modules and started the implementation of software upgrade, which is expected to finalise in September 2013.

17. Other assets

Other assets as at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013	31 December 2012
Assets acquired through legal process	25,538,977	15,923,728
Administration costs receivable from borrowers	2,405,305	2,071,794
Prepaid expenses	1,411,789	1,087,195
Cheques for collection and payments in transit	1,052,908	1,377,077
Inventory	672,113	641,656
Advances to suppliers	476,258	250,825
Spot transactions revaluation gain	188,512	432,465
Other debtors	1,461,243	500,422
	33,207,105	**22,285,162**

Assets acquired through legal process represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken on behalf of the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. The fair value of these assets at the reporting date is determined with reference to the current market prices. A number of properties with a carrying amount of USD 5,753,971 USD (31 December 2012: USD 2,597,991) which are leased to third parties, were reclassified in 2012 from property and equipment (see note 15) to assets acquired through legal process (investment property). The depreciation charge of the leased assets for the six-month period ended 30 June 2013 was USD 69,372 (30 June 2012: USD 23,685). Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from investment property of USD 96,037 (30 June 2012: USD 55,968) is recognised in other income.

Cheques for collection and payments in transit represent customers' cheques and payments drawn on other banks that are in the process of being collected.

18. Customer deposits

Customer deposits as at 30 June 2013 and 31 December 2012 are composed as follows:

	30 June 2013	31 December 2012
Current accounts:		
Individuals	81,661,426	80,294,608
Private enterprises	145,683,099	143,633,073
State owned entities	21,468,153	27,047,033
	248,812,678	**250,974,714**
Deposits:		
Individuals	1,518,172,588	1,478,359,304
Private enterprises	97,997,116	95,693,420
State owned entities	25,955,569	31,975,273
	1,642,125,273	**1,606,027,997**
Other customer accounts:		
Individuals	2,561,142	3,122,559
Private enterprises	29,248,677	23,845,350
State owned entities	814,898	917,335
	32,624,717	**27,885,244**
	1,923,562,668	**1,884,887,955**

18. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	30 June 2013			31 December 2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**125,923,417**	**122,889,261**	**248,812,678**	**114,929,447**	**136,045,267**	**250,974,714**
Deposits						
On demand	854,886	54,303,465	**55,158,351**	604,418	44,699,095	**45,303,513**
Up to 39 days	27,758,845	37,907,267	**65,666,112**	17,964,383	44,924,394	**62,888,777**
40-99 days	65,846,541	71,151,442	**136,997,983**	62,820,019	83,828,887	**146,648,906**
100-189 days	102,246,965	90,461,946	**192,708,911**	104,642,894	103,989,302	**208,632,196**
190- 370 days	528,205,077	476,736,239	**1,004,941,316**	489,270,313	489,607,647	**978,877,960**
371 days and over	84,375,160	66,797,735	**151,172,895**	73,246,186	61,837,482	**135,083,668**
Accrued interest on deposits	23,143,345	12,336,360	**35,479,705**	19,230,687	9,362,290	**28,592,977**
Total deposits	**832,430,819**	**809,694,454**	**1,642,125,273**	**767,778,900**	**838,249,097**	**1,606,027,997**
Other customer accounts	**8,134,980**	**24,489,737**	**32,624,717**	**8,234,282**	**19,650,962**	**27,885,244**
Total customer deposits	**966,489,216**	**957,073,452**	**1,923,562,668**	**890,942,629**	**993,945,326**	**1,884,887,955**

Other customer accounts are composed as follows:

	30 June 2013			31 December 2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Guarantees for letters of credit	-	1,779,796	1,779,796	-	1,857,035	1,857,035
Escrow accounts	3,986,204	16,130,898	20,117,102	4,535,293	11,482,981	16,018,274
Payment orders to be executed	231,387	776,389	1,007,776	162,961	779,137	942,098
Other	3,917,389	5,802,654	9,720,043	3,536,028	5,531,809	9,067,837
	8,134,980	**24,489,737**	**32,624,717**	**8,234,282**	**19,650,962**	**27,885,244**

Deposit guarantee for letters of credit represent the cash collateral held by the Bank against similar collateral provided by the Bank to correspondent banks for letters of credit opened on behalf of its customers.

Escrow accounts balance represents sums blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts mostly relate to cash coverage received from customers due to the issuance of bid and performance bonds by the bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank.

