United Bank of Albania Sh.a.

Financial Statements

as at 31 December 2012

(with independent auditors' report thereon)

Contents:

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Independent Auditors' Report

To the shareholders and management of
United Bank of Albania Sh.a.

Tirana, 26 April 2013

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk

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United Bank of Albania Sh.a.

Statement of Financial Position

(Amounts in Lek'000)

	Notes	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	6	2,212,478	1,532,857
Restricted balances with Central Bank	7	453,760	1,548,918
Investments with banks and financial institutions	8	687,448	678,735
Mudaraba - investment funds	9	146,100	222,700
Treasury bills held-to-maturity	10	621,607	-
Murabaha - financial receivables	11	1,498,307	1,794,867
Assets acquired through legal process	12	371,693	78,380
Property, equipment and intangible assets	13	260,016	296,432
Prepaid income tax	24	19,156	30,553
Other assets	14	16,364	20,181
Total assets		**6,286,929**	**6,203,623**
Liabilities			
Due to banks	15	21,596	22,345
Due to customers	16	4,714,003	4,647,218
Other liabilities	17	42,531	19,436
Deferred tax liabilities	24	3,589	2,680
Total liabilities		**4,781,719**	**4,691,679**
Equity			
Share capital	18	1,762,717	1,755,880
Reserves	18	64,105	64,105
Accumulated losses		(321,612)	(308,041)
Total equity		**1,505,210**	**1,511,944**
Total liabilities and equity		**6,286,929**	**6,203,623**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 35.

The financial statements were authorized for release by the Board of Directors on 25 April 2013 and signed on its behalf by:

Emina Sisic
General Director

Ledi Toçaj
Chief Finance

United Bank of Albania Sh.a.

Statement of Comprehensive Income

(Amounts in Lek '000)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Income from banking operations	19	253,794	244,080
Customers' share in profit	20	(174,375)	(167,465)
Net income from banking operations		79,419	76,615
Net fee and commission income		14,907	18,245
Foreign exchange gain/(loss), net	21	13,098	147,137
Other income		8,313	6,069
		36,318	171,451
Net reversal/(loss) from impairment of financial assets	11	219,675	(320,115)
Impairment loss on investment funds	9	(74,134)	-
Impairment of assets acquired through legal process	12	(20,078)	-
Depreciation and amortization	13	(37,803)	(40,854)
Personnel expenses	22	(90,200)	(87,091)
Operating lease expenses		(18,254)	(17,645)
Other administrative expenses	23	(97,117)	(90,631)
Total operating expenses		**(117,911)**	**(556,336)**
Loss before income tax		**(2,174)**	**(308,270)**
Income tax (credit)/ charge	24	(11,397)	229
Net loss for the year		**(13,571)**	**(308,041)**
Other comprehensive income, net of income tax		**-**	**-**
Other comprehensive income		**-**	**-**
Total comprehensive loss for the year		**(13,571)**	**(308,041)**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 35.

United Bank of Albania Sh.a.

Statement of Cash Flows

(Amounts in Lek '000)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities			
Loss before income tax		(2,174)	(308,270)
Adjustments for non cash items:			
Net (reversal)/loss from impairment of financial assets	11	(219,675)	320,115
Impairment loss on investment funds	9	74,134	-
Impairment of assets acquired through legal process	12	20,078	-
Depreciation and amortization	13	37,803	40,854
Income from banking operations	16	(253,794)	(244,080)
Customers' share in profit	17	174,375	167,465
		(169,253)	**(23,916)**
Changes in operating assets and liabilities:			
Decrease/(increase) in Murabaha – financial receivables		190,075	(158,055)
Decrease/(increase) in other assets		3,817	(381)
Decrease/(increase) in balances with financial institutions		1,092,648	(1,179,452)
Increase in due to customers		69,039	335,914
Increase/(Decrease) in other liabilities		23,095	(1,043)
		1,378,674	(1,003,017)
Income received from banking operations		263,735	241,107
Customers' share in profit paid		(176,630)	(108,638)
Net cash from/ (used in) operating activities		**1,296,526**	**(894,464)**
Cash flows from investing activities			
(Purchases of)/ proceeds from Treasury Bills		(621,607)	19,910
Purchases of equipment and intangible assets	13	(1,387)	(10,450)
Net cash (used in) /provided by investing activities		**(622,994)**	**9,460**
Cash flows from financing activities			
Increase in share capital		6,837	999,845
(Decrease) /increase in due to banks		(748)	796
Net cash provided by financing activities		**6,089**	**1,000,641**
Net increase in cash and cash equivalents		679,621	115,637
Cash and cash equivalents at beginning of the year		1,532,857	1,417,220
Cash and cash equivalents at the end of the year	**6**	**2,212,478**	**1,532,857**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 35.

United Bank of Albania Sh.a.

Statement of Changes in Equity

(Amounts in Lek '000)

	Share Capital	Reserves	Accumulated losses	Total
Balance at 1 January 2011	**1,757,604**	**64,105**	**(1,001,569)**	**820,140**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital (see note 18)	999,845	-	-	999,845
Absorption of accumulated losses (see note 18)	(1,001,569)	-	1,001,569	-
Total contributions by and distributions to owners	(1,724)	-	1,001,569	999,845
Total comprehensive income for the year				
Net loss for the year	-	-	(308,041)	(308,041)
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive loss for the year	-	-	(308,041)	(308,041)
Balance at 31 December 2011	**1,755,880**	**64,105**	**(308,041)**	**1,511,944**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Increase in share capital (see note 18)	6,837	-	-	6,837
Total contributions by and distributions to owners	6,837	-	-	6,837
Total comprehensive income for the year				
Net loss for the year	-	-	(13,571)	(13,571)
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive loss for the year	-	-	(13,571)	(13,571)
Balance at 31 December 2012	**1,762,717**	**64,105**	**(321,612)**	**1,505,210**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 35.

