BKT
BANKA KOMBETARE TREGTARE

A symbol of Albania’s proud heritage and independent spirit, Queen Teuta represents BKT’s commitment to helping to build a brighter future for Albania.

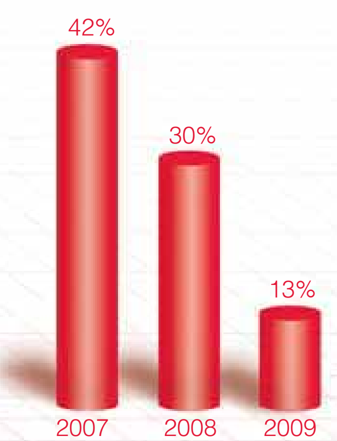
Teuta, the Ancient Illyrian warrior queen who reigned during the 3rd century BC, is one of the most enduring symbols of Albania. For Albanians, she represents fortitude and courage in times of change. During her brief reign as regent for her son, not only did she significantly expand Albanian territory, but she also brought the Albanians into contact with the civilizing influences of the Roman Republic and its democratic traditions for the first time. In recognition of her virtues and contributions to Albania as a source of inspiration to the modern-day Republic of Albania, Banka Kombetare Tregtare has chosen Queen Teuta as its emblem.

Contents

2009 Financial Highlights

TOTAL ASSETS	CUSTOMER DEPOSITS	LOANS TO CUSTOMERS	NUMBER OF BRANCHES
$ 1,340 MILLION	$ 1,167 MILLION	$ 494 MILLION	68 (INCLUDING KOSOVO)

NET PROFIT	SHAREHOLDERS' EQUITY	RETURN ON EQUITY	CAPITAL ADEQUACY RATIO
$ 13 MILLION	$ 95 MILLION	13%	13%



Full ownership by the Çalık Group not only reinforces BKT's financial strength, international reach and reputation, but will also allow the Bank to profit from the Group's know-how across a broad range of sectors.

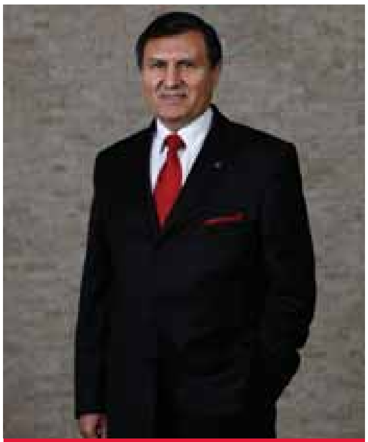
Shareholding Structure

On June 30, 2009, Çalık Financial Services, a subsidiary of Turkey's Çalık Holding, became the sole and full owner of BKT Bank, further underlining the Group's commitment both to regional expansion and to the Albanian market.

Çalık Financial Services is the financial arm of Çalık Holding, a diversified conglomerate based in Istanbul, Turkey which employs nearly 20,000 people in the fields of finance, energy, textiles, construction, logistics, telecommunications and media. With assets of US$ 4.4 billion, full ownership by Çalık not only reinforces BKT's financial strength, international reach and reputation, but will also allow the Bank to profit from Çalık's know-how across a broad range of sectors, as well as generate opportunities for mutually beneficial alliances between our Bank and other members of the Çalık Group of Companies.

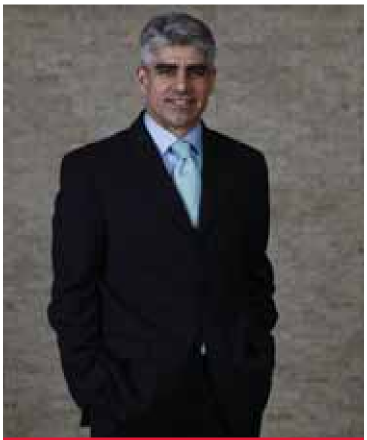
Board of Directors

The BKT Board of Directors draw on a wealth of knowledge, experience and insight to chart the Bank's future course and formulate strategies designed to ensure that it remains an innovator and leader.



Mehmet Usta
Chairman

Mehmet Ertuğrul Gürler
Vice Chairman



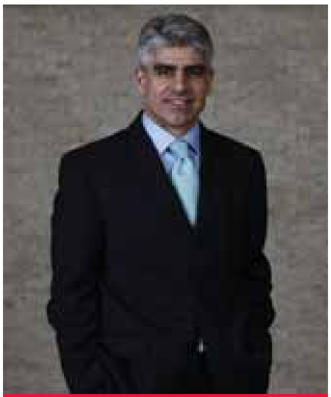
Seyhan Pencaplıgil
CEO & Board Member

İzzet Serhat Demir
Board Member

İsmail Hakkı Ergener
Board Member

Senior Management

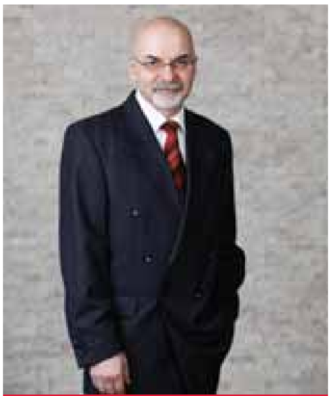
BKT's senior management embody the Bank's drive for excellence in every field of activity. The Bank’s senior managers have been with BKT for many years, and the long tenures of these professionals create a management continuity that contributes significantly to the Bank’s success.



Seyhan Pencaplıgil
CEO and Board Member

Spiro Brumbulli
BKT - Kosovo
Managing Director

Abdurrahman Balkız
Operations Group
Group Head



Bülent Kasacı
Risk Management Group
Group Head

Kaan Pekin
Treasury & Financial Institutions
Group - Group Head

Pekhan İşipek
Commercial & Corporate
Banking Group - Group Head

Cüneyt Erigüç
Retail Banking Group
Group Head

Ercüment Korkut
Executive Audit Committee
Member

Natasha Ahmetaj
Network Division
Division Head

Skënder Emini
Financial Control, Planning &
Reporting Division - Division Head

Chairman's Message

The International Finance Corporation and European Bank for Reconstruction and Development transferred their shares in Banka Kombetare Tregtare (BKT) to Çalık Financial Services as of June 30, 2009, and all approvals for the transfer have been obtained. A new Board of Directors was selected following the transfer, which I am happy to report has dedicated itself with renewed vigor and focus to establishing BKT as one of the most important players in the Albanian and regional financial markets.

The Board moved quickly to define and agree upon a realistic development strategy, which we believe constitutes the Bank's best guarantee of impressive but sustainable growth. This strategy will initially focus on increasing business volumes with Turkey, backed now by our full ownership by one of that country's most prominent conglomerates, the Çalık Group, as well as on increasing returns on FX placements. At the same time, we will work to enhance the Bank's Financial Institution activities, with the aim of providing BKT the international recognition and credit limits it both needs and deserves. Previously, this was a secondary priority for BKT, because the Bank had no need to fully utilize such limits and because they were either unavailable due to Albania's country limit restrictions, or, when available, prohibitively expensive. Today, BKT is one of the few banks in Albania that has clean lines from the major international banks and which is a participant in the IFC Global Trade Finance Program. We must continue to build on these strengths and use them to our fullest advantage.

In 2009, BKT began taking assertive steps toward the full implementation of this strategy. The FI department made several correspondent visits to Austria and Germany, where treasury-related issues, cash and trade finance and MM lines were discussed. BKT also became a member of the Brussels-based World Savings Bank Institute and the European Savings Banks Group, representing both Albania and Kosovo. Membership in these organizations enhances BKT's ties to the global finance industry.

Our bottom line has been positively affected by expanding our previously limited relationships with Turkish banks and companies. This business grew significantly in the second half, with lending to Turkish companies reaching US$ 152 million by the end of 2009. Of our total US$ 358 million loan portfolio, some 15%, or US$ 55 million, consisted of loans to Turkish companies. We see lending to Turkish companies as an avenue for rapid growth for BKT, because this is an area where we have unique qualifications and contacts, particularly as Turkish companies become involved in infrastructure and development projects in both Albania and Kosovo. As tenders are awarded for the international airport in Kosovo, highway expansion in Albania and other major infrastructure projects, BKT will be ideally placed to provide financing for these projects, which we hope proves a high-profile source of growth both for the Bank and also for the economies of these two countries.

From an organizational perspective, in addition to the reconstitution of the Board, another major change involved the merger of the Compliance and Control Division into the Internal Audit Division, which now reports directly to the Board through the Audit Committee. This structure has been effective since October 2009 and is in line with international best practice.

Overall, 2009 was a good year for the Bank, although our many achievements were not reflected to the extent we would have liked in our profitability. But by remaining the most liquid bank in the market during 2009, and earning the distinction of being the only bank that not only did not halt lending but rather continued actively to extend new loans, we increased market share in both Albania and Kosovo. This strategy bolstered our reputation for strength and allowed us to handpick the best corporate customers in Albania, as well as setting the foundations for many successes to come. These were highlighted with BKT being named “Best Bank in Southeastern Europe” by Finance Central Europe and our CEO, Seyhan Pencaplıgil, receiving much-deserved recognition as the region's best banker.

Meanwhile, our investments in Kosovo are yielding exciting results. Not only has growth been rapid but in a more concrete measure of our performance, we achieved operational profitability a full year earlier than expected.

Throughout 2009, BKT continued its commitment to corporate social responsibility and, in particular, to educating Albania’s next generation of financial professionals. Our scholarship programs with the Tirana University Faculty of Economics and Durres University have, over the years, helped to educate talented young students as well as provided them with guaranteed employment upon graduation. In 2009, more than 50 students benefitted from BKT sponsored scholarships, which have become an integral part of our bank’s heritage and role as a responsible corporate citizen.

At the close of my first message as Chairman, I can say that it is an honor to represent this Bank and its many devoted managers and employees, and that I very much look forward to addressing you a year from now with our results for 2010, which I am confident it will be an even greater pleasure to share with you.

Sincere regards,

Mehmet Usta
Chairman of the Board

CEO's Message

As the financial crisis of 2008 transformed itself into a full-blown economic crisis in 2009, we were able to reap the benefits of our readiness. Thus, we grew our deposits by 16 percent in real terms, in a market where deposits in the overall system have not appreciably increased since 2007. This was a result of our prescient liquidity risk management policy, and has brought our market share in deposits to an all-time high of 16.7 percent, corresponding to an increase of more than 200 basis points over end-2008.

BKT was the only major bank in Albania with the resources and confidence to expand its loan book in 2009. Our total loans increased by 32 percent in real terms, against a market increase of seven percent. This brings our market share to 10.9 percent, an increase of more than 180 basis points from end-2008. That we were by far the most liquid bank in the system allowed us to choose the projects that offer the most advantageous risk/return mix. Non-performing loan (npl) management remained a key priority while growing the loan book, with the result that BKT's npl ratio remained virtually unchanged from end-2008 against a brutal doubling of that in the Bank's peer group.

Retail Banking was very active in 2009, introducing many brand-enhancing projects like multifunctional ATMs, internet banking, credit cards with installments, top-up payments and utility and other direct debit payments. Our mobile banking system is nearing completion as well, and will become operational in 2010.

The performance of BKT-Kosovo was one of the highlights of the year, with break-even achieved one year ahead of schedule. Equally gratifying, the bank was voted the second best company in the service sector by the Kosovo Ministry of Industry and Trade. While on the subject of distinctions, I would also like to note that BKT was named "Best Bank in South East Europe" by Finance Central Europe Magazine, earned a AAA rating (Alb) with stable outlook from JCR-ER, and the highest rating, Strong-1, from the Albanian Central Bank.

We opened seven more branches/agencies in 2009, bringing our total network to 68, with Albania accounting for 56 and Kosovo for 12.

While our high level of liquidity was an excellent hedge in case the global economic downturn worsened, it shaved points off of our return on equity (RoE) and net profit for the year, which were 13 percent and US$13 million, respectively. Our RoE remains far better than that prevailing in the Albanian banking system, but it is nonetheless well below our long-term average of 28 percent.

