

ALBANIAN DEPOSIT INSURANCE AGENCY

*Financial Statements
for the year ended December 31, 2012
with the Independent Auditor's Report*

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Albanian Deposit Insurance Agency

We have audited the accompanying financial statements of the Albanian Deposit Insurance Agency ("the Agency"), which comprise the statement of financial position as at December 31, 2012, the statement of comprehensive income, statement of changes in deposit insurance fund, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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

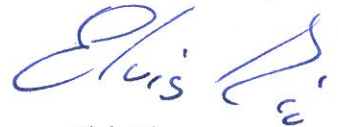
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Albanian Deposit Insurance Agency as at December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial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

Other Matter

The financial statements of Albanian Deposit Insurance Agency for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on September 8, 2012.

A handwritten signature in blue ink that reads "Deloitte Albania" followed by a stylized flourish.

February 28, 2014
Tirana, Albania

A handwritten signature in blue ink that reads "Elvis Ziu" followed by a stylized flourish.

Elvis Ziu
Engagement Partner

ALBANIAN DEPOSIT INSURANCE AGENCY**Statement of Financial Position as of December 31, 2012, 2011 and January 1, 2011***(All amounts are in LEK unless otherwise stated)*

	Note	December 31, 2012	December 31, 2011	January 1, 2011
ASSETS				
Cash and cash equivalents	8	152,453,245	104,890,512	259,587,089
Insurance premiums receivable	9	586,858,438	461,057,236	485,271,431
Investments held to maturity	10	15,959,602,922	12,745,246,863	9,640,539,642
Property and equipment, net	11	56,590,297	59,022,322	61,355,606
Intangible assets, net	12	811,500	931,500	451,500
Other assets, net	13	2,163,929	2,012,608	1,643,736
TOTAL ASSETS		16,758,480,331	13,373,161,041	10,448,849,004
LIABILITIES				
Other liabilities	14	1,759,690	1,420,563	1,170,831
TOTAL LIABILITIES		1,759,690	1,420,563	1,170,831
DEPOSIT INSURANCE FUND				
Initial establishment fund	15	400,000,000	400,000,000	400,000,000
Accumulated fund		12,971,740,478	10,047,678,173	7,510,032,710
Profit for the year		3,384,980,163	2,924,062,305	2,537,645,463
TOTAL DEPOSIT INSURANCE FUND		16,756,720,641	13,371,740,478	10,447,678,173
TOTAL LIABILITIES AND DEPOSITS INSURANCE FUND		16,758,480,331	13,373,161,041	10,448,849,004

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

ALBANIAN DEPOSIT INSURANCE AGENCY**Statement of Comprehensive Income for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)*

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Operating income:			
Income from insurance premiums	16	2,547,690,715	2,241,387,105
Investment income	17	901,488,542	715,056,184
Other operating income		64,000	-
		3,449,243,257	2,956,443,289
Finance expenses:			
(Loss) / gain on foreign currency re-translation		(7,167,402)	21,622,223
Finance expenses		(1,726,797)	(1,730,518)
		(8,894,199)	19,891,705
Operating expenses:			
Personnel expenses	18	(35,499,385)	(30,374,180)
Administrative expenses	19	(17,118,521)	(19,193,709)
Depreciation and amortisation	11,12	(2,750,989)	(2,704,800)
		(55,368,895)	(52,272,689)
NET PROFIT FOR THE YEAR		3,384,980,163	2,924,062,305
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		3,384,980,163	2,924,062,305

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

ALBANIAN DEPOSIT INSURANCE AGENCY**Statement of Cash Flow for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)*

	Note	Year ended December 31, 2012	Year ended December 31, 2011
NET PROFIT FOR THE YEAR		3,384,980,163	2,924,062,305
Adjustment for:			
Depreciation and amortization	11, 12	2,750,989	2,704,800
Accrued interest on investment securities		162,101,663	87,145,274
Change in:			
Insurance premiums receivable		(125,801,202)	24,214,195
Other assets		(151,320)	(368,872)
Other liabilities		339,127	249,732
Cash flows generated from operating activities		3,424,219,420	3,038,007,434
INVESTING ACTIVITIES			
Purchases of equipment	11	(198,964)	(371,516)
Purchases of intangibles	12	-	(480,000)
Purchases of investment securities		(3,376,457,723)	(3,191,852,495)
Cash flows used for investing activities		(3,376,656,687)	(3,192,704,011)
Increase/(decrease) in cash during the year		47,562,733	(154,696,577)
Cash and cash equivalents at the beginning of the year	8	104,890,512	259,587,089
Cash and cash equivalents at the end of the year	8	152,453,245	104,890,512

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

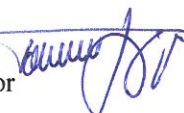
ALBANIAN DEPOSIT INSURANCE AGENCY**Statement of Changes in Deposit Insurance Fund for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)*


	Initial establishment fund	Accumulated Fund	Total
<i>Previous GAAP</i>			
As of January 1, 2011	400,000,000	10,047,678,173	10,447,678,173
<i>IFRS</i>			
As of January 1, 2011	400,000,000	10,047,678,173	10,447,678,173
Total comprehensive income for the year	-	2,924,062,305	2,924,062,305
As of December 31, 2011	400,000,000	12,971,740,478	13,371,740,478
Total comprehensive income for the year	-	3,384,980,163	3,384,980,163
At December 31, 2012	400,000,000	16,356,720,641	16,756,720,641

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

These financial statements are approved by the Board of Directors of the Agency with decision No. 3 on February 19, 2013 and signed on its behalf by:

Toni Gogu
General Director




Azmi Stringa
Head of Finance and Investments

ALBANIAN DEPOSIT INSURANCE AGENCY

Notes to the Financial Statements for the years ended December 31, 2012 and 2011

(All amounts are in LEK unless otherwise stated)

1. REPORTING ENTITY

Albanian Deposit Insurance Agency (the “Agency” or “ADIA”) is an independent entity established in 2002 by Law no. 8873, dated March 29, 2002, “On deposit insurance” (the “Law on deposit insurance” or “Law”), amended by Law no.10106, dated March 30, 2009 and Law 78/2012, dated July 26, 2012. In accordance with the Law, the Agency reports to the Bank of Albania (the “Supervising Authority”), the Parliament of the Republic of Albania, and the Council of Ministers of the Republic of Albania. ADIA is member of the International Association of Deposit Insurers and the European Forum of Deposit Insurers.