(Amounts inLek '000 unless otherwise stated)

1. General

(a) Reporting entity

United Bank of Albania (hereinafter "the Bank" or "UBA") was established in Albania to carry out banking operations in accordance with Albanian laws. Based on its Articles of Association, the Bank follows the Sharia Principles. The Bank's activities include acting as manager, on a trustee basis, of funds invested in accordance with Islamic laws and principles. The Bank is subject to Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006 and is under the supervision of the Bank of Albania.

On 5 November 1992, the Bank received approval from the Bank of Albania for carrying out banking operations. The registration procedures were completed on 1 July 1994, the incorporation date. On 11 January 1999, pursuant to the Decision No.165, dated 11 December 1998 of the Bank of Albania, the Bank obtained the license, "For continuing the banking activity in the Republic of Albania", in accordance with Law No.8365, dated 2 July 1998, "On banks in the Republic of Albania".

The Bank was established by the National Commercial Bank of Albania ("NCB"), a state owned bank and a group of Islamic investors. The shareholding structure was as follows:

National Commercial Bank of Albania	40%
Shamil Bank	20%
Islamic Development Bank Jeddah	15%
Dallah Albaraka Holding Co	10%
Other investors	15%

Following the privatization of NCB in 2000, 40% of the shares in UBA were transferred to the Ministry of Finance of Albania.

On 30 March 2009, the Bank changed its shareholding structure through the sale of the shares that the Ministry of Finance of Albania owned in UBA to IDB. Following the sale of shares, the shareholding structure was as follows:

Islamic Development Bank Jeddah ("IDB")	55%
Ithmaar Bank B.S.C. (acquiring entity of Shamil Bank)	20%
Dallah Albaraka Holding Co	10%
Other investors	15%

Following changes in the share capital (see note 18) and upon the Shareholders Decision dated 27 February 2012, the registered shareholding structure was as follows:

Islamic Development Bank Jeddah	86.7%
Ithmaar Bank B.S.C.	4.63%
Dallah Albaraka Holding Co	2.32%
Other investors	6.35%

The Head Office of the Bank is located in Tirana. Currently, the Bank has an Albanian network of 4 branches located in Tirana, Shkodra, Fier and Durres and 2 agencies located in Tirana. As at 31 December 2012, the Bank employs 73 staff (2011: 75 staff).

(b) Management assessment of the ability to continue as going concern

The Bank has incurred losses during recent financial years. In order to meet minimum capital requirements, to limit the risks from significant exposures and to continue operations, in 2011, the General Assembly of the Shareholders, decided to absorb accumulated losses at 31 December 2010 and to increase the paid up share capital (see note 18).

Following the injection of additional capital, the Management believes that the Bank's ability to continue as going concern will not be impaired. Therefore, the Bank has prepared these financial statements on a going concern basis.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment property which is measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs 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 financial statements are described in note 5.

3. Significant accounting policies

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

(a) 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 spot exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the prevailing foreign exchange rate at the date of the transaction. 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.

3. Significant accounting policies (continued)

(b) Income and expenses from banking operations

Income and expenses from banking operations are recognised in profit or loss using the effective interest rate 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.

Income and expense from banking operations presented in profit or loss include income on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis.

Income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented separately.

(i) Customers' share on profit

The Bank's profit is allocated to the depositors and shareholders in accordance with the Sharia principles using the main pool method. Payments are made to the depositors and charged to the account of customers' share in profits in accordance with the contractual maturities of the investments. For the service provided from Mudarib a certain fee is gained. The Profit Share allocation from Mudarabah transactions is paid and presented net of Mudarib Charge.

(ii) Income from banking operations

Income from banking operations including income from Murabaha transactions and income from banks and other financial institutions are recognised in profit or loss using the effective interest rate method.

Income from Mudaraba contracts is recognised in profit or loss when the Bank becomes entitled to that profit. Any share of losses for the period is recognised to the extent such losses are deducted from the Mudaraba capital. See accounting policy 3(j).

(c) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, and placement fees 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.

(d) Lease payments

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

3. Significant accounting policies (continued)

(e) Income tax expense

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes financial receivables, deposits and investment accounts 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 measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

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

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(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 financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

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 as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank may retain the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised 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 derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it 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 under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

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

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement

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

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

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

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

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

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

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

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, 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 financial receivables, Mudaraba investments and held-to-maturity investments at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial receivables, Mudaraba investments and held-to-maturity investments with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against financial receivables. Income on impaired assets 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.

The Bank writes off certain financial receivables and investment securities when they are determined to be uncollectible.

(g) 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.

(h) Financial receivables

Financial receivables 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 financial receivable, and the underlying asset is not recognised in the Bank's financial statements.

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

3. Significant accounting policies (continued)

(i) Treasury bills

Treasury bills are initially measured at fair value plus, in case of treasury bills not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for as held to maturity.