Best-in-class and best-in-country products and services continue to be developed and implemented at BKT, and we expect 2010 to be a year in which many of the seeds sown during 2009 begin to bear fruit. By increasing lending volume in 2009, we built valuable market share that will underpin the double-digit growth in lending targeted for 2010, while the new customers acquired in 2009 will similarly be a source of the strong growth we are targeting in deposits.

We have set ourselves the objective of 28 percent overall balance sheet growth, with deposits passing the US$1.5 billion mark for the first time. The loan book will grow at a more aggressive 43 percent, reflecting our continued commitment to our two countries of operation, even in difficult times. We plan to earn a net profit of US$ 29 million and RoE of 31 percent – which profitability will be more in line with our performance over the last decade, as we mark the 10th anniversary of BKT's privatization.

Kind regards,

Seyhan Pencapligil
CEO & Board Member

BKT was recognized for outstanding service and achievements in the financial sector by several leading organizations and publications in 2009.

JCR-Eurasia Rating | Bank of Albania | 2009 Best Bank of Albania | 2009 Best Bank in South East Europe

BKT was named "Best Bank in South East Europe," and naturally, was also named "Best Bank in Albania," by *Finance Central Europe*, a U.K.-based publication devoted to providing in-depth information on the financial sectors in Central and Eastern European markets. CEO and Member of the Board, Seyhan Pencaplıgil, was also recognized for his outstanding leadership and accomplishments at the helm of BKT, being named "Best Banker" in the region by the same publication.

Meanwhile, BKT maintained its AAA (Alb) credit rating, the highest possible, from the Japan Credit Rating Agency (JCR). It also received a rating of "1 out of 5", again the highest possible rating, from the Central Bank of Albania based on the CAMELS ratings system, the same system used by the U.S. government to rate the strength of financial institutions.

WSBI & ESBG Membership

BKT became a member of both the Brussels-based World Savings Bank Institute and the European Savings Bank Group.

In 2009, BKT became a member of both the Brussels-based World Savings Bank Institute and the European Savings Bank Group, representing Albania and Kosovo. Membership in these organizations further enhances the Bank's integration into the European and global financial systems, while also providing more opportunities for BKT and its employees to stay abreast of best practices in finance, remain current on new and proposed legislation and explore opportunities for collaboration and knowledge sharing with other financial institutions.

The World Savings Bank Institute is the global representative of savings and retail banking institutions, representing the interests of financial institutions in 92 countries at an international level.

The European Savings Bank Group is a European banking association representing members' interests at all EU institutions.

WSBI & ESBG

BKT Kosovo

Stronger than expected results in Kosovo were one of the major highlights of BKT's operations in 2009. BKT-Kosovo achieved break-even in October 2009, one full year earlier than planned. The Bank was also named first runner-up as "Best Company in the Services Sector in Kosovo," a commendation announced by the government through the Ministry of Industry and Trade. Such achievements in such a short time frame - less than two years - bode well for the future of BKT in Kosovo.

BKT-Kosovo is the newest bank in the country, and 2009 could be considered its first full year of operations with a full branch network, which by the end of the year had expanded by four branches to a total of 12. The expansion in the branch network was accompanied by a dramatic increase in market share in both lending and deposits. BKT's position in the market was strengthened, as was also the case in Albania, by the fact that during the crisis we were Kosovo's most liquid bank and were able to continue lending uninterrupted, enhancing customer confidence and allowing us to acquire more of the most attractive business in Kosovo.

BKT-Kosovo is already a leader in Kosovo in terms of financial product range, technology and rates. Effective positioning of the brand has also established a widespread perception among consumers that BKT is the best bank in the market for personal loans, auto loans, mortgages and educational loans.

Stronger than expected results in Kosovo were one of the major highlights of BKT's operations in 2009.

KOSOVO

KOSOVO

BKT-Kosovo achieved break-even one full year earlier than planned. The Bank was also named first runner-up as "Best Company in the Services Sector in Kosovo".

Deposits

Loans

Shareholders' Equity

Number of Branches

BKT leads the way in the Albanian plastic cards market with another innovative product – the "Prima Card", Albania's first installment card, targeting young, affluent and lifestyle conscious consumers.

Retail Banking

Retail Banking

Credit Card Installments

Prima Cards are equipped with Chip & Pin technology and are accepted at ATM and POS locations worldwide.

BKT continued to lead the way in the Albanian plastic cards market, launching another innovative product – the "Prima Card". As its name says, the Prima Card is Albania's first installment card and targets young, affluent and lifestyle conscious Albanian consumers.

The launch of this product reinforces BKT's image as a cutting-edge bank committed to providing its customers and the Albanian market with world-class service. Part of a longer-term strategy that has a strong CRM component, the card also enhances customer satisfaction.

BKT card products are marketed under the standalone brand name, "Prima," a strategy proven to work in many leading card markets and the launch has been backed by attractive, high profile advertising campaigns in print media, radio and television. Prima Cards are equipped with the latest Chip & Pin technology and are accepted at ATM and POS locations worldwide, anywhere the MasterCard symbol is displayed.

To expand the Prima installment card platform, we will add Visa POS acquiring to our portfolio of services during 2010, allowing us to issue Visa-branded installment cards, further enhancing the BKT/Prima brand's consumer appeal and utility.

BKT is the innovation leader in internet banking in Albania. The attractive, user-friendly BKT internet banking site is fully functional and offers the full range of banking services.

Internet Branch

By offering customers fully functional online banking, BKT reasserted its technological leadership and gained an important competitive advantage.

BKT is the technological leader in the still nascent category of internet banking in Albania. The attractive, user-friendly BKT internet banking is fully functional, offering the full range of banking services, backed by best-in-class security. The site requires no sign-up fees or branch visit for registration in order to encourage maximum usage.

By offering customers the option to meet a significant portion of their financial needs online, BKT has gained an important, marketable competitive advantage over the competition. We believe that becoming pace-setter in this category demonstrates our belief in and respect for the Albanian consumer, and the brand equity earned by offering consumers easy access to the best technology will, we believe, become an increasingly key strength as internet access improves and Albanian customers begin to demand the convenience of the most modern banking services and applications.

The internet branch currently has a comparatively small number of users, but these are early adapters, the people who in every market lead opinion and help to establish trends. Investments made in helping them discover the convenience of internet banking will, in the long-term, pay for themselves many times over. During 2010, we will continue to develop and expand the site and encourage more and more customers to go online for their banking needs, with the aim of spurring the modernization of banking practices in Albania, providing best-in-class customer service and enhancing the value of the BKT brand by strengthening our reputation as a technology leader.

In line with our commitment to customer convenience and the latest technology, BKT introduced a new class of ATMs in 2009 that are equipped with state-of-the-art security features, attractive branding and a host of new functions. Customers can now access funds from four different bank accounts denominated in different currencies at BKT network ATMs across the country, and can also withdraw cash in either Lek or euros.

In addition to cash withdrawals, the new ATMs also allow customers to check account balances and credit card limits, change their PINs, access account statements and view a list of their last five transactions.

Expanded ATM Functionality

Convenience at their fingertips… BKT's new ATMs offer enhanced functionality and let customers perform an expanded range of transactions as well as withdraw funds in their choice of Lek or euros.

Top-Up Payment

BKT continues to make life easier for our customers with products like our new top-up-payment for mobile phones, introduced in 2009.

BKT continues to make life for our customers easier with products like our new top-up-payment for mobile phones, introduced in 2009. This product allows Eagle Mobile dealers to load credits to customers' prepaid phone cards quickly and easily, and is being marketed in partnership with Eagle Mobile, a subsidiary of our parent company, Çalık Holding.

Leveraging our superior technology, in 2010, this service will be expanded, allowing customers to recharge their mobile phones via a variety of channels, including BKT ATMs and BKT internet banking, eliminating the hassle of buying a phone card and entering in a code each time credits run low.

Corporate and commercial banking and lending is at the core of what BKT does, driving our transaction volume, allowing us to invest in and contribute to the development of Albania and accounting for almost two-thirds of our asset base.

Corporate & Commercial Banking Highlights

Corporate & Commercial Lending has always been on of BKT's core business lines, and the unique market conditions of 2009 gave the Bank ample opportunity to grow this area of its business. The combination of superior financial strength and an exceptionally liquid balance sheet made BKT the lender of choice for many of Albania's top firms.

Lending grew by a remarkable 30 percent in 2009, a level more than four times growth in the overall lending market. This blistering rate of growth was achieved at the same time that BKT diversified its loan book and rebalanced its currency distribution, ensuring that its asset profile not only increased in quantitative terms but also in qualitative terms.

Albania's corporate and commercial lending market is a highly fragmented and relatively mature one, so dramatic shifts in market share are both extremely difficult to achieve and quite rare. Therefore, the 184 basis point increase in BKT's market share to 10.93 percent is all the more impressive and underlines the Bank's effective management and proactive marketing strategy.

As importantly, NPLs were in inverse proportion to growth in loans, rising just 9 basis points, 95 percent below the Bank's peer group average increase of 428 basis points. This performance is a testimony to BKT's effective risk management, the emphasis the Bank places on high levels of monetizable collateral and the quality of its customer base.

Equally as important as the year's numbers was an important first for Albania: the country's first municipal loan, extended by BKT to the Fushe-Kruja municipality. Infrastructure investment and upgrading of the country's local systems is a pressing issue in much of Albania, and it is our expectation that this financial vehicle will be closely watched by other local and regional governments. In the future, we will be looking to expand on this business line while also seeking to take on projects that add value to the Albanian economy, including initiatives such as funding for hydroelectric dams and other renewable electric power projects.

Corporate Social Responsibility Projects

BKT believes that education is the number one ingredient in growth, development and success. As part of the Bank's commitment to Albania, every year BKT provides Albania's top university students with scholarship and internship opportunities.

BKT's Corporate Social Responsibility Projects in 2009 focused primarily on educational programs aimed at providing opportunities to Albania's most promising students.

Each year, BKT attracts some of the best students from Tirana University's Faculty of Economics and from Durres University to its internship program. Students who study under a BKT scholarship are provided with the opportunity to gain real-world work experience at the Bank and receive a guarantee of employment at the Bank upon completion of their studies. BKT also has a joint program with Durres University and GTZ of Germany in which 40 outstanding students study for an international degree while working part-time at the Bank.

These mutually beneficial arrangements continue to be a great source of enrichment both for the students who join our program, as well as for the Bank, as it seeks to continuously expand its cadre of talented and ambitious young employees.

2010 Objectives

2010 will be a year in which BKT will return to high levels of profitability and growth. We plan for our overall balance sheet to expand by 28 percent, with loans growing even more rapidly, at 43 percent. This growth will be spurred by expanded deposits, which are expected to pass the US$ 1.5 billion threshold for the first time in the Bank's history, with net profit and return on equity targeted at US$ 29 million and 31 percent, respectively.

The Retail Banking Group will continue to launch new projects and build upon existing ones, including installment cards, top-up payments and internet banking. Our mortgage portfolio is targeted to increase 40 percent as market conditions improve, and we will add value to the Prima brand and also expand our credit card revenue by becoming a Visa credit card acquiring partner.

Corporate and Commercial Banking will continue to lend prudently, growing its portfolio by 41 percent. Trade finance will be the focus of the group in coordination with Financial Institutions. An internal risk rating methodology, developed over the past year in line with best practice, will also be implemented.

Treasury and Financial Institutions will continue to maximize returns on our investments. The focus will be on increasing international awareness and recognition of the Bank, to be demonstrated by larger trade finance and money markets lines.

Human Resources, under the Operations Group, will continue to recruit, train and cultivate the best talent available. An added priority will be improving Disaster Recovery procedures to ensure business continuity in adverse conditions, especially with regards to e-banking.

The Risk Management Group will continue to monitor and limit non-performing loans and improve loan recovery, with the target of bringing the NPL ratio down by 150 basis points by year-end.

Capitalizing on its above-average performance in 2009, BKT looks forward to consolidating its gains in 2010, with aggressive targets in every business unit designed to maximize growth in market share and shareholder profitability.