Other represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

19. Due to banks and financial institutions

Due to banks and financial institutions as at 30 June 2013 and 31 December 2012 consisted as follows:

	30 June 2013	31 December 2012
Treasury bills sold under Repo agreements with Central Bank	117,200,948	149,436,893
FX securities sold under Repo agreement	12,170,711	-
Deposits from banks	104,267,180	59,228,406
Current accounts of non resident banks	2,936,138	3,880,548
Current accounts of resident banks	4,987	5,146
Borrowing from financial institutions	23,649,427	26,553,849
	260,229,391	**239,104,842**

Treasury bills, Albanian Government Bonds and FX securities with a total value of USD 156,363,089 (31 December 2012: USD 173,075,106) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 30 June 2013 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents the seven-year loan amount of EUR 18,117,918 outstanding as at 30 June 2013 (31 December 2012: EUR 20,135,575), obtained from European Fund for Southeast Europe (EFSE), under the Framework Agreement signed on 20 September 2010 for granting loans to SME customers of the Bank.

20. Due to third parties

The Bank acts as an agent for the tax authorities either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 30 June 2013 of USD 3,161,761 (31 December 2012: USD 2,249,325) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

21. Deferred tax liabilities

Deferred income taxes are calculated on all temporary differences using a tax rate of 10%. The movement on the deferred income tax account is as follows:

	30 June 2013	31 December 2012
Liability at 1 January	1,978,653	2,374,663
Expense/(income)	1,246,899	(424,578)
Exchange differences	(53,181)	28,568
Liability at the end of the period	**3,172,371**	**1,978,653**

21. Deferred tax liabilities (continued)

Deferred income tax liabilities/(assets) are attributable to the following items:

	30 June 2013	**31 December 2012**
Deferred income on fees on loans	(449,842)	(452,023)
Decelerated depreciation	(437,903)	(414,173)
Allowance for loan impairment	3,296,062	3,106,589
Fair value reserve for AFS securities	764,054	(261,740)
	3,172,371	**1,978,653**

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.

22. Accruals and other liabilities

A breakdown of accruals and other liabilities as at 30 June 2013 and 31 December 2012 is presented as follows:

	30 June 2013	**31 December 2012**
Creditors	1,859,319	5,006,916
Spot transactions revaluation loss	1,739,376	-
Deposit insurance payable	1,269,517	1,155,614
Liability for retiring employees (note 3(r).ii.)	1,135,035	1,172,902
Payables to constructors for home loans	806,934	837,305
Bonus payable	732,272	1,170,289
Due to tax authorities	559,837	1,417,158
Payments in transit	280,561	266,331
Accrued expenses	162,915	304,432
Social insurance	162,755	162,202
Cash guarantees from suppliers	85,835	100,930
	8,794,356	**11,594,079**

Creditors include balances that relate to old transactions of the Albanian Government and are pending on the future determination of the rightful owner of these amounts.

Bonus payable represents the accrued yearly performance bonus for the bank's staff and management, which is expected to be paid within the first quarter of 2014.

Deposit insurance payable relates to the second quarter of 2013 and is payable based on the Law no. 8873 "On the Insurance of Deposits" dated 29 March 2002, which provides insurance coverage to individual depositors against bank failures.

23. Subordinated debt

Subordinated debt of USD 13,080,066 (31 December 2012: USD 13,195,323) represents the equivalent amount of a facility of EUR 10 million that was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 19 November 2012 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments.

Pursuant to the approval granted by Bank of Albania on 21 December 2012, this subordinated debt was classified as second-tier capital and included in the regulatory capital of the Bank.

24. Shareholders' equity

Share Capital

At 30 June 2013 the authorised share capital comprised 11,252,300 ordinary shares (2012: 8,097,166). The shares have a par value of USD 12.35. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends from time to time, if declared. All shares rank equally with regard to the Bank's residual assets.

Reserves

Legal reserve

As described in Note 1, based on the Shareholder's Decision dated 28 March 2012, the Bank created legal reserves of Lek 358,706 thousand (equivalent of USD 3,410,723). The total legal reserve was used to increase the share capital on 27 March 2013.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of consolidated financial statements from functional currency to presentation currency.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

Retained earnings

Retained earnings as at 30 June 2013, includes the cumulative non distributed earnings. As described in Note 1, the Bank has used part of its retained earnings amounting to Lek 3,899,878 thousand or USD 35,683,759.10 to increase its share capital on 27 March 2013.