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 rate method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

(j) Investment in Mudaraba

Investments in Mudaraba are partnerships, whereby the Bank in the role of the investor provides capital to the entrepreneur (the 'Mudarib') in order to undertake an investment activity. Investments in Mudaraba are carried at fair value. Impairment losses are recognised in profit or loss (see accounting policy 3(f)(vii)).

(k) Due to customers

Due to customers principally include special investment deposits, where the depositors instruct the Bank to invest the funds in specific investments or on predetermined terms. These deposits are invested by the Bank in its own name under the terms of specific Mudarib contracts entered into with depositors. These special investment deposits, which are classified within due to customers, share the direct profit or losses of their respective investments once realised and do not, otherwise, share the Bank's profit or loss.

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

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

(l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property has been acquired through the enforcement of security over financial receivables. 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.

3. Significant accounting policies (continued)

(m) 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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized 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 derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20 years
- Motor vehicles 5 years
- Office equipment 5 years
- Computers and electronic equipment 4 years
- Furniture and fixtures 5 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(n) Intangible assets

Software

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses.

Expenditure on internally developed software is recognized 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 capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized 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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is four years. Assets in process are not amortized until software is implemented.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies (continued)

(o) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and 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.

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.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized 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 amortization, if no impairment loss had been recognised.

(p) Provisions

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

(q) Employee benefits

(i) Short-term employee benefits

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

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The Government of Albania is responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred. The Bank recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

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

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

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

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

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

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

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

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

4. 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.

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 internal units and committees, which are responsible for developing and monitoring risk management policies in their specified areas.

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 aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The 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's 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 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 financial receivables and investments. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, location and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit unit. The Credit unit is responsible for management of the credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries.
- Developing and maintaining the risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2012 and 2011 are as follows:

	Notes	2012	2011
Carrying amount			
Cash and cash equivalents	6	2,212,478	1,532,857
Restricted balances with Central Bank	7	453,760	1,548,918
Investments with banks and financial institutions	8	687,448	678,735
Mudaraba - investment funds	9	146,100	222,700
Treasury bills held-to-maturity	10	621,607	-
Murabaha - financial receivables	11	1,498,307	1,794,867
Total		**5,619,700**	**5,778,077**
Murabaha – financial receivables			
At amortized cost			
Individually impaired: Grade 2-5		1,286,043	1,573,415
Collectively impaired: Grade 1 (low risk)		720,548	949,411
Gross amount	11	2,006,591	2,522,826
Individual allowance		(387,784)	(568,750)
Collective allowance		(120,500)	(159,209)
Allowance for impairment	11	(508,284)	(727,959)
Carrying amount		**1,498,307**	**1,794,867**

Impaired financial receivables and investments

Individually impaired financial receivables and investments are financial receivables and investments for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms. These financial receivables are graded 2 to 5 in the Bank's internal credit risk grading system.

Past due but not impaired financial receivables and investments

Past due but not impaired financial receivables and investments, other than those carried at fair value through profit or loss, are those for which contractual income 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.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on financial receivables that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Financial receivables with renegotiated terms

Financial receivables with renegotiated terms are financial receivables 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.

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy

The Bank writes off an asset balance, and any related allowances for impairment losses, when the Credit unit determines that the asset is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / 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. For smaller balance standardised financial receivables, write-off decisions generally are based on a product-specific past due status.

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

2012	**Gross**	**Net**
Murabaha – financial receivables		
Grade 2: Individually impaired	58,084	54,386
Grade 3: Individually impaired	448,513	362,633
Grade 4: Individually impaired	227,994	192,960
Grade 5: Individually impaired	551,452	288,281
	1,286,043	**898,260**

2011	**Gross**	**Net**
Murabaha – financial receivables		
Grade 2: Individually impaired	221,780	184,355
Grade 3: Individually impaired	-	-
Grade 4: Individually impaired	314,607	257,902
Grade 5: Individually impaired	1,037,028	562,408
	1,573,415	**1,004,665**

At 31 December 2012 and 2011, the Bank had the following undrawn credit commitments:

	2012	**2011**
Unused part of the financing	25,000	21,821

The Bank holds collateral against receivables in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when an asset is individually assessed as impaired. An estimate of the fair value of collateral held against financial receivables at 31 December 2012 and 2011 is shown below:

	2012	**2011**
Real Estate	4,336,593	5,095,048
Machinery, Equipment and Inventories	165,612	203,013
Cash collateral	29,306	20,874
Other	184,675	121,603
Total	**4,716,186**	**5,440,538**

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Collateral generally is not held over balances with banks and financial institutions, and no such collateral was held at 31 December 2012 or 2011.

Details of assets obtained by the Bank by taking possession of collateral held as security against financial receivables are shown in Note 12. The Bank's policy is to pursue realisation of the collateral. The Bank generally does not use the non-cash collateral for its own operations.