2010 Objectives

Financial Control, Planning and Reporting will finalize the certification of the ISO 9001:2008 Quality Management System. It will also improve upon existing fund transfer pricing to achieve greater precision in branch profitability analysis.

The Network Division will focus on branch profitability, with the emphasis being on bringing new branches and agencies up to acceptable profitability levels. Five new agencies are targeted for 2010, one each in the Albanian cities of Vlora, Shkodra and Elbasan, and two in Kosovo, bringing the total number of branches there to 14.

Banka Kombetare Tregtare Sh.a.

Consolidated financial statements
for the year ended 31 December 2009
(with independent auditor’s report thereon)

Contents

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Internet www.kpmg.al

Independent Auditor’s Report

To the shareholder and management of
Banka Kombetare Tregtare Sh.a.

Tirana, 22 February 2010

We have audited the accompanying consolidated financial statements of Banka Kombetare Tregtare Sh.a. (`the Bank˜), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles used and the reasonableness of accounting estimates made by the 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 opinion.

Basis for Qualified Opinion

As explained in Note 3 (b), the Bank has treated its share capital issued in United States Dollars as a monetary item and recognized the revaluation difference during the year ended 31 December 2009 as other comprehensive income. This treatment is not in accordance with IAS 21, ‘The Effects of Changes in Foreign Exchange Rates’. Share capital should be treated as a non-monetary item and carried at the exchange rate at the date of transaction. Accordingly, if share capital was treated as a non-monetary item, the retained earnings at 31 December 2009 would be lower by USD 10, 308,086, the translation reserve would be higher by USD 5,475,088 and the net profit for the year then ended would be higher by USD 4,832,998. This has no effect on total shareholders’ equity.

Qualified Opinion

In our opinion, except for the effect on the consolidated financial statements of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk

KPMG Albania Sh.p.k.
`Deshmoret e Kombit˜ Blvd.
Twin Towers Building
Building 1, 13th floor
Tirana, Albania

	Notes	31 December 2009	31 December 2008
Assets			
Cash and balances with Central Bank	7	142,263,329	137,037,501
Placement and balances with banks	8	132,642,747	194,641,284
Treasury bills	9	255,640,833	230,059,221
Investment securities available-for-sale	10	49,520,063	5,827,116
Investment securities held-to-maturity	11	194,965,671	184,136,053
Loans and advances to banks	12	45,487,888	-
Loans and advances to customers	13	494,271,286	385,773,512
Property and equipment	14	19,371,484	18,701,259
Intangible assets	15	1,518,375	1,202,398
Non - current assets held for sale	16	1,297,477	937,541
Other assets	17	3,062,500	2,973,703
Total assets		**1,340,041,653**	**1,161,289,588**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	18	1,167,146,858	1,047,954,782
Due to banks	19	69,175,055	21,643,509
Due to third parties	20	456,415	1,091,196
Deferred tax liabilities	21	736,954	167,338
Accruals and other liabilities	22	7,855,717	6,578,254
Total liabilities		**1,245,370,999**	**1,077,435,079**
Shareholders' equity			
Share capital	23	78,299,000	63,400,000
Translation reserve	23	(209,293)	(829,955)
Fair value reserve	23	56,674	(198,883)
Retained earnings	23	16,524,273	21,483,347
Total shareholders' equity		**94,670,654**	**83,854,509**
Total liabilities and shareholders' equity		**1,340,041,653**	**1,161,289,588**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 56.

The consolidated financial statements were authorised for release by the Board of Directors on 25 January 2010 and signed on its behalf by:

Seyhan Pencapligil
CEO and Board Member

Skender Emini
Head of Financial Control

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest			
Interest income	24	84,214,614	92,111,573
Interest expense	25	(46,397,055)	(46,965,320)
Net interest margin		**37,817,559**	**45,146,253**
Non-interest income, net			
Fees and commissions, net	26	4,233,457	3,966,669
Foreign exchange (FX) revaluation gain, net	27	3,004,781	1,011,291
Profit from FX trading activities, net		2,110,796	2,322,799
Other (expense)/income, net	28	(143,777)	15,132
Total non-interest income, net		**9,205,257**	**7,315,891**
Operating expenses			
Personnel expenses	29	(11,906,608)	(10,882,636)
Administrative expenses	30	(13,389,296)	(11,682,135)
Depreciation and amortization	14,15	(4,095,583)	(3,255,678)
Total operating expenses		**(29,391,487)**	**(25,820,449)**
Impairment of loans	13	(3,068,156)	(4,874,620)
Profit before taxes		**14,563,173**	**21,767,075**
Income tax	31	(1,519,588)	(2,223,558)
Net profit for the year		**13,043,585**	**19,543,517**
Foreign currency translation differences		620,662	(2,333,661)
Net change in fair value reserves		255,557	(198,883)
Other comprehensive income for the year, net of income tax		**876,219**	**(2,532,544)**
Total comprehensive income for the year		**13,919,804**	**17,010,973**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 56.

	Share capital	Retained earnings	Fair value reserves	Translation reserve	Total
Balance at 1 January 2008	**44,700,000**	**18,363,226**	**-**	**1,503,706**	**64,566,932**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners					
Increase in share capital	18,700,000	(18,700,000)	-	-	-
Adjustment of retained earnings with 2008 year end exchange rate	-	772,898	-	-	772,898
Appropriation of 2007 year translation difference	-	1,503,706	-	-	1,503,706
Total contributions by and distributions to owners	18,700,000	(16,423,396)	-	-	2,276,604
Total comprehensive income for the year					
Net profit for the year	-	19,543,517	-	-	19,543,517
Other comprehensive income, net of income tax					
Net change in fair value reserves	-	-	(198,883)	-	(198,883)
Foreign currency translation difference	-	-	-	(2,333,661)	(2,333,661)
Total other comprehensive income	-	-	(198,883)	(2,333,661)	(2,532,544)
Total comprehensive income for the year	-	19,543,517	(198,883)	(2,333,661)	17,010,973
Balance at 31 December 2008	**63,400,000**	**21,483,347**	**(198,883)**	**(829,955)**	**83,854,509**

Banka Kombetare Tregtare Sh.a.
Consolidated statement of changes in equity for the year ended 31 December 2009
(Amounts in USD)

	Share capital	Retained earnings	Fair value reserves	Translation reserve	Total
Balance at 1 January 2009	**63,400,000**	**21,483,347**	**(198,883)**	**(829,955)**	**83,854,509**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners					
Increase in share capital	14,899,000	(14,899,000)	-	-	-
Appropriation of 2008 year translation difference	-	(829,955)	-	-	(829,955)
Adjustment of retained earnings with 2009 year end exchange rate	-	(2,273,704)	-	-	(2,273,704)
Total contributions by and distributions to owners	14,899,000	(18,002,659)	-	-	(3,103,659)
Other comprehensive income, net of income tax					
Net profit for the year	-	13,043,585	-	-	13,043,585
Net change in fair value reserves	-	-	255,557	-	255,557
Foreign currency translation differences	-	-	-	620,662	620,662
Total other comprehensive income	-	-	255,557	620,662	876,219
Total comprehensive income for the year	-	13,043,585	255,557	620,662	13,919,804
Balance at 31 December 2009	**78,299,000**	**16,524,273**	**56,674**	**(209,293)**	**94,670,654**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 56.

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities:			
Profit before taxes		14,563,173	21,767,075
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	25	46,397,055	46,965,320
Interest income	24	(84,214,614)	(92,111,573)
Depreciation and amortization	14, 15	4,095,583	3,255,678
Gain on sale of property and equipment		(3,411)	(4,223)
Gain on sale of treasury bills		(37,210)	(34,547)
Gain on sale of non-current assets/recovery of lost loans		(18,307)	(7,190)
Write-off of property and equipment		1,942	40,689
Write-off of small inventory		-	1,740
Loss on unrecoverable lost loans		211,270	4,532
Movement in the fair value reserve		(241,349)	208,463
Deferred tax movement	21	588,760	97,853
Impairment of loans	13	3,068,156	4,874,620
Cash flows from operating profits before changes in operating assets and liabilities		(15,588,952)	(14,941,563)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(8,632,155)	5,811,463
Placements and balances with banks		107,538,248	(50,640,783)
Loans and advances to banks		(45,748,750)	-
Loans and advances to customers		(142,453,180)	(74,697,107)
Other assets		(718,934)	10,039,806
		(90,014,771)	(109,486,621)
Increase/(decrease) in operating liabilities:			
Due to customers		205,493,218	(19,642,892)
Due to third parties		(549,799)	1,143,759
Accruals and other liabilities		1,836,548	831,546
		206,779,967	(17,667,587)
Interest paid		(44,425,045)	(42,157,230)
Interest received		80,751,507	88,440,399
Income taxes paid		(1,560,648)	(2,356,027)
Net cash flows from/(used in) operating activities		135,942,058	(98,168,629)
Cash flows from investing activities			
(Purchases)/settlement of investment securities		(69,185,677)	4,309,544
Purchases of treasury bills		(60,664,591)	(20,665,956)
Purchases of property and equipment		(6,747,489)	(9,501,517)
Proceeds from sale of property and equipment		1,944	37,853
Proceeds from sale of treasury bills		16,887,727	30,070,197
Net cash (used in)/from investing activities		(119,708,086)	4,250,121
Cash flows from financing activities			
Proceeds from short term borrowings		49,787,950	20,382,732
Net cash from financing activities		49,787,950	20,382,732
Net increase/(decrease) in cash and cash equivalents		**66,021,922**	**(73,535,776)**
Translation difference		(6,360,244)	(4,102,509)
Cash and cash equivalents at the beginning of the year	7	**94,849,081**	**172,487,366**
Cash and cash equivalents at the end of the year	7	**154,510,759**	**94,849,081**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 56.

1. General

Banka Kombetare Tregtare Sh.a. ("BKT" or the "Bank") is a commercial bank offering a wide range of universal services. The Bank provides banking services to state and privately owned enterprises and to individuals in the Republic of Albania and in the Republic of Kosovo. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers: a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, internet banking, on-line banking facilities, qualified international banking services and various treasury products. It also invests in government securities and takes part actively in the local and international inter-bank markets.

BKT was established in its present legal form on 30 December 1992, although some of its branches date back to the 1920s. BKT is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholders Decision dated 31 March 2009, the Bank increased its paid-up capital by USD 14,899,000 (equivalent of Lek 1,469,488,370), using part of the retained earnings from the year 2008. The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 31 March 2009 (98.63 Lek per USD).

Following this increase, the number of shares and shareholding structure remained the same while the nominal value of shares increased from USD 10 per share to USD 12.35. The shareholding structure as at 31 March 2009 and 31 December 2008 was as follows:

			Total in USD	
	No. of shares	**%**	***31 March 2009***	***31 December 2008***
Calik Finansal Hizmetler A.S.	3,804,002	60	46,979,424.70	38,040,020.00
IFC	1,267,999	20	15,659,787.65	12,679,990.00
EBRD	1,267,999	20	15,659,787.65	12,679,990.00
	6,340,000	**100**	**78,299,000.00**	**63,400,000.00**

Additionally, upon the Shareholders Circulated Resolution effective 30 June 2009, the Bank has changed its shareholding structure through the sale of 1,267,999 shares that International Financial Corporation (IFC) owned in BKT to Calik Finansal Hizmetler A.S. and the sale of 1,267,999 of the shares that European Bank for Reconstruction and Development (EBRD) owned in BKT to Calik Finansal Hizmetler A.S.

Following the sale of the shares, the number of shares remained at 6,340,000 as did the nominal value of shares at USD 12.35 (2008: USD 10), while the new shareholding structure is as follows:

	31 December 2009			***31 December 2008***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	6,340,000	78,299,000.00	100	3,804,002	38,040,020.00	60
IFC	-	-	-	1,267,999	12,679,990.00	20
EBRD	-	-	-	1,267,999	12,679,990.00	20
	6,340,000	**78,299,000.00**	**100**	**6,340,000**	**63,400,000.00**	**100**

The sale was finalized, following the approvals taken by the Bank of Albania and Competition Authority.