The Agency was established to insure and compensate the deposits of individuals with local banks, branches and subsidiaries of foreign banks, and savings and credit associations operating in Albania. The institutions, which are members of the insurance scheme, cannot accept deposits of individuals unless they are insured by ADIA. Compensation of insured deposits begins when the Agency is notified in writing by Bank of Albania on the intervention on an insured institution or when such institution is voluntarily liquidated.

According to the Law on deposit insurance, ADIA’s core activity involves determining and collecting the initial contributions from institutions entering the insurance scheme, determining and collecting the annual insurance premiums from institutions that are members of the insurance scheme, and investing the accumulated funds.

The Agency, following the amendment to the Law on deposits insurance on March 29, 2009, insures up to 2,500,000 Albanian Lek (“Lek”) all eligible deposits held by individuals in each institution that is a member of the insurance scheme.

As of December 31, 2012 and 2011 all banks operating in Albania (2012:16, 2011:16) are participating members in the insurance scheme. As of December 31, 2012 and 2011, the number of savings and credit associations that are member of ADIA’s insurance scheme is nil.

The Agency started its operations on October 12, 2002. Currently, the Agency’s address and headquarters are in Tirana (“Rruga e Elbasanit”, Tirana, Albania).

As of December 31, 2012, the Agency had 14 employees (December 31, 2011: 14).

2. REGULATORY FRAMEWORK OF ADIA OPERATIONS

The Agency’s operations are regulated by the Law on deposit insurance and relevant regulations issued by the Agency and the Supervisory Authority. Such Law and regulations require that proceeds from member institutions be invested in debt instruments issued by the Government of Albania or Bank of Albania, debt instruments issued by foreign governments or central banks that are highly rated by reputable credit rating agencies, debt instruments issued by international financial institutions that are highly rated by reputable credit rating agencies, or placed into short deposits with Bank of Albania. All investment instruments shall have maturity of not longer than twelve months from the date of purchase by the Agency.

The highest governing body of the Agency is the Board of Directors. The Board of Directors is composed of five members appointed by the Supervisory Authority. Two members are proposed by the Supervisory Authority, two members are proposed by the Minister of Finance of the Republic of Albania, and one member is proposed by the Institute of Authorized Chartered Auditors of Albania.

3. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Agency prepared its financial statements as of and for the year ended December 31, 2011 in accordance with the accounting policies detailed in the Agency’s Accounting Manual, approved by the Council of Ministers Decision no. 250, dated April 15, 2005 (“Previous GAAP”).

3. BASIS OF PREPARATION AND ADOPTION OF IFRS (CONTINUED)

Following the amendment to the Law on deposit insurance on July 26, 2012, the Agency adopted International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Accordingly the Agency, for the year ending December 31, 2012, prepared its first financial statements in accordance with IFRS.

(a) Basis of measurement

These financial statements have been prepared on the historical cost basis. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(b) Functional and presentation currency

These financial statements are presented in Lek, which is the Agency’s functional currency.

(c) Use of estimates and judgments

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

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

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 included in Notes 6 and 7.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1 Standards and Interpretations effective in the current period

The following revisions of the existing standards published by the International Accounting Standards Board and the interpretations published by the Committee of International Financial Reporting Interpretations are effective for the current period:

- **Amendments to IAS 1 “Presentation of financial statements” – *Presentation of Items of Other Comprehensive Income*** (effective for annual periods beginning on or after July 1, 2012).

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

4.2 Standards and Interpretations in issue not yet adopted

As of the date of these financial statements the following standards, revisions and interpretations were in issue but not yet effective.

- **IFRS 13 Fair Value Measurement** (effective for annual periods beginning on or after January 1, 2013),
- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – *Mandatory Effective Date and Transition Disclosures***,
- **Amendments to IFRS 10 “Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” – *Investment Entities*** (effective for annual periods beginning on or after January 1, 2014),
- **Amendments to IAS 32 “Financial instruments: presentation” - *Offsetting Financial Assets and Financial Liabilities*** (effective for annual periods beginning on or after January 1, 2014),
- **Amendments to IAS 36 “Impairment of assets” - *Recoverable Amount Disclosures for Non-Financial Assets*** (effective for annual periods beginning on or after January 1, 2014),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – *Novation of Derivatives and Continuation of Hedge Accounting*** (effective for annual periods beginning on or after January 1, 2014),
- **IFRIC 21 “Levies”** (effective for annual periods beginning on or after January 1, 2014).

The Agency has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Management anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Agency in the period of initial application because of the limited nature of transactions performed by the Agency.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**5.1 Transactions in foreign currencies**

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are retranslated to the functional currency at the exchange rate ruling at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

Official exchange rates used for main foreign currencies to convert balance sheet items in Lek are as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
EURO	139.59	138.93	138.77
United States Dollar (USD)	105.85	107.54	104.00
Swiss Franc (CHF)	115.65	114.46	110.98

5.2 Deposit insurance premium and contributions

In accordance with the Law for deposit insurance, the annual insurance premium for the year is calculated as 0.5% of the arithmetic average balance of the insured deposits at the end of each working day in the last quarter of the previous year. The annual premium is payable in four equal instalments. Each instalment is payable in arrears within 15 days of a quarter end.

Each insured bank pays an initial contribution, calculated as 0.5% of the bank's share capital, not later than 30 days from the date when the Banking License is granted by the Bank of Albania. The initial contribution is payable in one instalment at the Agency's account with the Bank of Albania and is recognized as income in the period when received.

5.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments 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 Agency estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees 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.

5.4 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities

(i) Recognition

The Agency initially recognises investment in securities, deposits, borrowings and other subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Agency commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Agency becomes a party to the contractual provisions of the instrument.

(ii) Classification

Financial assets

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.

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

- loans and receivables;
- held to maturity;
- available-for-sale; or
- at fair value through profit or loss and within the category as:
 - held for trading; or
 - designated at fair value through profit or loss.