Details of Mudaraba-investment funds held by the Bank at 31 December 2012 and 2011, are shown in Note 9.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank (together as 'Cash and balances with banks'), Murabaha – financial receivables and Treasury bills held-to-maturity ('Treasury bills') at the reporting date is shown below:

	Cash and balances with banks		**Murabaha – financial receivables**		**Treasury bills**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Carrying amount	3,353,686	3,760,510	1,498,307	1,794,867	621,607	-
Concentration by sector						
Corporate	-	-	1,277,178	1,524,965	-	-
Government	-	-	-	-	621,607	-
Financial institutions	3,353,686	3,760,510	-	-	-	-
Retail	-	-	221,129	269,902	-	-
Total	**3,353,686**	**3,760,510**	**1,498,307**	**1,794,867**	**621,607**	**-**

	Cash and balances with banks		**Murabaha – financial receivables**		**Treasury bills**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Carrying amount	3,353,686	3,760,510	1,498,307	1,794,867	621,607	-
Concentration by location						
Albania	1,653,497	2,094,790	1,427,959	1,719,975	621,607	-
Europe	389,995	373,549	70,348	74,892	-	-
Asia	968,101	933,443	-	-	-	-
Middle East and Africa	342,093	358,728	-	-	-	-
North and Central America	-	-	-	-	-	-
Total	**3,353,686**	**3,760,510**	**1,498,307**	**1,794,867**	**621,607**	**-**

Concentration by location for balances with banks and financial institutions is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

The cash and balances with banks are held with the central bank of Albania which is rated B+ and banks and financial institutions that based on Standard & Poor's ratings were rated as follows:

	2012	**2011**
Rated A+ to BBB+	406,078	380,379
Rated BBB to B+	2,370,323	2,858,834
Not rated	111,701	110,038
	2,888,102	**3,349,251**
Cash on hand (Note 6)	465,584	411,259
	3,353,686	**3,760,510**

(Amounts in Lek'000 unless otherwise stated)

4. 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.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid treasury bills and balances with banks and other financial institutions, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Treasury monitors compliance with local regulatory limits on a daily basis. All liquidity policies and procedures are subject to review and approval by Bank Asset and Liability Committee ('ALCO').

The Bank relies on deposits from customers and banks, and contributions from its shareholders as its primary sources of funding. While contributions from shareholders do not have specified maturities, deposits from customers and banks generally have short maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

As at 31 December 2012 the twenty largest balances due to customers represent 18% of the total (2011: 19%).

The following table shows the Bank's financial assets and liabilities by remaining maturity at 31 December 2012 and 2011:

2012	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year	Total
Assets						
Cash and balances with banks*	2,545,744	231,376	461,200	115,366	-	3,353,686
Murabaha – financial receivables	586,896	94,193	125,768	123,459	567,991	1,498,307
Treasury bills held-to-maturity	-	-	106,916	514,691	-	621,607
Mudaraba - investment funds	-	-	-	-	146,100	146,100
Total	**3,132,640**	**325,569**	**693,884**	**753,516**	**714,091**	**5,619,700**
Liabilities						
Due to banks	21,596	-	-	-	-	21,596
Due to customers	2,783,616	495,327	391,106	936,953	107,001	4,714,003
Total	**2,805,212**	**495,327**	**391,106**	**936,953**	**107,001**	**4,735,599**
Liquidity gap	**327,428**	**(169,758)**	**302,778**	**(183,437)**	**607,090**	**884,101**
Cumulative gap	**327,428**	**157,670**	**460,448**	**277,011**	**884,101**	

*Cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank are presented together as 'Cash and balances with banks'.

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(c) Liquidity risk (continued)

2011	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year	Total
Assets						
Cash and balances with banks*	1,889,666	1,300,976	456,033	113,835	-	3,760,510
Murabaha – financial receivables	664,101	89,743	143,589	215,384	682,050	1,794,867
Mudaraba - investment funds	-	-	-	-	222,700	222,700
Total	**2,553,767**	**1,390,719**	**599,622**	**329,219**	**904,750**	**5,778,077**
Liabilities						
Due to banks	22,345	-	-	-	-	22,345
Due to customers	3,069,512	293,044	293,513	894,530	96,619	4,647,218
Total	**3,091,857**	**293,044**	**293,513**	**894,530**	**96,619**	**4,669,563**
Liquidity gap	**(538,090)**	**1,097,675**	**306,109**	**(565,311)**	**808,131**	**1,108,514**
Cumulative gap	**(538,090)**	**559,585**	**865,694**	**300,383**	**1,108,514**	

*Cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank are presented together as 'Cash and balances with banks'.

The previous table shows the discounted cash flows on the Bank's financial instruments, on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

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

(d) Market risks

Market risk is the risk that changes in market prices, such as rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to market rates risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market rates. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in sensitivity within repricing periods and among currencies.

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(d) Market risk (continued)

Interest rate repricing analysis

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

2012	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with banks	673,267	231,376	461,200	115,366	-	1,872,477	3,353,686
Murabaha – financial receivables	585,736	181,093	155,936	380,878	184,238	10,426	1,498,307
Treasury bills held-to-maturity	-	-	106,916	514,691	-	-	621,607
Mudaraba - investment funds	-	-	-	-	-	146,100	146,100
Total	**1,259,003**	**412,469**	**724,052**	**1,010,935**	**184,238**	**2,029,003**	**5,619,700**
Liabilities							
Due to banks	21,329	-	-	-	-	267	21,596
Due to customers	1,789,892	495,327	391,106	936,953	104,852	995,873	4,714,003
Total	**1,811,221**	**495,327**	**391,106**	**936,953**	**104,852**	**996,140**	**4,735,599**
Gap	**(552,218)**	**(82,858)**	**332,946**	**73,982**	**79,386**	**1,032,863**	**884,101**
Cumulative gap	**(552,218)**	**(635,076)**	**(302,130)**	**(228,148)**	**(148,762)**	**884,101**	