1. General (continued)

The headquarters of BKT is located in Tirana. Currently in Albania, the Bank has a network of 27 branches, 25 agencies and 4 custom agencies. Twelve of the branches are in Tirana, while the others are located in Durres, Elbasan, Korca, Gjirokastra, Vlora, Lushnja, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes, Peshkopi and Fushe Kruja. Similarly, most of the agencies are in Tirana (eight of them), whereas the others are located in Kamza, Vora, Bilisht, Delvina, Kavaja, Lac, Rreshen, Shkozet, Bushat, Koplik, Librazhd, Peqin, Rrogozhina, Durres (two agencies), Orikum and Kucove, followed by custom agencies in Kakavija, Kapshtica, Durres Seaport and Rinas Airport. During 2009, the Bank opened one new branch and three agencies in Albania.

BKT also holds a branch in Kosovo having a network of 10 units in 2008, while during 2009 two further units were opened, expanding to a total of 12 units. Four are located in Prishtina, whereas the others are in Prizren, Peja, Ferizaj, Podujeva, Gjilan, Drenas, Rahovec and Gjakova.

The Bank had 854 (2008:763) employees as at 31 December 2009, out of which 129 (2008:104) employees belong to the Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

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

(c) Functional and presentation currency

These consolidated financial statements are presented in USD. Albanian Lek (“Lek”) is the Bank’s functional currency.

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

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities (branches) controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.
On September 3, 2007 BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo.

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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

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

(iv) Spot foreign exchange transactions

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

(c) Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(d) Fees and commission

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

Other fees and commission income are recognised as the related services are performed.

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

(e) Lease payments made

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

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

3. Significant accounting policies (continued)

(f) Income tax expense

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

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

(iii) Derecognition

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

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

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

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

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible (see note 4).

(iv) Offsetting

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

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

(vii) Identification and measurement of impairment

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

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

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

3. Significant accounting policies (continued)

(h) Cash and cash equivalents

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

(i) Loans and advances

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

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

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

(j) Investment securities

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

(i) Held-to-maturity

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

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

3. Significant accounting policies (continued)

(k) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

• Buildings	20 years
• Motor vehicles and other equipment	5 years
• Office equipment	5 years
• Computers and electronic equipment	4 years

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

(l) Intangible assets

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

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

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

3. Significant accounting policies (continued)

(m) Non- current assets held for sale

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

(n) Impairment of non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Deposits

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

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

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

(p) Provisions

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

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

3. Significant accounting policies (continued)

(p) Provisions (continued)

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

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank has created a fully employer sponsored pension plan fund (See Note 22, "Reserve fund for retiring employees") during 2002. The amount to be charged to this fund is decided upon at the beginning of the year as 5% of yearly budgeted personnel salary expenses. During the year, the amount accrued is charged to the income statement and to the fund on a monthly basis.

The benefit due to employees is calculated based on the number of years they have worked at the Bank, starting from 1 January 2002, and the most recent monthly salary. Only employees that have worked at the Bank for at least 5 years starting from 1 January 2002 are entitled to the benefit.

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

The Bank's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value and compare it with the net amount in the statement of financial position. The discount rate is the yield at the reporting date on AAA credit-rated long-term bonds that have maturity dates approximating the terms of the Bank's obligations.

(iii) Short-term benefits

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

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

(r) Segment reporting

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

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the financial statements of the Bank, with the exception of:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, early adoption 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 an impact on the financial statements, since it will be required to be retrospectively applied. However, the Bank is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011). The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not relevant to the Bank's consolidated financial statements as the Bank is not a government-related entity and the revised definition of a related party is not expected to result in significant new relations requiring disclosure in the financial statements.

4. Use of estimates and judgements

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

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

Allowances for credit losses

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

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to maturity investments

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

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

4. Use of estimates and judgements (continued)

Valuation of financial instruments

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

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

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

4. Use of estimates and judgements (continued)

Fair values

Placements and balances with Banks

Placements and balances with banks include inter-bank placements and items in the course of collection. As all the placements and overnight deposits are short term and at floating rates their fair value is considered to be equal to their carrying amount. The fair value of these instruments is based on the Level 2 method described above.

Treasury bills

Treasury bills are interest-bearing assets held to maturity. Since no active market exists for these investments, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. The fair value of these instruments is based on the Level 2 method described above.

As at 31 December 2009, the fair value of the Treasury bills held-to-maturity portfolio was USD 88,110,129 (2008: USD 112,681,004), which is higher than the carrying amount by USD 252,599 (2008: lower by USD 238,874).

Investment securities held-to-maturity

Fair value of investment securities held-to-maturity is based on market prices or broker/dealer price quotations. The fair value of these instruments is based on the Level 1 method described above. Where this information is not available, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity (see Level 2 method described above).

As at 31 December 2009, the fair value of the bond portfolio was USD 195,087,775 (2008: USD 183,951,317), which is higher than the carrying amount by USD 122,104 (2008: lower by USD 184,736).

Loans and advances to customers

Loans and advances are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to either their short-term nature or underlying interest rates, which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year. The fair value of these instruments is based on the Level 3 method described above.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. 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 fair value of these instruments is based on the Level 3 method described above.

5. Financial risk management

(a) Introduction and overview

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

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

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

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

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

Risk management framework

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

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

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

Current developments

The Bank operates in the condition of a dynamically developing global financial environment. The management of the Bank performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis.

In this way the Bank responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

5. Financial risk management (continued)

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

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

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2009 and 2008 are as follows:

	31 December 2009	31 December 2008
Treasury bills and other eligible bills	255,640,833	230,059,221
Due from other banks	178,130,635	194,641,284
Loans and advances to customers (net)	494,271,286	385,773,512
Investment securities - available for sale	49,520,063	5,827,116
Investment securities - held to maturity	194,965,671	184,136,053
Financial guarantees	21,634,109	18,324,015
Standby letters of credit	4,323,930	5,831,881
Commitments to extend credit	23,744,714	17,103,095
Maximum exposures to credit risk	**1,222,231,241**	**1,041,696,177**

Impaired loans and securities

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

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.
Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

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

Write-off policy

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

	Loans and advances to customers			
31 December 2009	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	112,152,302	310,496,018	4,471,513	427,119,833
Past due but not impaired	2,507,943	772,233	301,359	3,581,535
Individually impaired	31,194,924	41,401,658	1,897,077	74,493,659
Total Loans, Gross (Note 13)	**145,855,169**	**352,669,909**	**6,669,949**	**505,195,027**
Allowance for impairment	(6,166,720)	(2,859,944)	(1,897,077)	(10,923,741)
Total Loans, Net of impairment	**139,688,449**	**349,809,965**	**4,772,872**	**494,271,286**

	Loans and advances to customers			
31 December 2008	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	104,566,182	231,402,834	5,589,790	341,558,806
Past due but not impaired	1,318,564	1,966,179	65,999	3,350,742
Individually impaired	17,326,818	31,136,500	992,534	49,455,852
Total Loans, Gross (Note 13)	**123,211,564**	**264,505,513**	**6,648,323**	**394,365,400**
Allowance for impairment	(4,837,470)	(2,761,884)	(992,534)	(8,591,888)
Total Loans, Net of impairment	**118,374,094**	**261,743,629**	**5,655,789**	**385,773,512**

5. Financial risk management (continued)

(b) Credit Risk (continued)

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

Rating	31 December 2009	31 December 2008
A – Good	23,489,059	9,884,191
B – Acceptable	280,148,911	219,620,001
C - Close Monitoring	29,288,840	30,479,809
D – Unacceptable	16,828,881	3,396,276
(Note 13)	**349,755,691**	**263,380,277**
Accrued interest	4,003,653	2,073,905
Less: unamortized deferred fee income	(1,089,435)	(948,669)
Total	**352,669,909**	**264,505,513**

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

	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
31 December 2009	473,188	9,513,024	-	9,986,212
31 December 2008	206,483	8,884,614	-	9,091,097

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

	Loans and advances to customers			
31 December 2009	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	8,361,839	3,452,186	753,165	12,567,190
Past due 31-60 days	3,888,949	2,225,796	67,533	6,182,278
Past due 61-90 days	2,288,738	2,196,984	57,875	4,543,597
Past due 91-180 days	2,195,042	1,143,711	-	3,338,753
Past due 181 days- 365 days	2,964,663	7,379,090	243,264	10,587,017
Past due 1-2 years	1,926,824	7,907,945	82,114	9,916,883
Past due over 2 years	891,469	901,834	-	1,793,303
Total	**22,517,524**	**25,207,546**	**1,203,951**	**48,929,021**

	Loans and advances to customers			
31 December 2008	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	3,838,754	6,939,383	164,071	10,942,208
Past due 31-60 days	1,480,924	2,002,974	92,750	3,576,648
Past due 61-90 days	774,935	1,744,401	18,962	2,538,298
Past due 91-180 days	1,632,147	3,321,504	231,493	5,185,144
Past due 181 days- 365 days	1,573,081	6,160,310	747	7,734,138
Past due 1-2 years	1,316,553	714,873	58,286	2,089,712
Past due over 2 years	151,346	551,199	-	702,545
Total	**10,767,740**	**21,434,644**	**566,309**	**32,768,693**

5. Financial risk management (continued)

(b) Credit Risk (continued)

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

31 December 2009	Loans and advances to customers			
	Retail	Corporate	Advances	Total Loans
Residential, commercial or industrial Property	373,660,522	665,055,918	-	1,038,716,440
Financial assets	4,206,043	121,505,830	-	125,711,873
Other	26,275,644	28,042,086	-	54,317,730
Total	**404,142,209**	**814,603,834**	**-**	**1,218,746,043**

31 December 2008	Loans and advances to customers			
	Retail	Corporate	Advances	Total Loans
Residential, commercial or industrial Property	271,836,274	567,247,489	-	839,083,763
Financial assets	2,439,551	51,981,793	-	54,421,344
Other	18,747,121	24,591,386	-	43,338,507
Total	**293,022,946**	**643,820,668**	**-**	**936,843,614**

Credit quality of other financial assets is detailed as follows:

31 December 2009	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	255,640,833	178,130,635	49,520,063	194,965,671	678,257,202
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**255,640,833**	**178,130,635**	**49,520,063**	**194,965,671**	**678,257,202**

31 December 2008	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	230,059,221	194,641,284	5,827,116	184,136,053	614,663,674
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**230,059,221**	**194,641,284**	**5,827,116**	**184,136,053**	**614,663,674**

(c) Liquidity risk

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

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.
The LRM approach of the Bank results in positive liquidity gaps for all time buckets up to one year as at 31 December 2009. This resulted mainly because of the following three main assumptions:

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

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2008, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with Central Bank	137,037,501	-	-	-	-	137,037,501
Placement and balances with banks	83,315,204	34,687,035	76,639,045	-	-	194,641,284
Treasury bills	29,300,797	39,700,263	161,058,161	-	-	230,059,221
Investment securities available-for-sale	3,540,121	-	-	2,286,995	-	5,827,116
Investment securities held-to-maturity	1,773,025	4,688,428	28,912,920	142,313,482	6,448,198	184,136,053
Loans and advances to customers	21,805,515	36,987,330	84,994,546	139,986,368	101,999,753	385,773,512
Property and equipment	-	-	-	6,796,219	11,905,040	18,701,259
Intangible assets	-	-	-	1,202,398	-	1,202,398
Non current assets held for sale	-	-	937,541	-	-	937,541
Other assets	2,973,703	-	-	-	-	2,973,703
Total assets	**279,745,866**	**116,063,056**	**352,542,213**	**292,585,462**	**120,352,991**	**1,161,289,588**
Liabilities and shareholders' equity						
Customer deposits	392,510,540	195,933,926	420,389,577	37,691,864	1,428,875	1,047,954,782
Due to banks	12,638,133	9,005,376	-	-	-	21,643,509
Due to third parties	1,091,196	-	-	-	-	1,091,196
Deferred tax liabilities	-	-	-	167,338	-	167,338
Accruals and other liabilities	5,240,274	-	-	-	1,337,980	6,578,254
Shareholders' equity	-	-	-	-	83,854,509	83,854,509
Total liabilities and shareholders' equity	**411,480,143**	**204,939,302**	**420,389,577**	**37,859,202**	**86,621,364**	**1,161,289,588**
Net Position	**(131,734,277)**	**(88,876,246)**	**(67,847,364)**	**254,726,260**	**33,731,627**	**-**
Cumulative Net Position	**(131,734,277)**	**(220,610,523)**	**(288,457,887)**	**(33,731,627)**	**-**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2009, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with Central Bank	142,263,329	-	-	-	-	142,263,329
Placement and balances with banks	115,637,114	1,617,809	15,387,824	-		132,642,747
Treasury bills	14,635,934	52,461,906	188,542,993	-	-	255,640,833
Investment securities available-for-sale	-	-	-	31,074,694	18,445,369	49,520,063
Investment securities held-to-maturity	11,934,852	6,991,633	20,469,927	155,569,259	-	194,965,671
Loans and advances to banks	-	-	45,487,888	-	-	45,487,888
Loans and advances to customers	15,323,789	35,286,943	224,963,456	119,866,687	98,830,411	494,271,286
Property and equipment	-	-	-	7,424,050	11,947,434	19,371,484
Intangible assets	-	-	-	1,518,375	-	1,518,375
Non current assets held for sale	-	-	1,297,477	-	-	1,297,477
Other assets	3,062,500	-	-	-	-	3,062,500
Total assets	**302,857,518**	**96,358,291**	**496,149,565**	**315,453,065**	**129,223,214**	**1,340,041,653**
Liabilities and shareholders' equity						
Customer deposits	397,375,804	214,953,386	511,357,665	41,590,446	1,869,557	1,167,146,858
Due to banks	69,175,055	-	-	-	-	69,175,055
Due to third parties	456,415	-	-	-	-	456,415
Deferred tax liabilities	-	-	-	736,954	-	736,954
Accruals and other liabilities	6,102,019	-	-	-	1,753,698	7,855,717
Shareholders' equity	-	-	-	-	94,670,654	94,670,654
Total liabilities and shareholders' equity	**473,109,293**	**214,953,386**	**511,357,665**	**42,327,400**	**98,293,909**	**1,340,041,653**
Net Position	**(170,251,775)**	**(118,595,095)**	**(15,208,100)**	**273,125,665**	**30,929,305**	**-**
Cumulative Net Position	**(170,251,775)**	**(288,846,870)**	**(304,054,970)**	**(30,929,305)**	**-**	**-**

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk is the ratio of highly liquid assets to total assets, which should be at a minimum of 15%. For this purpose highly liquid assets are considered: cash balances, unrestricted balances with central bank, current account balances with banks, placements with banks matured within seven days, 80% of treasury bills portfolio with remaining maturity more than two weeks, and 80% of government securities portfolio with remaining maturity less than one year. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's regulator, Bank of Albania.

Details of the reported Bank ratio of highly liquid assets to total assets at the reporting dates were as follows:

	2009	**2008**
At 31 December	21.1%	24.7%

(d) Market risk

1) Foreign currency risk

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

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as at 31 December 2009 and 2008 in accordance with the Bank of Albania foreign currency disclosure requirements:

31 December 2009	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	70,302,833	11,560,606	59,636,791	763,099	142,263,329
Placements and balances with banks	-	43,320,764	76,104,931	13,217,052	132,642,747
Treasury bills	253,631,437	-	-	2,009,396	255,640,833
Investment securities available-for-sale	2,080,287	36,051,207	8,138,045	3,250,524	49,520,063
Investment securities held-to-maturity	161,996,337	13,960,347	19,008,987	-	194,965,671
Loans and advances to banks	-	9,343,313	36,144,575	-	45,487,888
Loans and advances to customers	204,847,219	58,882,739	226,853,783	3,687,545	494,271,286
Property and equipment	15,844,953	-	3,526,531	-	19,371,484
Intangible assets	1,518,375	-	-	-	1,518,375
Non current assets held for sale	1,297,477	-	-	-	1,297,477
Other assets	1,898,099	310,713	853,314	374	3,062,500
Total assets	**713,417,017**	**173,429,689**	**430,266,957**	**22,927,990**	**1,340,041,653**
Spot foreign exchange contracts	722,263	8,170,777	791,963	2,460,544	12,145,547
Liabilities and shareholders' equity					
Customer deposits	658,300,519	81,413,243	410,282,480	17,150,616	1,167,146,858
Due to banks	63,207,050	263,157	5,704,848	-	69,175,055
Due to third parties	456,415	-	-	-	456,415
Deferred tax liabilities	736,954	-	-	-	736,954
Accruals and other liabilities	2,509,797	4,176,007	1,131,949	37,964	7,855,717
Shareholders' equity	16,371,654	78,299,000	-	-	94,670,654
Total liabilities and shareholders' equity	**741,582,389**	**164,151,407**	**417,119,277**	**17,188,580**	**1,340,041,653**
Spot foreign exchange contracts	636,965	2,457,614	863,959	8,187,009	12,145,547
Net position (GAP)	**(28,080,074)**	**14,991,445**	**13,075,684**	**12,945**	**-**
Cumulative net position	(28,080,074)	(13,088,629)	(12,945)	-	
Total assets / Total liabilities and equity	96.22%	109.00%	103.13%	100.05%	100.00%
GAP / FX denominated assets		0.08	0.030	0.001	-
Sensitivity analysis					
Lek depreciates by 10%		1,362,859	868,105	1,177	2,232,141
Lek depreciates by 5%		713,878	454,722	616	1,169,216
Lek appreciates by 5%		(789,023)	(502,587)	(681)	(1,292,291)
Lek appreciates by 10%		(1,665,716)	(1,061,017)	(1,438)	(2,728,171)

The property and equipment in foreign currency is related to Kosovo Branch.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2008	***Lek***	***USD***	***Euro***	***Other***	***Total***
Assets					
Cash and balances with Central Bank	67,520,190	14,902,718	53,793,915	820,678	137,037,501
Placements and balances with banks	-	105,734,987	75,315,316	13,590,981	194,641,284
Treasury bills	230,059,221	-	-	-	230,059,221
Investment securities available-for-sale	5,827,116	-	-	-	5,827,116
Investment securities held-to-maturity	179,120,191	5,015,862	-	-	184,136,053
Loans and advances to customers	151,312,720	28,977,224	200,167,846	5,315,722	385,773,512
Property and equipment	16,338,185	-	2,363,074	-	18,701,259
Intangible assets	1,202,398	-	-	-	1,202,398
Non current assets held for sale	937,541	-	-	-	937,541
Other assets	892,788	403,932	1,674,409	2,574	2,973,703
Total assets	**653,210,350**	**155,034,723**	**333,314,560**	**19,729,955**	**1,161,289,588**
Spot foreign exchange contracts	176,911	42,819,397	15,490,843	2,439,861	60,927,012
Liabilities and shareholders' equity					
Customer deposits	637,338,846	98,713,244	296,599,953	15,302,739	1,047,954,782
Due to banks	16,011,705	2,725	5,629,079	-	21,643,509
Due to third parties	1,091,196	-	-	-	1,091,196
Deferred tax liabilities	167,338	-	-	-	167,338
Accruals and other liabilities	1,568,738	3,899,339	1,073,500	36,677	6,578,254
Shareholders' equity	20,582,762	63,400,000	(128,253)	-	83,854,509
Total liabilities and shareholders' equity	**676,760,585**	**166,015,308**	**303,174,279**	**15,339,416**	**1,161,289,588**
Spot foreign exchange contracts	-	17,959,752	36,192,242	6,775,018	60,927,012
Net position (GAP)	**(23,373,324)**	**13,879,060**	**9,438,882**	**55,382**	**-**
Cumulative net position	(23,373,324)	(9,494,264)	(55,382)	-	
Total assets / Total liabilities	96.55%	107.54%	102.78%	100.25%	100%
GAP / FX denominated assets and equity		0.07	0.027	0.002	
Sensitivity analysis					
Lek depreciates by 10%		1,261,733	643,255	5,035	1,910,023
Lek depreciates by 5%		660,908	336,943	2,637	1,000,488
Lek appreciates by 5%		(730,477)	(372,411)	(2,915)	(1,105,803)
Lek appreciates by 10%		(1,542,118)	(786,201)	(6,154)	(2,334,473)

2) Interest rate risk

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

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2009 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	3.68%	0.10%	0.70%
Placement and balances with banks	N/A	1.64%	0.40%
Treasury bills	9.23%	N/A	N/A
Investment securities	10.46%	6.54%	8.05%
Loans and advances to banks	-	2%	2.39%
Loans and advances to customers	13.34%	8.81%	9.17%
Liabilities			
Customer deposits	5.33%	1.52%	3.38%
Due to banks	5.32%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2008 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	4.38%	0.70%	2.28%
Placement and balances with banks	N/A	2.24%	4.99%
Treasury bills	8.11%	N/A	N/A
Investment securities	9.43%	8.30%	N/A
Loans and advances to customers	12.60%	6.61%	9.29%
Liabilities			
Customer deposits	4.73%	2.06%	3.67%
Due to banks	6.95%	0.10%	0.10%

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2008 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Assets						
Cash and balances with Central Bank	137,037,501	-	-	-	-	137,037,501
Placement and balances with banks	83,315,204	34,687,035	76,639,045	-	-	194,641,284
Treasury bills	29,300,797	39,700,263	161,058,161	-	-	230,059,221
Investment securities available-for-sale	3,540,121	-	-	2,286,995	-	5,827,116
Investment securities held-to-maturity	1,773,025	21,275,104	107,101,707	52,553,881	1,432,336	184,136,053
Loans and advances to customers	300,058,962	20,347,914	36,795,079	9,986,412	18,585,145	385,773,512
Total	**555,025,610**	**116,010,316**	**381,593,992**	**64,827,288**	**20,017,481**	**1,137,474,687**
Liabilities						
Customer deposits	392,510,540	195,933,926	420,389,577	37,691,864	1,428,875	1,047,954,782
Due to banks	12,638,133	9,005,376	-	-	-	21,643,509
Total	**405,148,673**	**204,939,302**	**420,389,577**	**37,691,864**	**1,428,875**	**1,069,598,291**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2009 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Assets						
Cash and balances with Central Bank	142,263,329	-	-	-	-	142,263,329
Placement and balances with banks	115,637,114	1,617,808	15,387,825	-	-	132,642,747
Treasury bills	14,635,934	52,461,906	188,542,993	-	-	255,640,833
Investment securities available-for-sale	-	-	2,080,287	28,994,407	18,445,369	49,520,063
Investment securities held-to-maturity	11,934,852	32,510,660	110,392,333	40,127,826	-	194,965,671
Loans and advances to banks	-	-	45,487,888	-	-	45,487,888
Loans and advances to customers	355,240,709	8,212,269	78,264,522	39,573,894	12,979,892	494,271,286
Total	**639,711,938**	**94,802,643**	**440,155,848**	**108,696,127**	**31,425,261**	**1,314,791,817**
Liabilities						
Customer deposits	397,375,804	214,953,386	511,357,665	41,590,446	1,869,557	1,167,146,858
Due to banks	69,175,055	-	-	-	-	69,175,055
Total	**466,550,859**	**214,953,386**	**511,357,665**	**41,590,446**	**1,869,557**	**1,236,321,913**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

Interest rate sensitivity

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

	31 December 2009	*31 December 2008*
Interest rate increases by 2%	983,793	1,667,027
Interest rate increases by 1.5%	737,845	1,250,270
Interest rate increases by 1%	491,896	833,514
Interest rate decreases by 1%	(491,896)	(833,514)
Interest rate decreases by 1.5%	(737,845)	(1,250,270)
Interest rate decreases by 2%	(983,793)	(1,667,027)

(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.