25. Interest income

Interest income is composed as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Placements and balances with banks and Central Bank	3,480,825	3,189,772
Treasury bills and investment securities	31,399,278	28,320,863
Loans and advances to customers	38,114,400	37,197,623
	72,994,503	**68,708,258**

25. Interest income (continued)

Interest income can be further analysed as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Held-to-maturity investments	10,748,639	14,910,258
Available-for-sale financial assets	24,131,464	16,600,377
Loans and receivables	38,114,400	37,197,623
	72,994,503	**68,708,258**

Interest income on impaired loans for the six-month period ended 30 June 2013 was USD 160,441 (30 June 2012: USD 128,235).

26. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Due to banks and financial institutions	5,060,039	4,625,647
Customer deposits	33,219,998	28,624,183
	38,280,037	**33,249,830**

27. Fees and commissions, net

Fee and commission revenue and expense are comprised of the following items:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Fee and commission income		
Payment services to clients	1,899,584	1,642,294
Lending activity	1,570,580	1,406,784
Electronic banking transactions	776,931	534,161
Customer accounts' maintenance	610,324	405,352
Inter-bank transactions	591,009	642,167
Cash transactions with clients	160,282	125,278
Other fees and commissions	47,474	40,244
	5,656,184	*4,796,280*
Fee and commission expense		
Inter-bank transactions	(606,864)	(46,112)
Customer accounts' maintenance	(46,879)	(41,834)
Payment services to clients	(12,523)	(3,384)
Transactions with clients	(442)	(26,961)
Other fees and commissions	(40)	-
	(666,748)	*(118,291)*
Fees and commissions, net	**4,989,436**	**4,677,989**

28. Foreign exchange revaluation loss, net

Foreign exchange revaluation (loss) / gain represent the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation loss on the share capital for the six-month period ended 30 June 2013 is USD 1,529,728 (six-months ended 30 June 2012: USD 2,160,753).

29. Other income/(expense), net

Other income and expenses are composed as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Other income		
Income from financial instruments measured at FV	4,004,515	-
Dividend income from equity investments	2,179,905	-
Income from operating lease	96,037	55,968
Reversal of staff pension fund	31,169	38,685
Gain on recovery of lost loans	19,244	829
Gain on sale of property and equipment	9,866	6,152
Gain on sale of assets acquired through legal process	6,546	32,187
Sundry	43,901	22,081
	6,391,183	*155,902*
Other expense		
Loss on write off of property and equipment	(1,817)	(9,847)
Loss on unrecoverable lost loans	(24,068)	(72,123)
Provision of other debtors	(30,646)	(175,640)
Sundry	(34,494)	(21,395)
	(91,025)	*(279,005)*
Other income/(expense), net	**6,300,158**	**(123,103)**

30. Personnel expenses

Personnel expenses are composed as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Salaries	6,497,035	6,091,491
Performance bonus	658,340	492,202
Social insurance	605,295	560,087
Training	304,486	275,469
Life insurance	29,425	27,862
Other	119,888	126,221
	8,214,469	**7,573,332**

31. Administrative expenses

Administrative expenses are composed as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Deposit insurance expense	2,667,730	2,323,907
Lease payments	1,248,436	1,137,357
Telephone, electricity and IT expenses	1,146,228	1,100,361
Credit/debit cards expenses	1,043,941	577,016
Marketing expenses	968,267	1,104,571
Repairs and maintenance	805,482	964,836
Security and insurance expenses	537,454	525,057
Transportation and business related travel	408,916	410,765
Office stationery and supplies	243,265	243,612
Other external services (including external audit fees)	178,049	173,261
Representation expenses	114,684	71,271
Taxes other than tax on profits	82,313	78,045
Sundry	183,817	295,776
	9,628,582	**9,005,835**

32. Income tax

Income tax is comprised of:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Current income tax	1,008,221	1,971,907
Deferred tax expense (note 21)	1,246,899	105,539
	2,255,120	**2,077,446**

The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Six-month period ended 30 June 2013	**Six-month period ended 30 June 2012**
Profit before taxes	**22,085,596**	**20,236,477**
Computed tax using applicable tax rate of 10%	2,208,560	2,023,648
Non tax deductible expenses	73,044	60,387
Foreign exchange difference	(26,484)	(6,589)
Income tax	**2,255,120**	**2,077,446**
Effective tax rate	**10.21%**	**10.27%**

33. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

33. Related party transactions (continued)

Identity of related parties

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Identity of related parties

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 30 June 2013. ALBtelecom Sh.a., Eagle Mobile Sh.a., Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S are controlled by Calik Holding. Anateks Anadolu Tekstil Fab. Tic. is an entity controlled by individuals that are close members of the family of the owner of Calik Holding.