2011	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with banks	651,224	225,574	456,033	113,835	-	2,313,844	3,760,510
Murabaha – financial receivables	676,531	142,428	178,035	356,069	427,283	14,521	1,794,867
Mudaraba - investment funds	-	-	-	-	-	222,700	222,700
Total	**1,327,755**	**368,002**	**634,068**	**469,904**	**427,283**	**2,551,065**	**5,778,077**
Liabilities							
Due to banks	21,589	-	-	-	-	756	22,345
Due to customers	2,165,344	293,043	293,513	894,531	94,480	906,307	4,647,218
Total	**2,186,933**	**293,043**	**293,513**	**894,531**	**94,480**	**907,063**	**4,669,563**
Gap	**(859,178)**	**74,959**	**340,555**	**(424,627)**	**332,803**	**1,644,002**	**1,108,514**
Cumulative gap	**(859,178)**	**(784,219)**	**(443,664)**	**(868,291)**	**(535,488)**	**1,108,514**	

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(d) Market risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

2012	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(2,281)	2,281	(1,488)	1,488

2011	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(8,683)	8,683	5,555	(5,555)

Interest rate movements affect retained earnings arising from increases or decreases in net income from banking operations and the fair value changes reported in profit or loss

The equivalent weighted average interest rates for the main financial assets and liabilities are as follows:

	Equivalent weighted average interest rate					
	(Lek)		**(USD)**		**(EUR)**	
31 December	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Assets						
Due from banks and financial institutions	3.79%	4.89%	3.10%	2.27%	2.79%	1.76%
Financial receivables	11.33%	11.48%	8.48%	9.02%	8.66%	8.87%
Treasury Bills	6.39%	6.25%	-	-	-	-
Liabilities						
Due to banks	-	-	0.33%	0.37%	-	-
Due to customers	6.03%	5.85%	1.61%	1.28%	3.06%	3.11%

Foreign currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions.

The following table summarizes the Bank's net foreign currency position of financial assets and liabilities at 31 December 2012 and 2011.

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(d) Market risk (continued)

31 December 2012	**USD**	**LEK**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with banks	1,608,556	571,193	1,150,612	23,327	3,353,688
Murabaha – financial receivables	495,695	693,878	308,732	-	1,498,305
Treasury bills held-to-maturity	-	621,607	-	-	621,607
Mudaraba - investment funds	146,100	-	-	-	146,100
Total	**2,250,351**	**1,886,678**	**1,459,344**	**23,327**	**5,619,700**
Liabilities					
Due to banks	21,412	159	25	-	21,596
Due to customers	606,118	2,462,076	1,641,392	4,416	4,714,002
Total	**627,530**	**2,462,235**	**1,641,417**	**4,416**	**4,735,598**
Net position	**1,622,821**	**(575,557)**	**(182,073)**	**18,911**	**884,102**
Cumulative Gap	**1,622,821**	**1,047,264**	**865,191**	**884,102**	
Sensitivity analysis					
Lek depreciates by 10%	162,282		(18,207)	1,891	**145,966**
Lek depreciates by 5%	81,141		(9,104)	946	**72,983**
Lek appreciates by 10%	(162,282)		18,207	(1,891)	**(145,966)**
Lek appreciates by 5%	(81,141)		9,104	(946)	**(72,983)**

31 December 2011	**USD**	**LEK**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with banks	2,178,358	448,315	1,110,491	23,346	3,760,510
Murabaha – financial receivables	614,518	779,722	400,627	-	1,794,867
Mudaraba - investment funds	222,700				222,700
Total	**3,015,576**	**1,228,037**	**1,511,118**	**23,346**	**5,778,077**
Liabilities					
Due to banks	21,674	253	418	-	22,345
Due to customers	583,047	2,374,088	1,680,370	9,713	4,647,218
Total	**604,721**	**2,374,341**	**1,680,788**	**9,713**	**4,669,563**
Net position	**2,410,855**	**(1,146,304)**	**(169,670)**	**13,633**	**1,108,514**
Cumulative Gap	**2,410,855**	**1,264,551**	**1,094,881**	**1,108,514**	**-**
Sensitivity analysis					
Lek depreciates by 10%	241,086		(16,967)	1,363	**225,482**
Lek depreciates by 5%	120,543		(8,484)	682	**112,741**
Lek appreciates by 10%	(241,086)		16,967	(1,363)	**(225,482)**
Lek appreciates by 5%	(120,543)		8,484	(682)	**(112,741)**

(Amounts in Lek'000 unless otherwise stated)

4. Financial risk management (continued)

(e) Operational risks

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 Audit Committee and senior management of the Bank.

(f) Capital management

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to the Banking Law. The regulatory capital at 31 December 2012 and 2011was as follows:

	31 December 2012	**31 December 2011**
Total shareholders' fund*	1,184,326	1,255,714
Deductible intangible assets*	(27,649)	(36,818)
Deductible portion of fixed assets*	-	-
Regulatory capital (see note 1 (b))*	**1,156,677**	**1,218,896**

*The amounts in the table represent amounts based on Bank of Albania requirements, which differ from those amounts reported in accordance with IFRS. The financial statements prepared in accordance with Bank of Albania requirements are not finalised at the time of completion of these financial statements. However, the Management believes that the Bank's ability to continue as going concern will not be impaired.

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%.

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%.

Following the injection of additional capital (see note 1), the Bank has complied with imposed Capital Adequacy Ratios.