As of December 31, 2012, December 31, 2011 and January 1, 2011 the Agency's financial assets comprise of cash and cash equivalent, insurance premium receivables and investment securities classified as held-to-maturity. No changes in the classification of financial assets occurred during the years ended December 31, 2012 and December 31, 2011. See Notes 5.6, 5.7 and 5.8.

Financial liabilities

The Agency classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

As of December 31, 2012, December 31, 2011 and January 1, 2011 the Agency's financial liabilities are comprised only of payables to suppliers and other liabilities measured at amortised cost.

(iii) Derecognition

Financial assets

The Agency derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Agency neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Agency is recognised as a separate asset or liability.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Agency derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from similar transactions such as in the Agency'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 method for any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

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

When available, the Agency 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.

When there is no quoted price in an active market, the Agency uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Agency determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

If an asset or a liability measured at fair value has a bid price and an ask price, the Agency measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Agency's accounting policy on fair value measurements is set out in Note 7.1.

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Agency determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The Agency recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Objective evidence that financial assets are impaired can include significant financial difficulty of the debt issuer, default or delinquency by a counterparty, 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 debt issuers in the group, or economic conditions that correlate with defaults in the group.

The Agency considers evidence of impairment for loans and advances and held-to-maturity investment securities at a specific asset level. All individually significant held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

5.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid deposits with Bank of Albania with original maturities of three months or less that are subject to an insignificant risk of changes in their fair value, and are used by the Agency in the management of its short-term operating activities. Cash and cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value due to their short term nature.

5.7 Insurance premiums receivable

Insurance premiums receivable comprises the fourth instalment of the annual insurance premiums and that is payable within 15 days from the reporting date. Insurance premiums receivables are carried at amortised cost in the statement of financial position, which approximates fair value due to their short term nature.

5.8 Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Agency has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. 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 Agency from classifying investment securities as held to maturity for the current and the following two financial years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.8 Investment securities (continued)

(i) Held-to-maturity (continued)

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

5.9 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Deemed cost

The cost of property, plant and equipment on January 1, 2011, the Agency's date of transition to IFRS, was determined with reference to its fair value at that date.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

(ii) Subsequent costs

A subsequent expenditure is capitalised only when it is probable that the future economic benefits from the expenditure will flow to the Agency. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

- | | |
|---------------------------------|-------------|
| • Buildings | 25-40 years |
| • Computer equipment | 3-5 years |
| • Vehicles | 5 years |
| • Office furniture and supplies | 3-20 years |

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.10 Intangible assets

Intangible assets include the Accounting Software Alpha Platinum software acquired by the Agency and measured at cost less accumulated amortisation and any accumulated impairment losses. The software are amortized on a straight-line basis over a period of three years.

5.11 Provisions

A provision is recognised if, as a result of a past event, the Agency 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 for insured deposits compensation

Provisions for insured deposits compensation represent the best estimates of the Agency, for present obligation as a result of an intervention on an insured institution, for which the Agency is notified in writing by Bank of Albania, or of such institution being voluntarily liquidated.

Such provision is recognised in the period when the voluntary liquidation of an insured institution is initiated or when notified in writing by Bank of Albania on the intervention on such institution.

As of December 31, 2012, December 31, 2011 and January 1, 2011 no such event has occurred (see Note 6.3), hence no provision is recognised in the statement of financial position.

5.12 Taxation

In accordance to Law no. 8873, dated March 29 2002 “On Deposit Insurance”, amended, the Agency is exempted from value added tax and tax on profit.

5.13 Employees’ Contributions

The Agency makes only compulsory health insurance contributions and social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legal thresholds for such contributions in Albania under defined contribution plans. The Agency’s contributions for health insurance and social security are charged to the profit or loss as incurred.

6. FINANCIAL RISK MANAGEMENT

In the ordinary course of its operations, the Agency is exposed to a variety of financial risks, the most important of which are market risk (including currency risk, risk of changes in fair value and interest rates), credit risk and liquidity risk. General risk management is focused on identifying the risks that might affect the financial results and position of the Agency and minimising the potential negative effects arising from such risks.

Financial risks are currently identified, measured and monitored through various control mechanisms introduced to adequately assess the market circumstances of its investments and the ways for maintaining liquid assets in order to prevent undue risk concentration.

The management of ADIA strives to improve the methods for assessing and managing the risks related to the investment portfolio (credit, liquidity, interest and currency risks) in order to ensure effective management of funds and timely fulfilment of its obligations toward insured depositors in case of an insurance event. With the objective of minimising risks, the Agency maintains currency limits, maturity distribution limits and a portfolio modified duration of no longer than twelve months. In addition the Agency has entered into an agreement with the Ministry of Finance and Bank of Albania that allows the Agency, in case of an insurance event, to obtain liquidity through executing with the Ministry of Finance a sale and repurchase agreement on the Government of Albania debt securities it owns.

The Agency's financial operations are regulated by the Law on deposit insurance and the Agency's Investment Policy. The Law requires that proceeds from member institutions be invested in debt instruments issued by the Government of Albania or Bank of Albania, debt instruments issued by foreign governments or central banks that are highly rated by reputable credit rating agencies, debt instruments issued by international financial institutions that are highly rated by reputable credit rating agencies, or placed into short deposits with Bank of Albania. All investment instruments shall have maturity of not longer than twelve months from the date of purchase by the Agency.

The Investment Policy, which is approved by the Board of Directors, outlines the investment procedures and sets the limits on the credit quality of foreign investments, maturity concentrations, and currency concentrations of ADIA's investment portfolio. The Investment Committee of ADIA is responsible for ensuring the execution of the investment strategy and the structure of the portfolio are in compliance with the Investment Policy. The structure of financial assets and liabilities is assessed on a regular basis based on the information provided by the Finance and Investments Sector, the Risk Analysis Sector, and Bank of Albania. The Investment Committee periodically reports to the Board of Directors on the performance of the investment portfolio.

6.1 Credit risk

Credit risk is the risk of financial loss to the Agency if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Agency's investment securities and balances with banks. For risk management reporting purposes the Agency considers and consolidates all elements of credit risk exposure such as individual obligor default risk and country risk.