Balances and transactions with related parties

	30 June 2013	31 December 2012
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	76,871	78,297
Investment securities available-for-sale:		
Aktifbank	-	23,158,640
Loans to customers:		
Anateks Anadolu Tekstil Fab. Tic.	11,835,206	11,857,389
Total assets	**11,912,077**	**35,094,326**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	2,859,147	3,924,158
Customer deposits:		
ALBtelecom Sh.a.	1,306,408	3,373,026
Eagle Mobile Sh.a.	36	654,490
Other liabilities:		
Payables to Calik Holding and ALBtelecom Sh.a	12,735	-
Total liabilities	**4,178,326**	**7,951,674**

	30 June 2013	31 December 2012
Commitments and contingencies		
Guarantees in favour of customers:		
ALBtelecom Sh.a.	-	32,607
Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S	1,305,306	1,318,753

33. Related party transactions (continued)

Balances and transactions with related parties (continued)

	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Statement of comprehensive income		
Interest income from:		
Aktifbank	1,000,202	339,716
GAP Pazarlama FZE	-	177,500
Anateks Anadolu Tekstil Fab. Tic.	321,909	323,132
ALBtelecom Sh.a.	-	10,577
Eagle Mobile sh.a	-	6,214
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(54,509)	(27,226)
Aktifbank	(31,753)	(2,232)
Fees and commissions:		
Commissions charged by Aktifbank	-	(3,347)
Letters of guarantee: ALBtelecom Sh.a., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S	6,589	14,053
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	185	10,016
Other income:		
Operating lease income from ALBtelecom Sh.a.	2,639	-
Operating Expenses		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(572,106)	(608,334)
Net	**673,156**	**240,069**

Balances and transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses and is detailed as follows:

	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Directors	53,334	53,334
Executive officers	1,028,724	980,353
	1,082,058	**1,033,687**

The remuneration of directors and executive officers for the year ended 31 December 2012 was USD 2,578,114.

As at 30 June 2013, the total deposits of directors held with the Bank were USD 880,438 (31 December 2012: USD 770,061), while the outstanding loans granted to directors were USD 26,976 (31 December 2012: nil).

34. Contingencies and commitments

Guarantees

	30 June 2013	31 December 2012
Guarantees in favour of customers	70,185,414	81,799,801
Guarantees received from credit institutions	3,397,706	16,208,660
Letters of credit issued to customers	8,618,187	6,152,087

Guarantees and letters of credit issued in favour of customers are mostly counter guaranteed by other financial institutions or fully cash collateralised.

At present the Bank is operating as an agent for the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the government of Albania to cover the reimbursement of their lines of credit.

Other

	30 June 2013	31 December 2012
Undrawn credit commitments	54,406,092	57,239,189
Outstanding cheques of non-resident banks	151,511	158,170
Spot foreign currency contract	113,025,487	53,614,371
Collaterals for loan portfolio	2,273,499,054	2,297,175,113
Securities pledged as collateral (note 19)	156,363,089	173,075,106

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 30 June 2013.

Lease commitments

Such commitments for the period ended 30 June 2013 and year ended 31 December 2012 are composed as follows:

	30 June 2013	31 December 2012
Not later than 1 year	2,370,997	2,361,994
Later than 1 year and not later than 5 years	7,809,243	8,144,393
Later than 5 years	1,739,571	2,290,854
Total	**11,919,811**	**12,797,241**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2012 with a maximum duration of ten years.

The Bank had 78 rented buildings as at 30 June 2013, in which are included the rented space dedicated to offsite disaster recovery and the 25 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months notice. Therefore, at 30 June 2013, the maximum non-cancellable commitment payable not later than one year is USD 592,749 (31 December 2012: USD 590,498).

35. Subsequent events

There are no subsequent events that would require either adjustments or additional disclosures in the financial statements.