4. Financial risk management (continued)

(f) Capital management (continued)

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. Four categories of risk weights (0%, 20%, 50%, 100%) 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.

Credit related commitments are taken into account and are weighted for risk using the same percentages as for assets.

5. 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 4).

Allowances for credit losses

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

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(f)(vi).

Financial receivables

Financial receivables are net of allowances for impairment. The Bank's portfolio has an estimated fair value approximately equal to its book value due to their underlying equivalent interest rates, which approximate market rates. A significant portion of the portfolio is subject to re-pricing within a year.

Treasury bills held-to-maturity

Due to the short-term up to one year, the fair value of the Treasury Bills held-to-maturity at 31 December 2012 approximates their carrying amount.

Investment in Mudaraba

At 31 December 2012, the Bank measured the value of this investment with reference to the market prices and recognized an impairment loss of Lek 74,134 thousand (see Note 9).

Deposits and borrowings

The time deposits have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying interest rates, which approximate market rates. The majority of the deposits mature within one year.

(Amounts in Lek'000 unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2012	31 December 2011
Cash on hand	465,584	411,259
Current accounts with Central Bank	643,350	132,027
Current accounts with other banks	546,519	450,384
Term investments with maturities of three months or less	557,025	539,187
	2,212,478	**1,532,857**

7. Restricted balances with Central Bank

Restricted balances with Central Bank are detailed as follows:

	31 December 2012	31 December 2011
Statutory reserves with Central Bank	453,760	473,518
Other balances with Central Bank	-	1,075,400
	453,760	**1,548,918**

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 maintained.

8. Investments with banks and financial institutions

Investments with banks and financial institutions are detailed as follows:

	31 December 2012	31 December 2011
Term investments	687,448	678,735
	687,448	**678,735**

Term investments represent funds with maturities of more than three months, invested by the Bank through banks and financial institutions, mainly acting as agents of the Bank. The agents invest the Bank's funds in instruments selected by them, including commodities and pay the profit generated there-from as per the return estimated by them in accordance with the offer made to the Bank for every investment.

9. Mudaraba - investment funds

	31 December 2012	31 December 2011
Mudaraba - investment funds	220,234	222,700
Less allowances for impairment	(74,134)	-
	146,100	**222,700**

The Bank invested in an Islamic investment fund that operates on the basis of a joint Mudaraba between investors and the Islamic Investment Company of the Gulf (the 'Mudarib'). The investors share the profits from the operations that have not yet reached the stage of final settlement until the liquidation of this special fund.

Under this agreement, the Bank has restricted the use of funds only for the purpose of investing in the European Real Estate Portfolio (EREP). This portfolio comprises four properties located in Belgium and in Germany. Based on a report dated 31 December 2012 and sent to investors by the Mudarib, the European economic crisis severely impacted the value of the EREP assets and the ability to refinance, rent or sell them. Therefore, based on the current value of the investment, determined by the Mudarib with reference to the market prices and based on an exit strategy, the Bank estimated its share of the losses, as a proportion of its investment in the total initial investment fund. Based on such estimation, the Bank recognized an allowance for the impairment of this investment of Lek 74,134 thousand at 31 December 2012 (2011: nil).

(Amounts in Lek'000 unless otherwise stated)

10. Treasury bills held-to-maturity

	31 December 2012	31 December 2011
Nominal value of 12-months treasury bills	650,000	-
Unamortized discount	(28,393)	-
	621,607	**-**

11. Murabaha – financial receivables

The Murabaha balances as at 31 December 2012 and 2011 are detailed as follows:

	31 December 2012	31 December 2011
Financial receivables at amortised cost	2,006,591	2,522,826
Less allowances for impairment	(508,284)	(727,959)
	1,498,307	**1,794,867**

Accrued income from non-performing financial receivables at 31 December 2012 is Lek 51,557 thousand (2011: Lek 75,916 thousand).

Movements in the allowances for impairment are as follows:

	2012	2011
Balance at 1 January	727,959	407,844
Net (reversal)/charge of impairment loss for the year	(219,675)	320,115
Balance at 31 December	**508,284**	**727,959**

12. Assets acquired through legal process

Assets acquired through legal process are properties acquired through enforcement of security over loans to customers. The Bank intends and is taking steps to sell them within a year from the reporting date.

At 31 December 2012, the carrying value of Lek 371,693 thousand (2011: Lek 78,380 thousand) was determined by external valuers and executors with reference to current market prices. As at 31 December 2012 an impairment of Lek 20,078 thousand (2011: nil) is recognized for these assets.

Notes to the financial statements for the year ended 31 December 2012
(Amounts in Lek'000 unless otherwise stated)