The Investment Committee is responsible for the oversight of credit risk, including review and assessment of credit risk, and ensuring compliance with concentration limits on exposure to counterparties/countries and other relevant policies set in the regulatory framework.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)**

The table below presents credit risk exposure by counterparty (country) and related delinquency or impairment, if any:

Investment securities	Government of Albania	US Government	Government of Austria	Government of Germany	Government of France	Government of Finland	Total
<i>As of December 31, 2012</i>							
Neither past due nor impaired	15,326,940,858	632,662,064	-	-	-	-	15,959,602,922
<i>As of December 31, 2011</i>							
Neither past due nor impaired	11,537,107,393	641,760,414	258,166,177	119,509,964	116,808,335	71,894,580	12,745,246,863
<i>As of January 1, 2011</i>							
Neither past due nor impaired	8,407,948,685	619,134,265	-	358,272,751	255,183,941	-	9,640,539,642

The Agency had no outstanding contingent financial commitments as of December 31, 2012, December 31, 2011 and January 1, 2011.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Agency's income or the value of its holdings of financial instruments. The objective of the Agency's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Agency's solvency while optimising the return on risk.

(i) Exposure to interest rate risk – held-to-maturity investments

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 interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Investment Committee is the monitoring body for compliance with these limits.

A summary of the Agency's interest rate gap position on non-trading portfolios is as follows:

As of December 31, 2012	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months
Cash and cash equivalents	152,453,245	152,453,245	-	-	-
Insurance premiums receivable	586,858,438	586,858,438	-	-	-
Investments held to maturity	15,959,602,922	2,032,310,923	2,052,821,676	4,138,766,076	7,735,704,247
TOTAL	16,698,914,605	2,771,622,606	2,052,821,676	4,138,766,076	7,735,704,247

As of December 31, 2011	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months
Cash and cash equivalents	104,890,512	104,890,512	-	-	-
Insurance premiums receivable	461,057,236	461,057,236	-	-	-
Investments held to maturity	12,745,246,863	632,889,511	3,243,775,385	3,402,043,209	5,466,538,758
TOTAL	13,311,194,611	1,198,837,259	3,243,775,385	3,402,043,209	5,466,538,758

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks (continued)***(i) Exposure to interest rate risk – held-to-maturity investments (continued)*

As of January 1, 2011	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months
Cash and cash equivalents	259,587,089	259,587,089	-	-	-
Insurance premiums receivable	485,271,431	485,271,431	-	-	-
Investments held to maturity	9,640,539,642	660,922,611	2,582,250,858	2,260,513,051	4,136,853,122
TOTAL	10,385,398,162	1,405,781,131	2,582,250,858	2,260,513,051	4,136,853,122

Management considered a standard scenario that includes a 100 basis point (“bp”) parallel fall or rise in all yield curves worldwide. An analysis of the Agency’s sensitivity to an increase or decrease in market interest rates is as follows:

Change in rates	As of December 31, 2012	As of December 31, 2011	As of January 1, 2011
+100bp	88,874,779	73,449,436	59,461,166
-100bp	(88,874,779)	(73,449,436)	(59,461,166)

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (continued)****6.2 Market risks (continued)***(ii) Exposure to currency risk*

Currency risk is defined as the risk that movements in exchange rates may cause significant changes, positive or negative, in the statement of financial position. The Agency is mainly exposed to risk of changes in the exchange rate of the US dollar and Euro to the Albanian Lek, with a view of its open exposures denominated in US dollars and Euro. The existing exposures are short-term in nature and limits on such exposures are set and monitored in accordance with the Investment Policy of the Agency.

A summary of the Agency's currency exposure position is as follows (amounts in Lek):

As of December 31, 2012	LEK	USD	EUR	CHF
ASSETS				
Cash and cash equivalents	143,681,647	629,173	8,142,425	-
Insurance premiums receivable	586,858,438	-	-	-
Investments held to maturity	14,701,622,048	632,662,064	625,318,810	-
TOTAL	15,432,162,133	633,291,237	633,461,235	-
LIABILITIES				
Other liabilities	(1,759,690)	-	-	-
TOTAL LIABILITIES	(1,759,690)	-	-	-
CURRENCY EXPOSURE	15,430,402,443	633,291,237	633,461,235	-

As of December 31, 2011	LEK	USD	EUR	CHF
ASSETS				
Cash and cash equivalents	101,773,769	290,886	2,825,857	-
Insurance premiums receivable	461,057,236	-	-	-
Investments held to maturity	11,487,787,256	641,760,414	615,699,193	-
TOTAL	12,050,618,261	642,051,300	618,525,050	-
LIABILITIES				
Other liabilities	(1,420,563)	-	-	-
TOTAL LIABILITIES	(1,420,563)	-	-	-
CURRENCY EXPOSURE	12,049,197,698	642,051,300	618,525,050	-

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (continued)****6.2 Market risks (continued)***(ii) Exposure to currency risk (continued)*

As of January 1, 2011	LEK	USD	EUR	CHF
ASSETS				
Cash and cash equivalents	258,464,224	748,394	374,200	271
Insurance premiums receivable	485,271,431	-	-	-
Investments held to maturity	8,407,948,685	619,134,265	613,456,692	-
TOTAL	9,151,684,340	619,882,659	613,830,892	271
LIABILITIES				
Other liabilities	(1,170,831)	-	-	-
TOTAL LIABILITIES	(1,170,831)	-	-	-
CURRENCY EXPOSURE	9,150,513,509	619,882,659	613,830,892	271

Foreign currency sensitivity analysis

The table below demonstrates the sensitivity to a 10 per cent increase/decrease in the spot rates of Lek against USD and EUR based on the structure of foreign currency denominated assets and liabilities of the Agency as of December 31, assuming that all other variables remain constant. The effect is measured and presented as an impact on the result and directly on the net assets with all other conditions held constant.

	USD		EUR	
	+10%	-10%	+10%	-10%
As of December 31, 2012	63,329,124	(63,329,124)	63,346,124	(63,346,124)
As of December 31, 2011	64,205,130	(64,205,130)	61,852,505	(61,852,505)
As of January 1, 2011	61,988,266	(61,988,266)	61,383,089	(61,383,089)

On a 10 per cent increase in the spot rate of USD against Lek, the overall impact on the financial result of the Agency for a one-year period ending December 31, 2012 would be an increase by Lek 63,329,124 (December 31, 2011: Lek 64,205,130 and January 1, 2011: Lek 61,988,266) due to the exposure from securities and current account balances denominated in USD. Respectively, the impact on net assets would be the same.