5. Financial risk management (continued)

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

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

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%.

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%.

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

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

6. Segmental reporting

As at 31 December 2009, the Bank's geographical segments are as follows:

	Albania	Kosovo	Consolidated
Assets			
Cash and balances with Central Bank	131,197,389	11,065,940	142,263,329
Placement and balances with banks	132,642,225	522	132,642,747
Treasury bills	255,640,833	-	255,640,833
Investment securities available-for-sale	49,520,063	-	49,520,063
Investment securities held-to-maturity	182,703,198	12,262,473	194,965,671
Loans and advances to banks	45,487,888	-	45,487,888
Loans and advances to customers	439,321,137	54,950,149	494,271,286
Property and equipment	15,844,936	3,526,548	19,371,484
Intangible assets	1,518,375	-	1,518,375
Non - current assets held for sale	1,297,477	-	1,297,477
Other assets	18,026,688	(14,964,188)*	3,062,500
Total assets	**1,273,200,209**	**66,841,444**	**1,340,041,653**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,112,560,092	54,586,766	1,167,146,858
Due to banks	64,855,252	4,319,803	69,175,055
Due to third parties	456,415	-	456,415
Deferred tax liabilities	736,954	-	736,954
Accruals and other liabilities	7,785,919	69,798	7,855,717
Total liabilities	**1,186,394,632**	**58,976,367**	**1,245,370,999**
Shareholders' equity			
Share capital			78,299,000
Translation reserve			(209,293)
Fair value reserve			56,674
Retained earnings			3,480,688
Net profit for the year			13,043,585
Total shareholders' equity			**94,670,654**
Total liabilities and shareholders' equity			**1,340,041,653**

* Included within the USD 14,964,188 credit for Kosovo 'Other assets' is an amount of USD 15,033,540, which represents intra-group balances between the Head Office and Branches in Albania and Kosovo Branch as at 31 December 2009, and has been eliminated on consolidation.

6. Segmental reporting (continued)

As at 31 December 2009, the Bank's geographical segments are as follows:

	Albania	Kosovo	Consolidated
Interest			
Interest income	81,041,493	3,173,121	84,214,614
Interest expense	(45,374,437)	(1,022,618)	(46,397,055)
Net interest margin	**35,667,056**	**2,150,503**	**37,817,559**
Non-interest income, net			
Fees and commissions, net	4,030,172	203,285	4,233,457
Foreign exchange revaluation gain (loss), net	3,004,744	37	3,004,781
Profit from FX trading activities, net	2,110,796	-	2,110,796
Other income (expense), net	(143,943)	166	(143,777)
Total non-interest income, net	**9,001,769**	**203,488**	**9,205,257**
Operating expenses			
Personnel	(10,502,050)	(1,404,558)	(11,906,608)
Administrative	(11,933,607)	(1,455,689)	(13,389,296)
Depreciation and amortization	(3,647,587)	(447,996)	(4,095,583)
Total operating expenses	**(26,083,244)**	**(3,308,243)**	**(29,391,487)**
Impairment of loans	(2,990,550)	(77,606)	(3,068,156)
Profit/(loss) before taxes	**15,595,031**	**(1,031,858)**	**14,563,173**
Income tax	(1,519,588)	-	(1,519,588)
Net profit/(loss) for the year	**14,075,443**	**(1,031,858)**	**13,043,585**

6. Segmental reporting (continued)

As at 31 December 2008, the Bank's geographical segments are as follows:

	Albania	Kosovo	Consolidated
Assets			
Cash and balances with Central Bank	128,091,046	8,946,455	137,037,501
Placement and balances with banks	194,641,284	-	194,641,284
Treasury bills	230,059,221	-	230,059,221
Investment securities available-for-sale	5,827,116	-	5,827,116
Investment securities held-to-maturity	184,136,053	-	184,136,053
Loans and advances to customers	372,122,325	13,651,187	385,773,512
Property and equipment	16,338,185	2,363,074	18,701,259
Intangible assets	1,202,398	-	1,202,398
Non - current assets held for sale	937,541	-	937,541
Other assets	7,335,428	(4,361,725)*	2,973,703
Total assets	**1,140,690,597**	**20,598,991**	**1,161,289,588**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,036,154,765	11,800,017	1,047,954,782
Due to banks	21,643,509	-	21,643,509
Due to third parties	1,091,196	-	1,091,196
Deferred tax liabilities	167,338	-	167,338
Accruals and other liabilities	6,513,698	64,556	6,578,254
Total liabilities	**1,065,570,506**	**11,864,573**	**1,077,435,079**
Shareholders' equity			
Share capital			63,400,000
Translation reserve			(829,955)
Fair value reserve			(198,883)
Retained earnings			1,939,830
Net profit for the year			19,543,517
Total shareholders' equity			**83,854,509**
Total liabilities and shareholders' equity			**1,161,289,588**

* Included within the USD 4,361,725 credit for Kosovo 'Other assets' is an amount of USD 4,542,817, which represents intra-group balances between the Head Office and Branches in Albania and Kosovo Branch as at 31 December 2008, and which has been eliminated on consolidation.

6. Segmental reporting (continued)

	Albania	Kosovo	Consolidated
Interest			
Interest income	91,568,189	543,384	92,111,573
Interest expense	(46,696,038)	(269,282)	(46,965,320)
Net interest margin	**44,872,151**	**274,102**	**45,146,253**
Non-interest income, net			
Fees and commissions, net	3,768,329	198,340	3,966,669
Foreign exchange revaluation gain (loss), net	1,011,284	7	1,011,291
Profit from FX trading activities, net	2,322,799	-	2,322,799
Other income (expense), net	14,989	143	15,132
Total non-interest income, net	**7,117,401**	**198,490**	**7,315,891**
Operating expenses			
Personnel	(10,233,019)	(649,617)	(10,882,636)
Administrative	(10,990,200)	(691,935)	(11,682,135)
Depreciation and amortization	(3,090,428)	(165,250)	(3,255,678)
Total operating expenses	**(24,313,647)**	**(1,506,802)**	**(25,820,449)**
Impairment of loans	(4,874,620)	-	(4,874,620)
Profit/(loss) before taxes	**22,801,285**	**(1,034,210)**	**21,767,075**
Income tax	(2,223,558)	-	(2,223,558)
Net profit/(loss) for the year	**20,577,727**	**(1,034,210)**	**19,543,517**

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2009 and 2008, are detailed as follows:

	31 December 2009	31 December 2008
Cash on hand	32,005,341	36,381,496
Deposits with the Central Bank of Kosovo	8,322,177	7,277,980
Bank of Albania		
Current account	20,597	77,844
Statutory reserve	101,860,647	93,228,492
Accrued interest	54,567	71,689
	101,935,811	93,378,025
	142,263,329	**137,037,501**

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

Deposits with the Central Bank of Kosovo ('CBK') at 31 December 2008 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit, in order to obtain the license for Kosovo Branch. In 2009, the Bank pledged in favour of the CBK, a bond denominated in EUR (see Note 11).

7. Cash and balances with Central Bank (continued)

Cash and cash equivalents as at 31 December 2009 and 2008, are presented as follows:

	31 December 2009	31 December 2008
Cash and balances with Central Bank	142,263,329	137,037,501
Statutory reserve	(101,860,647)	(93,228,492)
Current accounts with banks	3,367,088	5,626,557
Accrued interest with banks	325,500	2,394,732
Placements with maturities of 3 months or less	110,415,489	43,018,783
	154,510,759	**94,849,081**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2009 and 31 December 2008 consisted as follows:

	31 December 2009	31 December 2008
Placements	125,477,813	180,825,295
Cash collateral held by financial institutions	3,472,346	5,794,700
Current accounts	3,367,088	5,626,557
Accrued interest	325,500	2,394,732
	132,642,747	**194,641,284**

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

Cash collateral represents mostly collateral held by correspondent banks and financial institutions against letters of credit issued to the Bank's clients by the correspondent banks and cash deposits, which secure risks that are related to the credit card activity of the Bank.

9. Treasury bills

Treasury bills bear interest at market rates ranging from 7.21% p.a. to 10.09% p.a. on a compound basis and are all denominated in Lek, except for one held-to-maturity TRY denominated treasury bill of Turkish Government equivalent to USD 2 million at a yield of 7.97%.

Treasury bills portfolio is composed as follows:

	31 December 2009	31 December 2008
Treasury bills available-for-sale	167,783,303	117,139,343
Treasury bills held-to-maturity	87,857,530	112,919,878
	255,640,833	**230,059,221**

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 31 December 2009 and 31 December 2008 are presented as follows:

	31 December 2009			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair value
3 months	19,594	109	13	19,716
6 months	219,388	1,998	343	221,729
12 months	161,773,775	5,440,623	327,460	167,541,858
	162,012,757	**5,442,730**	**327,816**	**167,783,303**

9. Treasury bills (continued)

Treasury bills available-for-sale (continued)

	31 December 2008			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair value
3 months	13,457	24	22	13,503
6 months	2,341,424	44,710	4,603	2,390,737
12 months	110,834,222	4,102,660	(201,779)	114,735,103
	113,189,103	**4,147,394**	**(197,154)**	**117,139,343**

Treasury bills held-to-maturity

Treasury bills held-to-maturity by original maturity as at 31 December 2009 and 31 December 2008 are presented as follows:

	31 December 2009			**31 December 2008**		
	Purchase Value	Amortized discount	Amortized cost	Purchase Value	Amortized discount	Amortized cost
6 months	-	-	-	5,659,634	111,233	5,770,867
12 months	84,775,810	3,081,720	87,857,530	103,354,018	3,794,993	107,149,011
	84,775,810	**3,081,720**	**87,857,530**	**109,013,652**	**3,906,226**	**112,919,878**

As at 31 December 2009, the fair value of the Treasury bills held-to-maturity portfolio was USD 88,110,129, which is higher than the carrying value by USD 252,599, while as at 31 December 2008 the fair value of this portfolio was USD 112,681,004, which was lower than the carrying value by USD 238,874.

10. Investment securities available-for-sale

Investment securities available-for-sale as at 31 December 2009 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain (loss)	Fair value	S & P / Moody's Bond Rating
Lek Denominated Bonds	2,087,465	-	12,364	(19,542)	2,080,287	B1
USD Denominated Bonds	35,500,000	207,321	545,171	(201,285)	36,051,207	B1 – Baa1
EUR Denominated Bonds	7,199,666	592,594	385,445	(39,660)	8,138,045	A2
GBP Denominated Bonds	3,228,056	3,904	36,080	(17,516)	3,250,524	Baa1
	48,015,187	**803,819**	**979,060**	**(278,003)**	**49,520,063**	

All of the foreign currency denominated bonds outstanding as at 31 December 2009 have been purchased during the last quarter of 2009, and are composed of Eurobonds issued by foreign governments, international banks and corporates. The fair value of these instruments is based on the Level 1 method described in Note 4.

Investment securities available-for-sale as at 31 December 2008 comprise only Lek denominated bonds as follows:

Issuer	Nominal value	Unamortized discount	Accrued interest	Marked to market gain (loss)	Fair value	Moody's Bond Rating
Government of Albania	5,687,635	(33)	141,243	(1,729)	5,827,116	B1
	5,687,635	**(33)**	**141,243**	**(1,729)**	**5,827,116**	

11. Investment securities held-to-maturity

Investment securities held-to-maturity as at 31 December 2009 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value	S & P / Moody's Bond Rating
Lek Denominated Bonds	158,304,096	(15,566)	3,707,808	161,996,338	B1
USD Denominated Bonds	14,100,902	(259,144)	118,588	13,960,346	B – BB-
EUR Denominated Bonds	20,159,065	(1,595,583)	445,505	19,008,987	BB- - Aa1
	192,564,063	**(1,870,293)**	**4,271,901**	**194,965,671**	

As at 31 December 2009, the fair value of the held-to-maturity bond portfolio was USD 195,087,775, which is higher than the carrying value by USD 122,104. USD and EUR denominated bonds outstanding as at 31 December 2009, except for a Turkish bond in USD, have been purchased mainly during the last quarter of 2009, and are composed of Eurobonds issued by foreign governments, banks and corporates.