13. Property, equipment and intangible assets

	Buildings	Office equipment	Computers and electronic equipment	Motor Vehicles	Furniture and fixtures	Intangible assets	Total
Cost							
At 1 January 2011	282,846	85,646	64,632	16,502	22,149	36,925	508,700
Additions	-	630	281	-	-	9,539	10,450
Disposals	-	-	-	-	-	-	-
At 31 December 2011	**282,846**	**86,276**	**64,913**	**16,502**	**22,149**	**46,464**	**519,150**
Additions	-	1,060	39	-	71	217	1,387
Disposals	-	(21,944)	(16,953)	-	(799)	-	(39,696)
At 31 December 2012	**282,846**	**65,392**	**47,999**	**16,502**	**21,421**	**46,681**	**480,841**
Accumulated Depreciation							
At 1 January 2011	**(28,284)**	**(65,866)**	**(56,658)**	**(15,349)**	**(15,707)**	**-**	**(181,864)**
Charge for the year	(14,142)	(8,200)	(3,448)	(548)	(2,900)	(11,616)	(40,854)
At 31 December 2011	**(42,426)**	**(74,066)**	**(60,106)**	**(15,897)**	**(18,607)**	**(11,616)**	**(222,718)**
Charge for the year	(14,142)	(6,715)	(2,548)	(361)	(2,407)	(11,630)	(37,803)
Disposals	-	21,944	16,953	-	799	-	39,696
At 31 December 2012	**(56,568)**	**(58,837)**	**(45,701)**	**(16,258)**	**(20,215)**	**(23,246)**	**(220,825)**
Carrying amount							
At 1 January 2011	254,562	19,780	7,974	1,153	6,442	36,925	326,836
At 31 December 2011	240,420	12,210	4,807	605	3,542	34,848	296,432
At 31 December 2012	**226,278**	**6,555**	**2,298**	**244**	**1,206**	**23,435**	**260,016**

As at 31 December 2012 the historical cost of the assets which were fully depreciated was Lek 147,567 thousand (2011: Lek 127,698 thousand).

(Amounts in Lek'000 unless otherwise stated)

14. Other assets

Other assets are as follows:

	31 December 2012	31 December 2011
Prepaid expenses	2,064	2,518
Sundry assets	14,300	17,663
	16,364	**20,181**

15. Due to banks

Due to banks are as follows:

	31 December 2012	31 December 2011
Current accounts	267	756
Term deposits	21,326	21,585
Accrued Customer share on profit	3	4
	21,596	**22,345**

At 31 December 2012 and 2011, term deposits represent deposits in USD from Credit Bank of Albania, with a remaining maturity of less than one month.

16. Due to customers

Due to customers by type are detailed as follows:

	31 December 2012	31 December 2011
Current accounts	993,625	904,068
Investment deposits	3,612,034	3,632,562
Accrued Customers' Share on Profit	106,095	108,349
Other customer accounts	2,249	2,239
Total	**4,714,003**	**4,647,218**

Current accounts at 31 December 2012 include a balance of Lek 96 million (2011: Lek 48 million), which represents amounts blocked by regulatory authorities or by the Bank. Certain balances are not available for use, without prior consent of the authorities.

Current accounts and investment deposits by currencies are as follows:

	31 December 2012	31 December 2011
Current accounts:		
In USD	308,783	242,726
In ALL	181,728	229,471
In EUR	498,698	422,159
In GBP	4,416	9,712
	993,625	**904,068**

	31 December 2012	31 December 2011
Investment deposits:		
In USD	294,531	337,311
In EUR	1,122,768	1,236,233
In ALL	2,194,735	2,059,018
	3,612,034	**3,632,562**

17. Other liabilities

Creditors and accrued expenses are as follows:

	31 December 2012	31 December 2011
Accrued expenses	6,011	9,147
Remittances in transit	1,343	8,320
Due to social insurance	1,114	1,154
Taxes payable	1,383	608
Other payables	3,229	207
Due to shareholders	29,451	-
	42,531	**19,436**

Remittances as at 31 December 2012 represent outgoing transfers in transit for which the Bank acted as intermediary.

Amounts due to shareholders represent balances deposited by IDB as contributions for previous capital increases that remained unutilized after completion of capital increase procedures.

18. Shareholders' funds

Share capital

On 13 August 2011, the General Assembly of the Shareholders, decided to absorb the accumulated losses reported in accordance with IFRS as at 31 December 2010 and to increase the paid up share capital by USD 10,101 thousand. These movements in share capital and the nominal value of each share, following each movement are presented as follows:

	Share capital in Lek '000	Nominal value of each share in USD
Balance at 1 January 2011	1,757,604	100
Absorption of accumulated losses in 2011	(1,001,569)	
Capital contributions in 2011	999,845	
Balance at 31 December 2011	**1,755,880**	**24.01**
Capital contributions in 2012	6,837	
Balance at 31 December 2012	**1,762,717**	**24.01**

The capital reductions and contributions made during 2011 and 2012 were registered in 2012. The total capital injections made in the last two years are Lek 1,006,682 thousand (equivalent of USD 10,101 thousand), and the registered share capital is Lek 1,762,717 thousand (equivalent of USD 13,144 thousand), divided into 547,421 shares with a nominal value of USD 24.01.

Reserves

Reserves of Lek 64,105 thousand (2011: Lek 64,105 thousand) were created pursuant to Article 8 of the Decision No. 51, dated 22 April 1999 of the Bank of Albania, which required the appropriation of 20% of the net profit for the year, Article 213 of the Law No. 7638, dated 19 November 1992 "On commercial companies" which required the appropriation of 5% of the net profit, and the Bank's Statute, which required the appropriation of 10% of net profit for the year.

19. Income from banking operations

	2012	2011
Income from Murabaha operation	187,137	204,703
Income from banks and other financial institutions	53,486	38,682
Income from treasury bills held-to-maturity	13,171	695
	253,794	**244,080**

(Amounts in Lek'000 unless otherwise stated)

20. Customers' share on profits

Customers' share on profit of Lek 174,375 thousand (2011: Lek 167,465 thousand) represents the profit share allocation from Mudarabah Transactions, net of Mudarib Charge.