On a 10 per cent decrease in the spot rate of USD against Lek, the overall impact on the financial result and net assets of the Agency would be equal but in opposite direction to the increase described above.

On a 10 per cent increase in the spot rate of EUR against Lek, the overall impact on the financial result of the Agency for a one-year period ending December 31, 2012 would be an increase by Lek 63,346,124 (December 31, 2011: Lek 61,852,505 and January 1, 2011: Lek 61,383,089) due to the exposure of securities and current account balances denominated in EUR. Respectively, the impact on net assets would be the same.

On a 10 per cent decrease in the spot rate of EUR against Lek, the overall impact on the financial result and net assets of the Agency would be equal but in opposite direction to the increase described above.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (continued)****6.3 Liquidity risk**

Liquidity risk is the risk that the Agency will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The liquidity management policy of ADIA is conservative, maintaining a constant optimal liquid cash reserve to secure an adequate capability for funding its activities. The Agency has entered into an agreement with the Ministry of Finance and Bank of Albania that allows the Agency, in case of an insurance event, to obtain liquidity through executing with the Ministry of Finance a sale and repurchase agreement on the Government of Albania debt securities it owns. In addition, in accordance with the Law on deposit insurance, in the event of an insufficiency of funds the Agency has the right to request advance payments of the annual insurance premiums from insured institutions, increase of the annual premium contributions, collect a special contribution from insured institutions, and obtain loans under the terms and conditions set by the Agency's Board of Directors (Article 20/1 of the Law on deposit insurance).

The table below includes the Agency's financial instruments classified by their residual term to maturity on the basis of undiscounted contractual cash flows:

As of December 31, 2012	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total contractual cash flows
ASSETS						
Cash and cash equivalents	152,453,245	152,453,245	-	-	-	152,453,245
Insurance premiums receivable	586,858,438	586,858,438	-	-	-	586,858,438
Investments held to maturity	15,959,602,922	2,039,700,000	2,073,604,250	4,234,045,718	8,112,178,794	16,459,528,762
TOTAL	16,698,914,605	2,779,011,683	2,073,604,250	4,234,045,718	8,112,178,794	17,198,840,445
LIABILITIES						
Other liabilities	(1,759,690)	(1,759,690)	-	-	-	(1,759,690)
TOTAL	(1,759,690)	(1,759,690)	-	-	-	(1,759,690)
CUMULATIVE LIQUIDITY GAP	16,697,154,915	2,777,251,993	4,850,856,243	9,084,901,961	17,197,080,755	17,197,080,755

Total cumulative liquidity gap is higher than the Deposit Insurance Fund as of December 31, 2012.

ALBANIAN DEPOSIT INSURANCE AGENCY
Notes to the Financial Statements for the years ended December 31, 2012 and 2011
(All amounts are in LEK unless otherwise stated)
6. FINANCIAL RISK MANAGEMENT (continued)
6.3 Liquidity risk (continued)

As of December 31, 2011	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total contractual cash flows
ASSETS						
Cash and cash equivalents	104,890,512	104,890,512	-	-	-	104,890,512
Insurance premiums receivable	461,057,236	461,057,236	-	-	-	461,057,236
Investments held to maturity	12,745,246,863	633,558,408	3,262,648,379	3,478,170,920	5,710,881,481	13,085,259,188
TOTAL	13,311,194,611	1,199,506,156	3,262,648,379	3,478,170,920	5,710,881,481	13,651,206,936
LIABILITIES						
Other liabilities	(1,420,563)	(1,420,563)	-	-	-	(1,420,563)
TOTAL	(1,420,563)	(1,420,563)	-	-	-	(1,420,563)
CUMULATIVE LIQUIDITY GAP	13,309,774,048	1,198,085,593	4,460,733,972	7,938,904,892	13,649,786,373	13,649,786,373

Total cumulative liquidity gap is higher than the Deposit Insurance Fund as of December 31, 2011.

As of January 1, 2011	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total contractual cash flows
ASSETS						
Cash and cash equivalents	259,587,089	259,587,089	-	-	-	259,587,089
Insurance premiums receivable	485,271,431	485,271,431	-	-	-	485,271,431
Investments held to maturity	9,640,539,642	662,118,915	2,602,984,200	2,315,015,964	4,337,547,874	9,917,666,953
TOTAL	10,385,398,162	1,406,977,435	2,602,984,200	2,315,015,964	4,337,547,874	10,662,525,473
LIABILITIES						
Other liabilities	(1,170,831)	(1,170,831)	-	-	-	(1,170,831)
TOTAL	(1,170,831)	(1,170,831)	-	-	-	(1,170,831)
CUMULATIVE LIQUIDITY GAP	10,384,227,331	1,405,806,604	4,008,790,804	6,323,806,768	10,661,354,642	10,661,354,642

Total cumulative liquidity gap is higher than the Deposit Insurance Fund as of January 1, 2011.

6. FINANCIAL RISK MANAGEMENT (continued)

6.3 Liquidity risk (continued)

Financial stability

The stability of the banking sector is the main factor affecting the liquidity position of the Agency. The Agency continuously assesses the stability of the banking sector in order to forecast its obligations towards insured depositors in accordance with the Law on deposit insurance.

According to Bank of Albania, as of the end of the year 2012 the banking sector was assessed as stable. Stress-test exercises in the form of sensitivity and scenario analyses performed by Bank of Albania during 2012 and 2011 show that the banking sector, overall, is resilient to various shock scenarios in respect to capital adequacy and quality.

In the year 2012 credit risk represents the most important challenge for the banking sector. Such factor was reflected in the financial performance of the sector for the year. Despite these developments, the capitalization and operating liquidity position of the banking sector are assessed as satisfactory in the light of the increases in retail deposits and capital from controlling groups during the year 2012.

7. USE OF ESTIMATES AND JUDGEMENTS

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

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

Management discusses with the Agency's Board of Directors the development, selection and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 6).