As at 31 December 2009, an Irish Bond denominated in EUR and amounting to USD 12,262,473 was pledged in favour of the Central Bank of the Republic of Kosovo ('CBK') as a capital equivalency deposit required for a branch of a foreign bank.

Investment securities held-to-maturity as at 31 December 2008 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value	S & P / Moody's Bond Rating
Lek Denominated Bonds	175,463,542	(123,976)	3,780,625	179,120,191	B1
USD Denominated Bonds	5,000,000	(10,249)	26,111	5,015,862	BB-
	180,463,542	**(134,225)**	**3,806,736**	**184,136,053**	

As at 31 December 2008, the fair value of the held-to-maturity bond portfolio was USD 183,951,317, which is lower than the carrying value by USD 184,736.

12. Loans and advances to banks

During the last quarter of 2009, the Bank has participated in syndicated loans with some non-resident banks, with contractual details as follows:

Counterparty	Currency	Principal	Accrued interest	Total	Maturity Date
Turk Eximbank	EUR	14,399,332	88,595	14,487,927	04-Oct-2010
Akbank TAS	EUR	7,199,666	15,787	7,215,453	25-Aug-2010
Turkiye IS Bankasi	EUR	7,199,666	5,525	7,205,191	24-Sep-2010
Alternatifbank A.S.	EUR	7,199,666	36,338	7,236,004	19-Apr-2010
Credit Europe Bank Suisse	USD	9,335,000	8,313	9,343,313	15-Dec-2010
Total	**USD**	**45,333,330**	**154,558**	**45,487,888**	

13. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2009	31 December 2008
Loans and advances to customers, gross	502,412,220	393,407,390
Accrued interest	5,317,311	3,183,087
Less allowances for impairment on loans and advances	(10,923,741)	(8,591,888)
Less unamortized deferred fee income	(2,534,504)	(2,225,077)
	494,271,286	**385,773,512**

Movements in the allowance for impairment on loans and advances:

	2009	2008
At 1 January	8,591,888	4,168,553
Impairment charge for the year	3,068,156	4,874,620
Translation difference	(736,303)	(451,285)
At the end of the year	**10,923,741**	**8,591,888**

As at 31 December 2009, the Bank's loans in arrears by more than 90 days totalled USD 25,635,956 (2008: USD 15,711,539). All loans are secured by mortgages and personal guarantees.

As at 31 December 2009 the breakdown of the loan portfolio is as follows:

Individuals	30.4%
Private Enterprises	61.8%
Public Enterprises	5.5%
Structured Finance	2.3%

Loans to individuals and private enterprises are secured by mortgages and personal guarantees.

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

Loans in Lek	2.00% to 22.00%
Loans in Euro	4.70% to 22.00%
Loans in USD	4.30% to 13.00%
Loans in CHF	4.60% to 6.11%

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

13. Loans and advances to customers (continued)

The classification of corporate loans by industry is as follows:

	31 December 2009		31 December 2008	
	USD	**%**	**USD**	**%**
Wholesale Trade	63,422,051	18%	59,362,876	23%
Construction	47,324,985	13%	50,096,516	19%
Other Community, Social and Personal Activities	30,939,076	9%	22,151,142	8%
Manufacturing of Basic Metals and Fabricated Metal Products	29,877,785	9%	3,660,309	1%
Manufacture of Textile and Textile Products	29,197,853	8%	1,921,428	1%
Retail Trade	27,869,564	8%	25,182,629	10%
Hotels and Restaurants	18,846,807	5%	22,355,119	8%
Manufacture of Food Products, Beverages	16,932,317	5%	14,793,085	6%
Loan to Albanian Government	15,839,265	5%	-	0%
Manufacturing of Other Non-metallic Products	15,303,510	4%	16,053,890	6%
Personal Needs	8,414,108	2%	8,980,362	3%
Manufacture of Rubber and Plastic Products	7,990,887	2%	7,446,238	3%
Health and Social Work	7,955,535	2%	1,094,894	0.4%
Financial Intermediation	7,356,718	2%	6,379,287	2%
Manufacture of Wood and Wood Products	6,423,558	2%	6,952,958	3%
Education	3,552,489	1%	4,513,188	2%
Transport, Storage and Communication	2,428,319	1%	2,505,451	1%
Real Estate, Renting and Business Activity	2,317,131	1%	2,679,493	1%
Manufacture of Pulp, Paper and Paper Products	1,663,093	1%	1,939,926	1%
Other Sectors	6,100,640	2%	5,311,486	1.6%
	349,755,691	**100%**	**263,380,277**	**100%**

The classification of retail loans by type is as follows:

	31 December 2009		31 December 2008	
	USD	**%**	**USD**	**%**
Home purchase	84,701,578	55%	69,595,681	53%
Home improvement	22,998,213	15%	19,047,636	15%
Home reconstruction	11,409,058	7%	11,989,449	9%
Shop purchase	9,981,830	7%	8,804,803	7%
Super Loan	8,714,315	6%	10,047,392	8%
Home advances	6,614,599	4%	6,601,129	5%
Overdraft and credit cards	3,858,200	2%	2,345,590	2%
Technical equipment	1,022,851	1%	402,475	0%
Car purchase	806,146	1%	711,586	1%
Other types	2,549,739	2%	481,372	0%
	152,656,529	**100%**	**130,027,113**	**100%**

14. Property and equipment

Property and equipment as at 31 December 2009 and 2008 are composed as follows:

	Land and buildings	Vehicles and other equipment	Computers and electronic equipment	Office equipment	Total
Gross value					
At 1 January 2008	**14,969,856**	**3,268,519**	**8,343,872**	**810,959**	**27,393,206**
Additions	3,578,365	1,168,361	2,956,998	432,036	**8,135,760**
Disposals / transfers	(42,429)	(125,575)	(303,965)	(2,036)	**(474,005)**
Translation difference	(847,975)	(184,290)	(474,191)	(44,675)	**(1,551,131)**
At 31 December 2008	**17,657,817**	**4,127,015**	**10,522,714**	**1,196,284**	**33,503,830**
Additions	1,687,811	708,854	2,800,040	277,114	**5,473,819**
Disposals / transfers	(877)	(117,937)	(41,871)	(626)	**(161,311)**
Translation difference	(1,349,118)	(279,212)	(785,475)	(80,362)	**(2,494,167)**
At 31 December 2009	**17,995,633**	**4,438,720**	**12,495,408**	**1,392,410**	**36,322,171**
Accumulated depreciation					
At 1 January 2008	**(5,416,080)**	**(1,805,593)**	**(5,468,455)**	**(593,506)**	**(13,283,634)**
Charge for the year	(686,080)	(542,073)	(1,499,895)	(102,857)	**(2,830,905)**
Disposals / write offs	9,370	125,112	301,800	1,610	**437,892**
Translation difference	340,013	126,184	369,703	38,176	**874,076**
At 31 December 2008	**(5,752,777)**	**(2,096,370)**	**(6,296,847)**	**(656,577)**	**(14,802,571)**
Charge for the year	(774,378)	(694,055)	(1,907,748)	(171,117)	**(3,547,298)**
Disposals / write offs	-	116,298	41,147	609	**158,054**
Translation difference	478,955	174,426	534,088	53,659	**1,241,128**
At 31 December 2009	**(6,048,200)**	**(2,499,701)**	**(7,629,360)**	**(773,426)**	**(16,950,687)**
Net book value					
At 1 January 2008	**9,553,776**	**1,462,926**	**2,875,417**	**217,453**	**14,109,572**
At 31 December 2008	**11,905,040**	**2,030,645**	**4,225,867**	**539,707**	**18,701,259**
At 31 December 2009	**11,947,433**	**1,939,019**	**4,866,048**	**618,984**	**19,371,484**

As at 31 December 2009 the gross value of the assets which were fully depreciated was USD 7,307,818.

15. Intangible assets

Intangible assets as at 31 December 2009 and 2008 are composed as follows:

	Software
Gross value	
At 1 January 2008	**2,661,113**
Additions	899,052
Translation difference	(151,959)
At 31 December 2008	**3,408,206**
Additions	958,070
Translation difference	(281,024)
At 31 December 2009	**4,085,252**
Accumulated depreciation	
At 1 January 2008	**(1,906,104)**
Charge for the year	(424,773)
Translation difference	125,069
At 31 December 2008	**(2,205,808)**
Charge for the year	(548,285)
Translation difference	187,216
At 31 December 2009	**(2,566,877)**
Net book value	
At 1 January 2008	**755,009**
At 31 December 2008	**1,202,398**
At 31 December 2009	**1,518,375**

Software represents mostly the Bank's operating and accounting system implemented during 2001, which was upgraded during the first half of 2005, followed by the purchase of a license for additional users for the years 2007 to 2009. Furthermore, in 2009 the Bank obtained the license and software for providing internet and mobile banking services.

16. Non – current assets held for sale

This item includes the collateral values of some unrecoverable loans totalling to USD 1,297,477 (2008: USD 937,541), the ownership of which, was taken on behalf of the Bank. The values of these assets are reappraised on a regular basis and the Bank has in place an Asset Sale Committee, which deals with the sale process of these assets. The fair value of these assets is determined with reference to the current market prices.

17. Other assets

Other assets, net as at 31 December 2009 and 2008 are as follows:

	31 December 2009	31 December 2008
Cheques for collection and payments in transit	218,587	15,327
Inventory	636	694
Spot transactions revaluation gain	212,477	336,768
Other debtors, net	2,630,800	2,620,914
	3,062,500	**2,973,703**

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

"Inventory" represents stationary, supplies and printed-paper waiting to be deployed in use.

Other debtors are composed as follows:

	31 December 2009	31 December 2008
Other debtors	2,633,454	2,623,568
Provision	(2,654)	(2,654)
	2,630,800	**2,620,914**

"Other debtors" are composed of four main items. The first item of USD 1,293,867 (2008: USD 521,869) consists mostly of USD 1,235,157 (2008: USD 468,436), which represents credit disbursement and administration costs paid by the Bank, but charged and repayable by the borrowers and USD 25,905, which is fully cash collateralised. The other three items represent advance payments to suppliers of USD 137,372 (2008: USD 1,117,145), prepaid expenses of USD 567,939 (2008: USD 772,428) and income tax receivable of USD 634,276 (2008: USD 212,126).