21. Foreign exchange gain/(loss), net

Foreign exchange gain / (loss), net represent the effect of the change in foreign exchange rates on the re-translation at year-end of the Bank's foreign currency position and gains and losses from transactions in foreign currencies.

22. Personnel expenses

	2012	**2011**
Expatriate staff	16,802	19,999
Local employees	52,485	52,648
Social insurance	8,191	8,198
Other costs and bonuses	12,722	6,246
	90,200	**87,091**

23. Other administrative expenses

Other administrative expenses include the following:

	2012	**2011**
Swift, Reuters and on-line connections	10,864	13,017
Office expenses	19,188	13,220
Software maintenance	9,723	11,284
Deposit insurance	13,158	11,620
Security expenses	8,421	8,275
Telephone and mail	2,815	3,490
Professional and consultancy services	4,743	6,079
Legal fees	11,527	5,599
Fees, taxes and duties	2,492	7,875
Travel and transportation	1,561	2,181
Board of Directors and Audit Committee	6,853	4,870
Advertising, public relations and representation expenses	3,405	2,646
Other expenses	2,366	475
	97,116	**90,631**

(Amounts in Lek'000 unless otherwise stated)

24. Income tax charge/ (credit)

Income tax is comprised of:

	2012	2011
Current income tax	10,488	-
Deferred tax (income)/expense	909	(229)
	11,397	**(229)**

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation.

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

However, the impact of these changes in the legislation, on the financial statements of the Bank, are still uncertain and guidelines on the tax impact for IFRS or regulatory reporting not yet clear.

In 2012 and 2011, the Bank calculated the taxable result based on the financial statements prepared in accordance with IFRS.

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

	Tax rate	2012	Tax rate	2011
Loss before income tax		(2,174)		(308,270)
Tax calculated at tax rate 10%	10.0%	(217)	10.0%	(30,827)
Non-deductible expenses	(534.2%)	11,614	(0.5%)	1,481
Deferred tax assets on tax losses not recognised	-	-	(9.4%)	29,117
Tax expense	(524.2%)	**11,397**	0.1%	**(229)**

The Bank was not required and did not make any tax prepayment during 2012, because it has incurred taxable losses in the previous years. Prepaid income tax at 31 December 2012 was Lek 19,156 thousand (2011: Lek 30,553 thousand).

The carry forward period for any tax losses in accordance with the laws in Albania is three years. The Bank did not recognize deferred tax assets relating to tax losses in 2011, because based on the Albanian tax legislation at that time, the tax losses cannot be carried forward in cases when the changes in shareholding structure are more than 25%.

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

	2012	2011
Balance at 1 January	2,680	2,909
(Income)/expense for the year	909	(229)
Balance at 31 December	**3,589**	**2,680**

Deferred income tax liabilities are attributable to the following items:

	31 December 2012	31 December 2011
Decelerated depreciation	3,589	2,680
	3,589	**2,680**

(Amounts in Lek'000 unless otherwise stated)

25. Commitments and contingencies

Guarantees and letters of credit

	31 December 2012	31 December 2011
Letters of credit	-	9,304
Guarantees	22,322	18,796

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of credits granted. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2012 will be incurred and thus no provision have been included in these financial statements.

Legal

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2012.

Lease commitments

The Bank has entered into non-cancellable lease commitments for all branches. Such commitments for the years ended 31 December 2012 and 2011 are composed as follows:

	31 December 2012	31 December 2011
Less than one year	18,035	16,159
Between one and five years	28,076	29,166
	46,111	**45,325**

The Bank has rental agreements for all its branches.

26. Funds under management

Funds under management by type are as follows:

	31 December 2012	31 December 2011
Managed funds	3,612,034	3,632,562

Managed funds relate to investment deposits belonging to customers (refer to note 16), for which the Bank has assumed management responsibility. The customers assume the ultimate investment risk arising from investment of these funds.

(Amounts in Lek'000 unless otherwise stated)

27. Related party transactions

Related parties are defined in accordance with the Article 4 'Definitions', paragraphs 9 and 10, of the Law No. 9662, dated 18 December 2006 "On Banks in the Republic of Albania". The maximum exposures with related parties are monitored for compliance with Article 64 of this Law.

The Bank enters into transactions with its shareholders in the ordinary course of business. The balances with minority shareholders and entities owned by them, are as follows:

	31 December 2012	31 December 2011
Assets		
Accounts and investments with banks and financial institutions	492,079	473,250
Mudaraba - investment funds	220,234	222,700
Provision for Mudaraba - investment funds	(74,135)	-
Financing activities	43,872	57,978
Provision for financing activities	(4,613)	(6,318)
Liabilities		
Due to customers – shareholders	(8,934)	(8,901)

The balances presented above are with shareholders that own less than 5% of the share capital of the Bank and are not considered as related for purposes of compliance with Article 64 of the Banking Law of the maximum exposures with related parties.

Please see Note 17 for information on balances due to IDB at 31 December 2012.

Transactions with directors

The remuneration of directors is included in personnel expenses. It can be detailed as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	18,300	21,619
Bonuses and other benefits	6,618	-
Remuneration of the Board of Directors	1,618	1,205
	26,536	**22,824**

The income and expenses arising from transactions with related parties are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Income from Ithmaar Bank B.S.C	3,795	2,569
Income from IICG	1,055	1,071
Income from Dallah Holding subsidiaries	11,473	7,683
Customers' share on profit	111	50

28. Subsequent events

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