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***7. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)****7.1 Valuation of financial instruments**

Accounting classifications and fair values for the financial instruments is presented below:

As of December 31, 2012	Loans and receivables	Held-to-maturity	Other at amortised cost	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	152,453,245	-	-	152,453,245	152,453,245
Insurance premiums receivable	586,858,438	-	-	586,858,438	586,858,438
Investments held to maturity	-	15,959,602,922	-	15,959,602,922	15,983,540,694
TOTAL	739,311,683	15,959,602,922	-	16,698,914,605	16,722,852,377
LIABILITIES					
Other liabilities	-	-	(1,759,690)	(1,759,690)	(1,759,690)
TOTAL	-	-	(1,759,690)	(1,759,690)	(1,759,690)

As of December 31, 2011	Loans and receivables	Held-to-maturity	Other at amortised cost	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	104,890,512	-	-	104,890,512	104,890,512
Insurance premiums receivable	461,057,236	-	-	461,057,236	461,057,236
Investments held to maturity	-	12,745,246,863	-	12,745,246,863	12,766,496,940
TOTAL	565,947,748	12,745,246,863	-	13,311,194,611	13,332,444,688
LIABILITIES					
Other liabilities	-	-	(1,420,563)	(1,420,563)	(1,420,563)
TOTAL	-	-	(1,420,563)	(1,420,563)	(1,420,563)

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***7. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)****7.1 Valuation of financial instruments (continued)**

As of January 1, 2011	Loans and receivables	Held-to-maturity	Other at amortised cost	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	259,587,089	-	-	259,587,089	259,587,089
Insurance premiums receivable	485,271,431	-	-	485,271,431	485,271,431
Investments held to maturity	-	9,640,539,642	-	9,640,539,642	9,668,265,806
TOTAL	744,858,520	9,640,539,642	-	10,385,398,162	10,413,124,326
LIABILITIES					
Other liabilities	-	-	(1,170,831)	(1,170,831)	(1,170,831)
TOTAL	-	-	(1,170,831)	(1,170,831)	(1,170,831)

Due to their short-term maturity (less than one month), Management estimates the fair values of the cash and cash equivalents, insurance premiums receivable and other liabilities to be equal to their carrying amounts at the end of December 31, 2012, December 31, 2011 and January 1, 2011.

Management estimated the fair value of held to maturity investments in treasury securities using observable market rates (level 2) for similar securities with similar maturity based on their remaining maturity as of December 31, 2012, December 31, 2011 and January 1, 2011.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***8. CASH AND CASH EQUIVALENTS**

Cash and cash equivalent balances as of December 31, 2012, December 31, 2011 and January 1, 2011 are detailed as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
<i>Balances with Banks</i>			
Current accounts with Bank of Albania	48,039,968	101,123,553	250,152,280
Short-term deposits	100,000,000	1,927,376	7,600,000
Current accounts with local banks	3,265,422	1,219,012	1,094,707
Current accounts with foreign banks	1,147,855	620,571	740,102
Total	<u>152,453,245</u>	<u>104,890,512</u>	<u>259,587,089</u>

Short-term deposits include 7-day deposit with Bank of Albania at the end of the year to be invested in next Government of Albania Treasury auction.

9. INSURANCE PREMIUMS RECEIVABLE

Insurance premiums receivable consist of the last instalments of the yearly insurance premium yet to be collected at the end of the year.

Each bank pays the annual insurance premium in four instalments. Each instalment should be paid in arrears for each quarter on the 15th of January, April, July and October.

On January 15, 2013, 100% of the premiums receivable on December 31, 2012 was collected. On January 17, 2012, 100% of the premiums receivable on December 31, 2011 was collected.

10. INVESTMENT SECURITIES – HELD TO MATURITY

	December 31, 2012	December 31, 2011	January 1, 2011
Investments in Albanian Government securities (10.1)	15,326,940,858	11,537,107,393	8,407,948,685
Investments in foreign government securities (10.2)	632,662,064	1,208,139,470	1,232,590,957
Total	<u>15,959,602,922</u>	<u>12,745,246,863</u>	<u>9,640,539,642</u>

10.1 Albanian Government Treasury Bills

Investment in Albanian Government securities are detailed as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Treasury Bills in LEK	14,701,622,068	11,487,787,256	8,407,948,685
Treasury Bills in EUR	625,318,790	49,320,137	-
Total	<u>15,326,940,858</u>	<u>11,537,107,393</u>	<u>8,407,948,685</u>

ALBANIAN DEPOSIT INSURANCE AGENCY
Notes to the Financial Statements for the years ended December 31, 2012 and 2011
(All amounts are in LEK unless otherwise stated)
10. INVESTMENT SECURITIES – HELD TO MATURITY (CONTINUED)
10.1 Albanian Government Treasury Bills (continued)

Albanian Government securities by contractual maturity are presented as follows:

	December 31, 2012	weighted average yield	December 31, 2011	weighted average yield	January 1, 2011	weighted average yield
<i>T-Bills in LEK</i>						
3 months	-	n/a	944,542,653	5.38%	482,548,817	5.50%
6 months	1,752,421,990	6.13%	1,435,507,097	6.58%	1,219,133,909	6.68%
12 months	12,949,200,078	6.87%	9,107,737,506	7.27%	6,706,265,959	8.01%
Total	14,701,622,068		11,487,787,256		8,407,948,685	
<i>T-Bills in EUR</i>						
12 months	625,318,790	5.04%	49,320,137	4.00%	-	n/a
Total	625,318,790		49,320,137		-	n/a

10.2 Foreign Government Treasury Bonds

Investment in foreign government securities breakdown by currency and counterparty is presented as follows:

	December 31, 2012	weighted average yield	December 31, 2011	weighted average yield	January 1, 2012	weighted average yield
<i>Bonds in EUR</i>						
France	-	n/a	116,808,335	1.30%	255,183,941	0.56%
Austria	-	n/a	258,166,177	0.93%	-	n/a
Germany	-	n/a	119,509,964	1.20%	358,272,751	0.51%
Finland	-	n/a	71,894,580	0.32%	-	n/a
	-		566,379,056		613,456,692	
<i>Bonds in USD</i>						
U.S.	632,662,064	0.19%	641,760,414	0.17%	619,134,265	0.32%
Total	632,662,064		1,208,139,470		1,232,590,957	

All investments in foreign government securities have a contractual maturity up to 12 months in accordance with the Agency liquidity risk management policy (see Note 6.3).