18. Customer deposits

Customer deposits as at 31 December 2009 and 2008 are composed as follows:

	31 December 2009	31 December 2008
Current accounts:		
Individuals	58,983,855	47,179,146
Private enterprises	95,777,461	90,340,733
State owned entities	34,097,782	38,180,694
	188,859,098	**175,700,573**
Deposits:		
Individuals	883,367,078	796,489,288
Private enterprises	40,815,611	35,030,796
State owned entities	40,986,047	22,603,322
	965,168,736	**854,123,406**
Other customer accounts:		
Individuals	3,099,749	4,796,374
Private enterprises	9,129,505	12,565,033
State owned entities	889,770	769,396
	13,119,024	**18,130,803**
	1,167,146,858	**1,047,954,782**

18. Customer deposits (continued)

Current accounts and deposits can be further analysed by original maturity as follows:

	31 December 2009			31 December 2008		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**110,832,536**	**78,026,562**	**188,859,098**	**116,540,606**	**59,159,967**	**175,700,573**
Deposits						
On demand	34,411	9,065,182	**9,099,593**	187,073	1,931,010	**2,118,083**
One month	28,909,346	38,851,617	**67,760,963**	24,311,276	47,728,451	**72,039,727**
Three months	70,381,878	60,729,086	**131,110,964**	57,220,808	61,917,774	**119,138,582**
Six months	98,508,001	72,445,336	**170,953,337**	89,927,080	59,203,555	**149,130,635**
Twelve months	287,910,872	212,243,895	**500,154,767**	275,961,175	147,559,303	**423,520,478**
Two years and over	41,068,249	24,876,557	**65,944,806**	48,454,761	19,917,704	**68,372,465**
Accrued interest on deposits	14,772,328	5,371,978	**20,144,306**	15,009,466	4,793,970	**19,803,436**
Total deposits	**541,585,085**	**423,583,651**	**965,168,736**	**511,071,639**	**343,051,767**	**854,123,406**
Other customer accounts	**5,882,898**	**7,236,126**	**13,119,024**	**9,726,601**	**8,404,202**	**18,130,803**
Total customer deposits	**658,300,519**	**508,846,339**	**1,167,146,858**	**637,338,846**	**410,615,936**	**1,047,954,782**

Other customer accounts are composed as follows:

	31 December 2009			31 December 2008		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Deposits from liquidation of Xhaferi Foundation	-	-	**-**	1,023,698	20,744	**1,044,442**
Deposit guarantees for letters of credit	-	1,451,634	**1,451,634**	-	3,980,915	**3,980,915**
Escrow accounts	5,092,480	4,334,831	**9,427,311**	7,165,226	2,693,932	**9,859,158**
Bank drafts	-	7,780	**7,780**	-	7,611	**7,611**
Payment orders to be executed	44,418	187,354	**231,772**	69,797	155,753	**225,550**
Other	746,000	1,254,527	**2,000,527**	1,467,880	1,545,247	**3,013,127**
	5,882,898	**7,236,126**	**13,119,024**	**9,726,601**	**8,404,202**	**18,130,803**

"Deposits from the liquidation of the Xhaferi Foundation" represented non-interest bearing escrow accounts of ex-pyramid schemes, which were transferred to another bank in 2009, based on the decision taken by Albanian Government.

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

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

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

19. Due to banks

Due to banks as at 31 December 2009 and 2008 consisted as follows:

	31 December 2009	31 December 2008
Treasury bills sold under Repo agreements with Central Bank	63,206,277	13,733,490
Deposits from banks	4,319,803	2,277,373
Current accounts of non resident banks	1,598,351	5,619,745
Current accounts of resident banks	50,624	12,901
	69,175,055	**21,643,509**

Deposits from banks as at 31 December 2009 represent a borrowing denominated in Euro that Kosovo branch obtained from a resident bank:

Bank	Principal	Accrued interest	Total deposit	Maturity date
NLB Prishtina	4,319,800	3	4,319,803	06 January 2010
	4,319,800	**3**	**4,319,803**	

20. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2009, of USD 456,415 (2008: USD 1,091,196) represents the net outstanding amount of payments and collections made by the Bank to and from the third parties, on behalf of tax authorities.

21. Deferred tax liabilities

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

	31 December 2009	31 December 2008
Balance at 1 January	(167,338)	(78,463)
Income statement benefit/(expense)	(588,760)	(97,853)
Exchange differences	19,144	8,978
Balance at the end of the year	**(736,954)**	**(167,338)**

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

	31 December 2009	31 December 2008
Deferred income on fees on loans	253,450	222,508
Allowance for loan impairment	(1,225,853)	(594,844)
Decelerated depreciation	235,449	202,757
Start up costs written off	-	2,241
	(736,954)	**(167,338)**

Based on the local accounting law, starting from 1 January 2008 the Bank must report in accordance with IFRS. A new tax law has been drafted; however the impact of this law on the financial statements of the Bank is still uncertain and guidelines on the tax impact for IFRS reporting not yet clear.

22. Accruals and other liabilities

A breakdown of accruals and other liabilities as at 31 December 2009 and 2008 is presented as follows:

	31 December 2009	31 December 2008
Creditors	1,844,891	1,900,317
Transit account	205,850	324,323
Reserve fund for retiring employees	1,753,698	1,337,980
Due to tax authorities	201,926	551,981
Social insurance	122,775	144,140
Accrued expenses and deferred income	2,415,930	1,160,886
Other	1,310,647	1,158,627
	7,855,717	**6,578,254**

"Creditors" represent balances from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts. As at the date of the report, a decision is not yet taken.

"Transit account" mostly represents the undefined customer accounts that are cleared within a couple of days after the end of the year.

"Reserve fund for retiring employees" represents a specific fund created in 2002 by the Bank, which will be paid to staff on their retirement.

"Accrued expenses" includes USD 477,587 (2008: USD 468,033) of deposit insurance premium due for the last quarter of 2009 according to the Law no. 8873 "On the Insurance of Deposits" dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures.

Accrued expenses for personnel amounting to USD 984,566 (2008: USD 692,853), represents the accrued amounts of yearly performance bonus for the bank's staff and management, planned to be paid within the 1st quarter of 2010.

"Other" consists of four items. The first item of USD 1,120,153 (2008: USD 1,084,369) are payments due to construction companies in relation to semi finished home loans. The other three items represent cash guarantees received from the suppliers of USD 81,994 (2008: USD 74,258), spot transactions revaluation loss of USD 80,078 and payments in transit of USD 28,422.

23. Shareholders' equity

Share Capital

At 31 December 2009 the authorised share capital comprised 6,340,000 ordinary shares (2008: 6,340,000). The shares have a par value of USD 12.35 (2008: USD 10). All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends from time to time, if declared. All shares rank equally with regard to the Bank's residual assets.

Reserves

Translation reserve

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

Fair value reserve

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

23. Shareholders' equity (continued)

Retained earnings

Retained earnings as at 31 December 2009 includes the cumulative non distributed earnings from the profit of the years 2008 and 2009. As described in Note 1, the Bank has used its statutory retained earnings amounting to Lek 1,469,488,370 or USD 14,899,000 to increase its share capital on 31 March 2009.

24. Interest income

Interest income is composed as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Treasury bills and investment securities	36,259,073	40,108,250
Placements with banks and balances with Central Bank	5,619,110	13,763,062
Loans and advances to customers	42,336,431	38,240,261
	84,214,614	**92,111,573**

Interest income can be further analysed as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Available-for-sale financial assets	10,208,542	8,904,544
Held-to-maturity investments	31,669,641	44,966,768
Loans and receivables	42,336,431	38,240,261
	84,214,614	**92,111,573**

Interest income on impaired loans for the year ended 31 December 2009 was USD 663,819 (2008: USD 533,072).

25. Interest expense

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

	Year ended 31 December 2009	Year ended 31 December 2008
Due to banks	2,728,051	623,389
Customer deposits	43,669,004	46,341,931
	46,397,055	**46,965,320**

26. Fees and commissions, net

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

	Year ended 31 December 2009	**Year ended 31 December 2008**
Fee and commission income		
Payment services to clients	2,050,984	1,741,695
Lending activity	1,072,049	1,415,630
Customer accounts' maintenance	623,826	530,999
Cash transactions with clients	251,024	271,672
Card transactions	314,503	234,609
Inter bank transactions	589,576	76,280
Other fees and commissions	56,444	60,284
	4,958,406	*4,331,169*
Fee and commission expense		
Inter bank transactions	(256,095)	(246,604)
Customer accounts' maintenance	(99,621)	(103,038)
Transactions with clients	(332,578)	-
Payment services to clients	(36,655)	(14,858)
	(724,949)	*(364,500)*
Fees and commissions, net	**4,233,457**	**3,966,669**

27. Foreign exchange revaluation gain, net

Foreign exchange revaluation gain represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation loss on the share capital revaluation for the year ended 31 December 2009 is USD 4,832,998 (2008: USD 4,675,486).

28. Other (expense) / income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Other income		
Gain on sale of fixed assets	3,411	4,223
Gain on sale of non-current assets / recovery of lost loans	18,307	7,190
Sundry	83,707	64,925
	105,425	76,338
Other expense		
Loss on sale or write off of fixed assets	(1,942)	(40,689)
Loss on unrecoverable lost loans	(211,270)	(4,532)
Provision on write off of small inventory	-	(1,740)
Sundry	(35,990)	(14,245)
	(249,202)	(61,206)
Other (expense) / income, net	**(143,777)**	**15,132**

29. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Salaries	8,983,227	7,786,775
Performance bonus	1,137,898	1,291,879
Social insurance	987,807	1,019,787
Reserve fund for retiring employees	415,643	304,200
Training	214,360	383,632
Life insurance	10,024	6,920
Other	157,649	89,443
	11,906,608	**10,882,636**

30. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Marketing expenses	3,173,101	2,704,643
Telephone, electricity and IT expenses	2,241,235	2,008,858
Deposit insurance expense	1,930,116	1,954,124
Lease payments	1,723,535	1,061,610
Repairs and maintenance	941,379	805,448
Security and insurance expenses	837,934	752,542
Credit/debit cards expenses	724,096	480,666
Transportation and business related travel	624,493	694,086
Office stationery and supplies	422,881	395,627
Other external services (including external audit fees)	411,894	202,259
Representation expenses	148,020	222,053
Taxes other than tax on profits	113,266	301,189
Sundry	97,346	99,030
	13,389,296	**11,682,135**

31. Income tax

Income tax is comprised of:

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax	930,828	2,125,705
Deferred tax expense (note 21)	588,760	97,853
	1,519,588	**2,223,558**

Income tax in Albania is assessed at the rate of 10% (2008: 10%) of taxable income.

31. Income tax (continued)

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

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before taxes	**14,563,173**	**21,767,075**
Computed tax using applicable tax rate	1,456,317	2,176,708
Non tax deductible expenses	140,423	139,733
Foreign exchange difference	(77,152)	(92,883)
Income tax	**1,519,588**	**2,223,558**
Effective tax rate	**10%**	**10%**

32. Related party transactions

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

Identity of related parties

The Bank has related party relationships with its shareholders, directors and executive officers.

Transactions with shareholders

The Bank had only one placement transaction with its shareholders during 2009, for which contractual details are as follows:

Related party	Currency	Amount	Interest rate	Value date	Maturity date
Aktifbank	USD	7,000,000	5.35%	28 April 2009	28 April 2010

At 31 December 2009, the Bank had granted a loan of USD 10,858,992 to Huawei Technologies Albania Sh.p.k for the purpose of transferring that entity’s receivables from Eagle Mobile Sh.a. to the Bank. The Bank has the right to require the repayment of this amount from Eagle Mobile Sh.a.

The aggregate value of transactions and outstanding balances included in Customer deposits and relating to the related parties were as follows:

	31 December 2009	Net movements	31 December 2008
Albtelecom Sh.a.	2,519,849	(6,412,048)	8,931,897
Eagle Mobile Sh.a.	5,963,148	5,832,867	130,281
Total	**8,482,997**	**(579,181)**	**9,062,178**

Net movements include the total deposits, withdrawals, interest and related fees between these entities and the Bank.

Transactions with directors and executive officers

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

	Year ended 31 December 2009	Year ended 31 December 2008
Directors	62,216	40,000
Executive officers	1,903,313	2,056,707
	1,965,529	**2,096,707**

33. Contingencies and commitments

Guarantees and letters of credit

	31 December 2009	31 December 2008
Guarantees in favour of customers	21,634,109	18,324,015
Guarantees received from credit institutions	1,591,569	4,031,390
Letters of credit issued to customers	4,323,930	5,831,881

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

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

Other

	31 December 2009	31 December 2008
Undrawn credit commitments	23,744,714	17,103,095
Outstanding cheques of non-resident banks	315,142	181,630
Spot foreign currency contract	12,145,547	60,927,012
Collaterals for loan portfolio	1,218,746,043	936,843,614

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2009.

Lease commitments

Such commitments for the years ended 31 December 2009 and 2008 are composed as follows:

	31 December 2009	31 December 2008
Not later than 1 year	1,741,167	1,414,921
Later than 1 year and not later than 5 years	6,264,853	5,341,250
Later than 5 years	4,161,564	4,628,021
Total	**12,167,584**	**11,384,192**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2009 with a maximum duration of ten years.

The Bank had 64 rented buildings/spaces as at 31 December 2009, in which are included the rented space dedicated to off site disaster recovery and the 12 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months notice.

34. Subsequent events

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

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