ALBANIAN DEPOSIT INSURANCE AGENCY
Notes to the Financial Statements for the years ended December 31, 2012 and 2011
(All amounts are in LEK unless otherwise stated)
11. PROPERTY AND EQUIPMENT

	Building	Technical installations	Computer equipment	Vehicles	Office Supplies	Total
<i>Previous GAAP</i>						
Cost at January 1, 2011	71,917,696	1,312,564	8,780,316	4,023,000	6,810,889	92,844,465
Accumulated depreciation at January 1, 2011	(13,098,064)	(978,191)	(7,184,642)	(4,023,000)	(6,204,962)	(31,488,859)
Carrying amount at January 1, 2011	58,819,632	334,373	1,595,674	-	605,927	61,355,606
<i>Cost</i>						
At January 1, 2011 (<i>deemed cost</i>)	58,819,632	334,373	1,595,674	-	605,927	61,355,606
Additions	-	46,800	304,916	-	19,800	371,516
At December 31, 2011	58,819,632	381,173	1,900,590	-	625,727	61,727,122
Additions	-	-	179,884	-	19,080	198,964
At December 31, 2012	58,819,632	381,173	2,080,474	-	644,807	61,926,086
<i>Accumulated depreciation</i>						
At January 1, 2011	-	-	-	-	-	-
Charge for the period	(1,797,936)	(63,810)	(620,790)	-	(222,264)	(2,704,800)
At December 31, 2011	(1,797,936)	(63,810)	(620,790)	-	(222,264)	(2,704,800)
Charge for the period	(1,797,942)	(57,362)	(554,482)	-	(221,203)	(2,630,989)
At December 31, 2012	(3,595,878)	(121,172)	(1,175,272)	-	(443,467)	(5,335,789)
<i>Net carrying amount</i>						
As January 1, 2011	58,819,632	334,373	1,595,674	-	605,927	61,355,606
At December 31, 2011	57,021,696	317,363	1,279,800	-	403,463	59,022,322
At December 31, 2012	55,223,754	260,001	905,202	-	201,340	56,590,297

ALBANIAN DEPOSIT INSURANCE AGENCY
Notes to the Financial Statements for the years ended December 31, 2012 and 2011
(All amounts are in LEK unless otherwise stated)
12. INTANGIBLE ASSETS, NET

	Software
<i>Previous GAAP</i>	
Cost at January 1, 2011	1,083,600
Accumulated amortisation at January 1, 2011	(632,100)
Net Carrying amount at January 1, 2011	451,500
<i>Cost</i>	
At January 1, 2011 (<i>deemed cost</i>)	451,500
Additions	480,000
At December 31, 2011	931,500
Additions	-
At December 31, 2012	931,500
<i>Accumulated amortisation</i>	
At January 1, 2011	-
Amortisation for the year	-
At December 31, 2011	-
Amortisation for the year	(120,000)
At December 31, 2012	(120,000)
<i>Net Carrying amount</i>	
At January 1, 2011	451,500
At December 31, 2011	931,500
At December 31, 2012	811,500

13. OTHER ASSETS, NET

	December 31, 2012	December 31, 2011	January 1, 2011
Inventory	1,566,712	1,682,664	1,381,408
Prepaid expenses	597,217	300,209	232,594
Other assets	-	29,735	29,734
Total	2,163,929	2,012,608	1,643,736

14. OTHER LIABILITIES

	December 31, 2012	December 31, 2011	January 1, 2011
Accrued expenses	475,830	667,737	453,582
Social and health insurance	346,765	282,753	271,601
Personal income tax	642,435	376,337	351,913
Other liabilities	294,660	93,736	93,735
Total	1,759,690	1,420,563	1,170,831

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***15. INITIAL ESTABLISHMENT FUND**

As of December 31, 2012, the Initial Establishment Fund of 400,000,000 Lek (December 31, 2011: 400,000,000 Lek) represents a contribution of the State Budget provided at time of the Agency's establishment. Per the Law on deposit insurance, the Initial Establishment Fund can be reimbursed to the State Budget in accordance with the terms and conditions set by the Board of Directors of the Agency. The Initial Establishment Fund can be increased by additional contributions of the State Budget at the request of the Board of Directors of the Agency and with the approval of the Government of Albania. For the years ended December 31, 2012 and December 31, 2011 there have been no increases or decreases in the Initial Establishment Fund.

16. INCOME FROM INSURANCE PREMIUMS

For the year ended December 31, 2012, the Agency accrued annual insurance premium income from 16 banks in the amount of Lek 2,547,690,715 (2011: Lek 2,241,387,105 from 16 banks). The annual insurance premium for the year is calculated as 0.5% of the arithmetic average balance of the insured deposits at the end of each working day in the last quarter of the previous year. For the year ended December 31, 2012, the amount of eligible deposits (average balance in the last quarter of 2011) used for calculating the annual insurance premium was Lek 509,538 million (2012: Lek 448,277 million based on the average balance of eligible deposits in the last quarter of 2010).

17. INTEREST INCOME

Interest income for the year ended on December 31, 2012 and 2011 are generated from the following activities:

	Year ended December 31, 2012	Year ended December 31, 2011
Albanian Treasury Bills in LEK	867,800,183	698,852,193
Albanian Treasury Bills in EURO	11,309,210	-
Foreign Treasury Securities in EURO	2,706,603	5,155,291
Foreign Treasury Securities in USD	1,028,121	1,370,738
Short term deposits at Bank of Albania	18,629,236	9,649,337
Other interest income	15,189	28,625
Total	901,488,542	715,056,184

18. PERSONNEL EXPENSES

Personnel expenses for the year ended December 31, 2012 and 2011 are as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Expenses for salaries and bonuses	32,441,509	27,296,174
Social security and health insurance	2,282,744	2,164,275
Other	775,132	913,731
Total	35,499,385	30,374,180

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***19. ADMINISTRATIVE EXPENSES**

	Year ended December 31, 2012	Year ended December 31, 2011
Training and continuous education	4,445,472	4,492,363
Board of Directors expenses	4,173,632	3,884,586
Professional services	613,440	886,080
Membership fees	1,449,080	1,351,883
Utilities	1,346,502	1,186,134
Publications and subscriptions	1,547,789	1,910,581
Workshops and conferences	50,245	2,496,045
Communication and post	875,233	913,747
Office supplies	372,812	271,101
Other operating expenses	2,244,316	1,801,189
Total	17,118,521	19,193,709

20. RELATIONS AND TRANSACTIONS WITH GOVERNMENTAL INSTITUTIONS, BODIES AND ENTERPRISES

The Bank of Albania and the Ministry of Finance are the governmental institutions with which the Agency has established regular relations in accordance with its legal status and functions and in line with relevant legal requirements.

The Agency is governed by the Board of Directors, which members are appointed in accordance with the Law on deposits insurance (Note 1).

A significant portion of the financial assets are invested in debt instruments issued by the Government of Albania or placed into short deposits with Bank of Albania (Notes 8 and 10). Investment securities are acquired both in the primary market though participation in auctions and the secondary market.

21. EVENTS AFTER THE REPORTING DATE

The Agency has evaluated subsequent events through February 28, 2014, the date these financial statements were available to be issued. In January 2014 the Agency prepared a new Bill to replace the current Law on deposit insurance. The Bill was reviewed by the Supervisory Authority, which then sent it to the Ministry of Finance for their review on February 11, 2014. The Bill is currently under review by the Ministry of Finance, which has the authority to propose it to the Parliament of Albania for discussion and voting. Such event does not require any adjustment or additional disclosure to these financial statements.

There are no other events after the reporting date and as of February 28, 2014 that would require either adjustments or additional disclosures in the financial statements of the Agency.

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1, First Time Adoption of International Financial Reporting Standards, requires comparative financial information be provided on the first date the Agency applied IFRS (the "Transition Date"), January 1, 2011. IFRS 1 requires retrospective application of all standards effective on the first reporting date December 31, 2012. Accordingly the financial statements for the year ended December 31, 2012, comparative information for the year ended December 31, 2011 and opening IFRS statements as of January 1, 2011 are prepared in accordance with standards effective at the reporting date December 31, 2012.

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)*****IFRS 1 exemptions and exceptions***

In preparing these financial statements the Agency has applied the following exemptions and exceptions:

Deemed cost

The Agency has elected to measure the property and equipment at Transition Date in accordance with the previous GAAP and use the value as deemed cost at January 1, 2011.

Estimates

The estimates made under previous GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error.

In preparing these financial statements Management estimated changes in accounting policies from previous GAAP to IFRS to have nil effect in the opening balances as of January 1, 2011 and as of December 31, 2011 and the year then ended.

Statement of financial positions as of January 1, 2011:

	Previous GAAP	Adjustments	IFRS
ASSETS			
Cash and cash equivalents	259,587,089	-	259,587,089
Insurance premiums receivable	485,271,431	-	485,271,431
Investments held to maturity	9,640,539,642	-	9,640,539,642
Property and equipment, net	61,355,606	-	61,355,606
Intangible assets, net	451,500	-	451,500
Other assets, net	1,643,736	-	1,643,736
TOTAL ASSETS	10,448,849,004	-	10,448,849,004
LIABILITIES			
Other liabilities	1,170,831	-	1,170,831
TOTAL LIABILITIES	1,170,831	-	1,170,831
DEPOSIT INSURANCE FUND			
Initial establishment fund	400,000,000	-	400,000,000
Accumulated fund	7,510,032,710	-	7,510,032,710
Profit for the year	2,537,645,463	-	2,537,645,463
TOTAL DEPOSIT INSURANCE FUND	10,447,678,173	-	10,447,678,173
TOTAL LIABILITIES AND DEPOSITS INSURANCE FUND	10,448,849,004	-	10,448,849,004

ALBANIAN DEPOSIT INSURANCE AGENCY**Notes to the Financial Statements for the years ended December 31, 2012 and 2011***(All amounts are in LEK unless otherwise stated)***22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)*****Statement of financial positions as of December 31, 2011:***

	Previous GAAP	Adjustments	IFRS
ASSETS			
Cash and cash equivalents	104,890,512	-	104,890,512
Insurance premiums receivable	461,057,236	-	461,057,236
Investments held to maturity	12,745,246,863	-	12,745,246,863
Property and equipment, net	59,022,322	-	59,022,322
Intangible assets, net	931,500	-	931,500
Other assets, net	2,012,608	-	2,012,608
TOTAL ASSETS	13,373,161,041	-	13,373,161,041
LIABILITIES			
Other liabilities	1,420,563	-	1,420,563
TOTAL LIABILITIES	1,420,564	-	1,420,564
DEPOSIT INSURANCE FUND			
Initial establishment fund	400,000,000	-	400,000,000
Accumulated fund	10,047,678,173	-	10,047,678,173
Profit for the year	2,924,062,305	-	2,924,062,305
TOTAL DEPOSIT INSURANCE FUND	13,371,740,478	-	13,371,740,478
TOTAL LIABILITIES AND DEPOSITS INSURANCE FUND	13,373,161,041	-	13,373,161,041

Statement of comprehensive income for the year ended December 31, 2011:

	Previous GAAP	Adjustments	IFRS
Operating income:			
Income from insurance premiums	2,241,387,105	-	2,241,387,105
Investment income	715,056,184	-	715,056,184
Other operating income	-	-	-
	2,956,443,289	-	2,956,443,289
Finance expenses:			
Gain on foreign currency re-translation	21,622,223	-	21,622,223
Finance expenses	(1,730,518)	-	(1,730,518)
	19,891,705	-	19,891,705
Operating expenses:			
Personnel expenses	(30,374,180)	-	(30,374,180)
Administrative expenses	(19,193,709)	-	(19,193,709)
Depreciation and amortisation	(2,704,800)	-	(2,704,800)
	(52,272,689)	-	(52,272,689)
NET PROFIT FOR THE YEAR	2,924,062,305	-	2,924,062,305
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME	2,924,062,305	-	2,924,062,305